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STATE AUDITOR'S
OFFICE
HELENA, MONTANA
2012 NOV 15 P 3: 38

BEFORE THE COMMISSIONER OF SECURITIES AND INSURANCE
OFFICE OF THE STATE AUDITOR
STATE OF MONTANA

IN THE MATTER OF THE ALLIANCE OF BLUE CROSS AND BLUE SHIELD OF MONTANA, INC. AND HEALTH CARE SERVICE CORPORATION Applicants.	)))))))))	Case No.: INS- **APPLICATION FOR APPROVAL OF ALLIANCE**

Blue Cross and Blue Shield of Montana, Inc. [BCBSMT], a Montana nonprofit health service corporation organized under Montana Code Annotated Title 33, chapter 30, and Health Care Service Corporation, a Mutual Legal Reserve Company [HCSC] [collectively Applicants], respectfully submit this Application for Approval of Conversion and Alliance [Application; Appl.].

INTRODUCTION

This Application relates to a proposed alliance between BCBSMT and HCSC [Alliance]. Like BCBSMT, HCSC is a non-investor owned [NIO] Blue Cross and Blue Shield plan. The two companies propose to join with the objective of ensuring the continued provision of cost-effective, accessible, and quality health care plans to Montanans in an evolving, highly competitive marketplace.

To effect the Alliance, HCSC and BCBSMT are seeking approval of a transaction [Transaction] whereby HCSC will acquire the insurance and Administrative Services Only (self funded) [ASO] operations and related assets and specified associated liabilities of BCBSMT [Acquired Business]. After the Transaction has closed, HCSC will operate the Acquired Business of BCBSMT as a division of HCSC in Montana and BCBSMT policyholders will become HCSC policyholders without a break in coverage, benefits, or services.

BCBSMT will continue to exist as a business entity after the Transaction and will change its name to delete references to "Blue Cross" and "Blue Shield." The old BCBSMT will not operate a health insurance business or provide third-party administrator services, but will instead operate for the purpose of satisfying or otherwise discharging its remaining liabilities, including those of its subsidiaries. As soon as all liabilities have been satisfied or discharged, the old BCBSMT will be wound down and dissolved.

Proceeds paid to BCBSMT for the acquisition of the Acquired Business will be deposited to a foundation meeting specific criteria under Montana Code Annotated § 50-4-720 for use as close as possible to the mission of BCBSMT, that is, to provide financial support to improve the quality, availability, and awareness of healthcare programs and services for Montanans. After wind down of its operations, BCBSMT will distribute the remaining assets of the old BCBSMT

to the same foundation designated as the recipient of the proceeds paid to BCBSMT for the acquisition of the Acquired Business. As required by statute, the board of the foundation will be made up of objective and impartial independent members who are committed to the foundation and not to any special interest.

This Application seeks approvals of the Montana State Auditor, *ex officio* Commissioner of Insurance [Commissioner] and the Montana Attorney General under Montana Code Annotated §§ 35-2-609, 35-2-617, and Title 50, chapter 4, part 7 [Conversion Statute]. For purposes of this Application and for no other, the Applicants stipulate to application of the Conversion Statute to the Transaction even though the assets proposed to be conveyed by BCBSMT and acquired by HCSC will not be transferred to a for-profit entity. The Applicants further request a Finding and Conclusion clarifying that the Transaction is not subject to other requirements such as the bulk reinsurance provisions of Montana Code Annotated § 33-2-1212.[1] Prior to closing the Transaction, HCSC will seek appropriate licensure to operate the BCBSMT business, including but not limited to, approval of HCSC's use of BCBSMT products and all other matters required to be approved.

The Application is supported by the representations and submissions of this filed Application and its exhibits, the pleadings and evidence in this proceeding, and other filings required by law. Mont. Code Ann. § 50-4-707(1). A copy of the Application is copied simultaneously with this filing to the Attorney General as required by Montana Code Annotated 50-4-707(1) and as notice under Montana Code Annotated § 35-2-609(2). The Transaction is in the public interest and the Application should be approved.

[1] The Application is also consistent with the Consent Order and Agreement Between the Montana State Auditor and BCBSMT in *In the Matter of the Report of the Examination (I-518) of Blue Cross and Blue Shield of Montana* (Nov. 7, 2005).

APPLICANTS' REPRESENTATIONS AND SUBMISSIONS

In support of the Application, pursuant to Montana Code Annotated § 50-4-707(3), Applicants respectfully represent and submit the following:

A. NAME OF THE PROPOSED TRANSFEROR: Blue Cross and Blue Shield of Montana, Inc., a Montana nonprofit health service corporation organized under Montana Code Annotated Title 33, chapter 30.

B. NAME OF THE PROPOSED TRANSFEREE: Health Care Service Corporation, a Mutual Legal Reserve Company.

C. NAMES OF ANY OTHER PARTIES TO THE CONVERSION TRANSACTION AGREEMENT: None.

D. TERMS OF THE CONVERSION TRANSACTION:

1. The Parties

BCBSMT is a nonprofit health service corporation that operates as the Blue Cross and Blue Shield plan in Montana. As of August 31, 2012, BCBSMT has approximately 274,000 members of whom approximately 117,000 are fully insured. As of June 2012, BCBSMT has 115,390 fully-insured members in individual or group plans, accounting for approximately $102 million [M] in quarterly premium revenue. BCBSMT has a provider network consisting of nearly 2,000 physicians, all Montana hospitals, and 2,800 allied health care providers. BCBSMT is the state's oldest and largest health insurer. It is an independent licensee of the Blue Cross and Blue Shield Association [BCBSA].

According to its statutory statements, in 2011 BCBSMT had $562M in gross premium revenue, an underwriting loss of $5.3M, a net income gain of approximately $3.1M, a December

31, 2011 surplus of approximately $130.8M, and a surplus of $114.4M as of June 30, 2012. BCBSMT has an A.M. Best rating of B++.

HCSC is a mutual legal reserve company doing business as a nonprofit health care service plan. HCSC was incorporated in Illinois in 1936 as a nonprofit health care service plan, and in 1982 converted into a mutual insurance company domiciled in Illinois. HCSC's Articles of Incorporation provide that the company is founded as a "non-profit health care service plan." Further, Article IX of the HCSC Bylaws provides that HCSC shall operate on a not-for-profit basis. HCSC's Bylaws also prohibit any person from receiving any HCSC profits. Distribution of HCSC assets is only allowed upon liquidation or dissolution of the corporation. The Illinois Insurance Code does not include an option to form as a not-for-profit mutual legal reserve company; as a result that structure is not available to HCSC. In 1998, a Texas district court ruled that HCSC's operation as a not-for-profit met the definition of a nonprofit corporation under Texas law because no part of its income is distributed to members, directors, or officers. Furthermore, as a NIO company, HCSC does not have third-party investors to demand priorities that could place financial returns ahead of service to its policyholders.

HCSC currently operates the Blue Cross and Blue Shield [Blue] plans in Illinois, New Mexico, Oklahoma, and Texas, where it has grown by offering traditional and innovative health insurance products and services to individual members and group customers. It is an independent licensee of the BCBSA.

HCSC is the country's largest customer-owned health insurer and fourth largest health insurer overall. With more than 13M members in its Blue plans across its current four states, HCSC offers a vast array of health insurance products and services that reach virtually all segments of the market. A significant portion of HCSC enrollment is through HMO or other

managed care business. HCSC also has thirty-three subsidiaries, some of whose services will directly benefit Montanans, including MEDecision, Inc., Hallmark Services Corporation, Dearborn National Life Insurance Company, and Dental Network of America.

HCSC is currently licensed in 33 jurisdictions, including Montana.

HCSC has a history of successfully bringing together operations in other states, *i.e.*, Texas, New Mexico, and Oklahoma, and incorporating them into existing HCSC operations. At present, over 6M HCSC members and over 7,000 of its 16,000 employees reside outside of Illinois. A significant factor in HCSC's success in these other states has been its commitment to maintaining local executive leadership and an emphasis on strong local presence.

HCSC is currently one of the strongest Blue plans in the United States, with 2011 earnings after federal income taxes of approximately $1,203.9M, a December 31, 2011 statutory surplus of approximately $8.9B, and a surplus of $9.5B as of September 30, 2012. HCSC has an A.M. Best rating of A+ (Superior), a Standard & Poor's rating of AA- (Very Strong) and a Moody's rating of A1 (Good). Copies of HCSC's statutory financial statements for the periods ending June 30, 2012 and December 31, 2011, will be submitted separately.

2. Background

To address business and operational challenges facing BCBSMT, the company's Board of Directors and Executive Leadership undertook a comprehensive analysis that resulted in a decision to form a business alliance with another Blue plan. The key factors BCBSMT identified that drove the decision to pursue a business alliance included: needed cost structure changes resulting from a lack of scale; increased competition in Montana from national players; insufficient access to capital to expand capabilities and services; and increased insurance risk

exposure. Of critical importance to BCBSMT in seeking an alliance was identifying an entity dedicated to the NIO approach to health care.

HCSC met all of the criteria developed by BCBSMT and the parties agreed to form an alliance. In addition to its dedication to the NIO model, HCSC will provide financial strength; a commitment to providing coverage to as many people as possible; an emphasis on local presence and management; efficiencies of size and scale; employment growth opportunities; a proven track record bringing Blue plans together; and strong technology capabilities. Importantly, HCSC's and BCBSMT's corporate cultures were determined to be strikingly similar in their respective commitments to conducting business ethically and to making a lasting and meaningful difference in the communities they serve, whether through providing grants to nonprofit organizations, sponsorship of local community events and school programs, or sizeable volunteer efforts of their employees.

3. The Transaction

BCBSMT and HCSC have entered into a comprehensive and detailed Asset Purchase Agreement that, in addition to regulatory approvals and third-party consents, specifies the terms of the Transaction, including customary provisions such as representations and warranties, covenants, indemnities, and termination events. *See* Asset Purchase Agreement between Blue Cross and Blue Shield of Montana, Inc. and Health Care Service Corporation (Nov. 15, 2012) by and between BCBSMT and HCSC [Asset Purchase Agreement] attached as Exhibit 3. Under the terms of the Transaction, BCBSMT will transfer its Acquired Business to HCSC. To accomplish that, BCBSMT will transfer and HCSC will acquire certain assets owned by BCBSMT, including its insurance and ASO contracts, provider contracts, and rights to use its Blue Cross and Blue Shield marks. HCSC will also assume specified liabilities of BCBSMT, including

claims liabilities under insurance and ASO contracts, provider contracts, and specified pension liabilities. HCSC will thus assume liabilities of BCBSMT in the approximate amount of $180M and at closing BCBSMT will transfer to HCSC approximately $180M in assets and cash to support the liabilities. A Schedule of Assets and Liabilities to be transferred to HCSC and to be retained by BCBSMT (Nov. 15, 2012) [Schedule of Assets and Liabilities] is attached as Exhibit 1.

Certain assets are excluded from the Transaction [Excluded Assets]. Those assets include BCBSMT's surplus, its principal subsidiary holding company Combined Benefits Management (the 100% owner of Western States Insurance Agency, whose principal assets have recently been sold to Payne Financial Group), current buildings, and certain other assets. Also excluded are certain specified preclosing liabilities [Excluded Liabilities], such as litigation liabilities, which will continue to be held by BCBSMT. The corporate BCBSMT entity will retain the Excluded Assets and continue to exist after the closing of the Transaction to pay or otherwise discharge the retained Excluded Liabilities, but without any ongoing health care business, and will change its name to delete references to "Blue Cross" and "Blue Shield."

In consideration of the sale of the Acquired Business to HCSC, HCSC is to pay BCBSMT (or directly to the foundation if required) the amount of $17.6M. This amount was determined based upon independent valuations performed by Actuarial and Financial Modeling, Inc. HCSC will pay this amount out of its own funds; no borrowing is to be involved. No part of the consideration will inure directly or indirectly to an officer, director, or trustee of BCBSMT, to an officer, director, trustee, shareholder, or employee of HCSC, or to any other person that is not a foundation approved to receive the assets by the Attorney General. Likewise, no officer, director, or trustee of BCBSMT will receive any immediate or future remuneration as

a result of the proposed Transaction except for the reasonable value of services rendered pursuant to a valid contract between the officer, director, or trustee and BCBSMT.

The consideration paid for the Acquired Business will be deposited to a foundation meeting the criteria under Montana Code Annotated § 50-4-720 for use as close as possible to the mission of BCBSMT, that is, to provide financial support to improve the quality, availability, and awareness of healthcare programs and services for Montanans. After wind down of its operations, BCBSMT will distribute the remaining assets of the old BCBSMT to the same foundation, resulting in an estimated total funding to the foundation of more than $120M. As required by the statute, the board of the foundation will be made up of objective and impartial independent members who are committed to the foundation and not to any special interest.

HCSC's success is attributable in part to maintaining local executive leadership and a strong local presence in all of the states in which it operates Blue plans. HCSC currently has over 16,000 employees, including more than 7,000 employees in states outside its Illinois domicile. BCBSMT and HCSC have agreed that one director of BCBSMT's current Board will be nominated to join HCSC's Board of Directors for a specified term following the Transaction closing. Other remaining current directors of BCBSMT will form an HCSC affiliate board in Montana that will advise HCSC on local matters. Likewise, upon closing, BCBSMT's management team will join HCSC and will continue in managerial roles for the new Montana division of HCSC; and current BCBSMT President and CEO, Mike Frank, will be the president of the HCSC division, Blue Cross and Blue Shield of Montana. The current management of BCBSMT will retain significant management roles in HCSC's Montana operations and, after closing the Transaction, HCSC will retain virtually all BCBSMT employees. HCSC will also retain other operations related to BCBSMT's insurance business such as the current BCBSMT

provider network. In September 2012, prior to closing the Transaction, HCSC and BCBSMT entered into an Administrative Services Agreement, under which HCSC is performing specified administrative services for BCBSMT and BCBSMT may perform duties for HCSC.

After closing of the Transaction, HCSC will focus on integrating the business and operations of the Acquired Business into HCSC business and operations so as to continue its high level of financial and service performance. The Acquired Business will continue to operate in HCSC as a division of HCSC using the Blue Cross and Blue Shield marks and all current BCBSMT policyholders will become HCSC policyholders without any break in coverage, benefits, or services as a result of the Transaction. HCSC will provide its considerable financial resources and expertise to the Acquired Business, which will afford a continued high level of service to members and subscribers, in many cases expanded services, and an improved competitive status and financial condition of the Acquired Business.

4. BCBSMT analysis leading to decision to form a business alliance with another entity

With an evolving and increasingly competitive market ahead, BCBSMT's Executive Leadership and Board of Directors determined that a business alliance with another NIO Blue plan would best allow BCBSMT to serve the residents of the State of Montana now and into the future. Because of BCBSMT's history and role in the State, BCBSMT's Board of Directors and Executive Leadership engaged in discussions with only other NIO Blue plans, including HCSC. Ultimately, HCSC's value proposition and its interest in creating a strong alliance of NIO Blue plans best aligned with BCBSMT's and Montana's interests.

The key factors BCBSMT identified that drove its decision to pursue a business alliance included:

a. Cost structure changes brought on by a lack of scale;

b. Increased competition in Montana;

c. Insufficient access to capital to expand capabilities and services; and

d. Increased risk exposure.

The factors are specifically discussed in turn below. *And see generally,* Project Sapphire: Transaction Summary and Analysis (Oct. 8, 2012), attached as Exhibit 8 [Business Case].

a. Cost structure changes brought on by a lack of scale

From 2007-2011, the six largest publicly-traded managed care organizations [MCOs] – UnitedHealth, WellPoint, Aetna, Cigna, Humana, and Coventry – added over 5.7M health members. During the same period, the NIO Blues experienced a 1.2M decline in health members. A disproportionate percentage of this membership loss came from plans with less than 500,000 [k] health members. BCBSMT lost 12.4% of its health membership (15,571 members) between 2007 and 2011.[2]

A key driver of the significant membership loss by small NIO Blue plans is the shift from risk-based to ASO (or self-funded) plans by large groups and national accounts. While ASO membership increased for the aggregate NIO Blues from 2007-2011, small single-state plans experienced an aggregate ASO membership decrease of over 25%. BCBSMT increased ASO membership during the period, but will experience a decrease in 2013 in part due to a shift in administrative service fee revenue from the State of Montana employee account to another vendor.

In ASO business, the spread between fees collected and administrative costs is the only determinant of profitability since the risk on claim liability remains with the employer. As a result, attributes such as greater economies of scale, strong reserves, and advanced technology

[2] This number reflects updated information from that used for the Business Case.

deliver lower costs per member for large NIO Blue plans and for-profit insurers. These characteristics create a distinct competitive advantage over small, single-state plans like BCBSMT. During the period 2010-2011, the percentage of net premium revenues (not including ASO revenues) spent on total administrative costs net of ASO margins (including premium and other non-income taxes, state insurance fees, etc.) was approximately 1.5% higher for small, single-state NIO Blues than for multi-state Blues and public plans. The spread between BCBSMT and HCSC was even larger at 3.5%.

The difference in cost structure will become increasingly important beginning in 2014. On fully-insured business, minimum medical loss ratios [MLRs] will apply to several business segments (large group, small group, individual, etc.), meaning that plans that do not pay a minimum percentage of premium revenues for medical claims and activities that improve quality of care must return the difference to policyholders. Further still, it is expected that price competition will be heightened on business sold through the state-based exchanges. These changes make low administrative costs even more important for small plans like BCBSMT, which will now face challenges realizing a level of profitability required to maintain their financial strength while investing in new products and capabilities enhancements members and employers are demanding. In addition, because of tax changes expected in 2014, more employers are expected to offer self-funded plans, further limiting opportunities to restore needed levels of margin.

As illustrated by BCBSMT's recent difficulty in generating underwriting profits, size and the resulting scale matters in the health insurance industry. Large payors generally achieve higher membership growth rates and better underwriting margins than small insurers. This is

due to larger MCOs having better per-member cost structures and unlike their smaller counterparts, a greater ability to negotiate volume discounts with their network providers.

To remain competitive with the publicly traded MCOs in Montana, BCBSMT needs to increase scale and reduce administrative expenses as a percentage of premium revenues. Excluding non-income tax items (real estate, state, local, premium, payroll, and other non-income taxes) and regulatory authority fees, BCBSMT's statutory administrative expense ratio has decreased from 16.3% to 12.8% from 2007-2011. Despite this improvement, BCBSMT still trails HCSC by better than 4% in its administrative expense ratio. This difference in administrative expense ratio is significant for BCBSMT. If BCBSMT had operated at HCSC's statutory expense ratio from 2007 to 2011, the plan could have lowered premium rates or increased its underwriting margin by approximately $130M during that time period. Decreasing the expense ratio will make BCBSMT more financially stable and more price competitive, especially for ASO clients and price-sensitive retail customers. Overall, the Alliance will allow BCBSMT to make health insurance more accessible for Montanans by controlling costs and having the financial resources to strongly participate in risk-based business.

b. Increased competition in Montana

Compounding the difficulties for small, single-state plans, large publicly traded MCOs have continued to expand their geographic reach in an attempt to drive growth and stock price gains. Increased competition from public MCOs has led NIO Blue plans, including BCBSMT and HCSC, to price more aggressively for commercial group business. For the first time since 2009, the spread between fully-insured group pricing and medical cost trend turned negative in 2012Q1 for NIO Blues. As this spread decreases, a plan's MLR increases and underwriting margin drops unless there is a corresponding decrease in administrative costs. Unfortunately,

administrative cost reductions cannot fully offset increases in utilization, as administrative expenses increase with the number and complexity of claims processed and are typically only 10%-15% of claim dollars paid.

For BCBSMT, the effect of this trend is severe since it realized a below-average positive spread between premium revenues and medical costs in 2010 and 2011. This means that BCBSMT's commercial group MLR decreased at a slower rate than that of other NIO Blues. While the NIO Blues experienced a decrease in commercial group MLR of 4.6% from 2009-2011, BCBSMT's commercial group MLR decreased by only 2.4%.

The net effect of the above factors on BCBSMT and other small, single-state NIO Blues is that small plans have comparatively lower statutory underwriting margins. BCBSMT's statutory underwriting margin losses were (1.17%) and (0.96%) in 2010 and 2011, respectively. During this period, many large insurers, including HCSC, experienced solid margins which have fortified reserves as they head into an evolving and increasingly competitive market ahead. Through the first half of 2012, BCBSMT's statutory underwriting loss margin has further deteriorated to (3.48%).

BCBSMT's Alliance with HCSC will help it compete with other publicly traded insurers by accomplishing two goals while still maintaining its NIO status. First, as discussed above, HCSC offers increased scale for BCBSMT, allowing the consolidated entity to price more competitively. Second, the Alliance will enable BCBSMT to leverage the core competencies and track record of innovation of HCSC and its subsidiaries to substantially expand and improve the services and capabilities provided to its members. Due to its scale and strong financial position, HCSC has developed several market-leading systems identified below.

- BlueChip claims and customer service platform and BlueStar membership and billing platform, which will increase BCBSMT's[3] efficiency in administering its core health insurance business
- a strong track record of improving and maintaining customer-facing web portals of its individual plans
- state-of-the-art Tier IV data centers in Waukegan, Illinois and Fort Worth, Texas, the use of which will enhance the security and reliability of BCBSMT's sensitive member data
- actuarial competency which will help ensure BCBSMT's growth in a fiscally-responsible manner following the Transaction
- one of the best industry records selling business to large and national accounts, as evidenced by its addition of over 660k commercial risk members from 2007-2011 – a time when most MCOs were experiencing a significant shift from risk to ASO business
- new delivery models, community outreach efforts, and increased sales support which will improve BCBSMT's marketing and distribution systems
- services and technologies offered by many HCSC subsidiaries that will be new capabilities for BCBSMT to improve its core health insurance business by better managing the rise in health care costs and improving BCBSMT's administrative expense efficiency, helping to control premiums over the long-term to benefit current and future BCBSMT members
- services and technologies of HCSC subsidiaries that can be leveraged by BCBSMT to offer a wider range of ancillary products

[3] Post closing, BCBSMT refers to the division of HCSC.

- care management programs of HCSC's subsidiary MEDecision that can improve the management of medical expenses for the chronically ill and improve BCBSMT customers' overall managed care capabilities
- the private exchange platform of HCSC's partially-owned subsidiary, Bloom Health, which will be available to offer employers an exchange-based defined contribution solution including group and individual plans
- Hallmark, HCSC's individual/retail business administrator, which can assist BCBSMT to reduce its administrative expenses on a per member basis and improve internal operations for BCBSMT's over 30k individual members
- a wide variety of ancillary products which BCBSMT can offer, including life and dental insurance, underwritten by HCSC's life company, Dearborn National and its dental administrator Dental Network of America

c. Insufficient access to capital to expand capabilities and services

With limited or no access to capital markets, smaller health plans are often relatively undercapitalized compared to larger health plans. This is the case for BCBSMT, which has no debt or capital notes outstanding. The average risk-based capital [RBC] ratio of NIO Blue plans with less than 500k members is 881%, while the average RBC ratio of Blue plans with more than 500k members is 911%. BCBSMT's RBC ratio is the third lowest of the NIO Blues, at 577%, and is forecast to drop another 60-80 points by the end of 2012 (though this projected decrease is largely the result of an acquisition that increased membership and non-admitted intangible assets that do not factor into the RBC calculation). Furthermore, BCBSMT's RBC ratio has declined over the past five years, from 637% at the end of 2006. BCBSMT's RBC ratio is not at risk of approaching the minimum value of 375% required by BCBSA. HCSC had an RBC ratio of

1,227% at the end of 2011, up from 1,086% at the end of 2006. The Alliance with HCSC will help reverse this trend for BCBSMT and ensure the sustainability of a financially strong NIO Blue plan in Montana, which improves members' protection and security.

With limited reserves, BCBSMT strived to innovate to the benefit of its members and Montana residents through product development efforts, significant technology upgrades, and/or large one-time expenditures. BCBSMT has identified an estimated $100M in capital requirements and incremental operating expenses over the next five years to successfully compete in the changing marketplace, improve operational efficiency, and meet BCBSA and other applicable regulations. Some of the largest projects, accounting for approximately $79M of the financial requirements, include:

- $41M required to implement an ICD-10 compliant claims system and data warehouse
- $5M in physician incentive programs to introduce patient-centered medical homes to approximately 50k members
- $4M in one-time costs and $1M per year to upgrade computer systems to interface with Montana's public health insurance exchange infrastructure ($9M total five-year spend)
- $2.1M in one-time costs and $250k per year to upgrade BCBSMT's Federal Employees Health Benefits Plan processing technology ($3.3M total five-year spend)
- $1.6M in one-time costs and $300k per year to create an improved online information and transaction portal ($3.1M total five-year spend)
- $1.5M in one-time costs and $500k per year for an information analytics platform ($4M total five-year spend)

- $1.2M in one-time costs and $600k per year to upgrade financial systems, including cost accounting, budgeting, and financial reporting tools ($4.2M total five-year spend)
- $200k in one-time costs and an incremental increase of $960k per year to implement various medical and care management programs, including a wellness website update, new utilization management software beginning in 2012, and new medical oncology management software beginning in 2013 ($5M total five-year spend)
- $860k per year to purchase excess of loss ocverage ($4.3M total five-year spend)

Without increasing its access to capital, BCBSMT may not be able to implement necessary technology solutions required to compete in the changing health insurance marketplace. Aligning with HCSC, which already has begun to make many of these investments for itself, will allow BCBSMT to avoid having to individually fund the investments noted above and instead share the costs with HCSC. The Alliance with HCSC also offers BCBSMT access to capital for corporate development projects (acquisitions for capabilities, joint ventures aimed at innovation, etc.) which will help it remain competitive well into the future.

As the largest NIO Blue plan, HCSC is in a very strong capital position even though it has made investments of over $2.4B during the past ten years in technology and service improvements. HCSC has over $9.5B of surplus as of September 30, 2012, and has shown the ability to access the public debt markets, as demonstrated by its issuance of $500M in 10-year notes in 2011.

In addition to funding necessary capital expenditures, improved access to capital will affect BCBSMT in two other significant ways. First, HCSC's balance sheet strength will enhance BCBSMT's risk-taking abilities, allowing it to underwrite more insured-market business and thus contribute to increasing BCBSMT's membership base as well as its net

income. Second, the surplus of the combined entity may be invested in new subsidiaries that will meaningfully increase BCBSMT's capabilities or operations. In general, improving BCBSMT's access to capital will allow the company to enhance member and provider services, provide a wider variety of products, and ensure a competitive administrative cost structure that should ultimately help BCBSMT to offer its services to Montanans at a lower price point than it could without the Alliance.

d. Increased insurance risk exposure

BCBSMT's ability to grow membership in a financially responsible manner may be negatively affected by its size. As of June 2012, BCBSMT had 115,390 fully-insured members in individual or group plans, accounting for approximately $100M in quarterly premium revenue. With this level of membership, a small number of large claims can create a meaningful impact on the plan's annual results. For example, if BCBSMT were to incur five more $1M claims than expected in a single quarter, the plan's fully-insured quarterly MLR would increase by 5.0%. Conversely, HCSC had 3,794,843 fully-insured individual or group members at the end of the second quarter of 2012, contributing $3.7B in quarterly premium revenue. Incurring an additional five $1M claims in a single quarter would only increase HCSC's fully-insured quarterly MLR by 0.1%. With a much larger fully-insured member base over which to spread the risk of large claims, HCSC is better equipped than small plans like BCBSMT to take on additional high-risk members. This is also true for large national MCOs that recently have been competing more aggressively in Montana, including UnitedHealth and Cigna. UnitedHealth and Cigna, for example, have over 30M and 12M health members respectively, allowing them to take on riskier individual and group accounts than may be fiscally responsible for a small plan such as BCBSMT.

This issue may become even more relevant in 2014, when a large number of individuals are expected to purchase health insurance through the new state based exchanges. Many of these individuals will not have had health insurance for several years, and therefore may not have had the same level of preventive care as an insured individual. There is potential that these new members will have higher initial utilization rates and be more likely to incur large claims than members who have had insurance for several years.

In addition, individuals now insured through Montana's state high risk pool, the Montana Comprehensive Health Association [MCHA] Plan, and the federal high risk pool, the Montana Affordable Care Plan, are also expected to purchase health insurance through the new state based exchanges upon the anticipated closure of both pools in 2014. These high risk pools were established to provide health coverage to individuals with preexisting medical conditions. Many members enrolled in these plans have complex medical conditions, requiring costly and continued treatment. For example, MCHA opened the federal high risk pool in August 2010 providing immediate coverage of preexisting conditions as required by the Patient Protection and Affordable Care Act. As of September 30, 2012, the average enrollment is 265 members with a cumulative loss ratio of 601%, which is at a minimum four times the average loss ratio experienced with the MCHA state pools.

Should these new members have higher utilization rates, as is anticipated, large insurers like the newly allied BCBSMT-HCSC will be able to better absorb the losses that may initially occur before utilization normalizes to historic levels or pricing changes can be incorporated.

5. <u>Selection of HCSC</u>

Of critical importance to BCBSMT's Board of Directors and Executive Leadership was selection of an entity that was dedicated to the NIO approach to health care. Like HCSC,

BCBSMT believes that the NIO model best serves members, since NIO insurers do not have to prioritize short-term financial gains over service to customers. *See* Business Case, Exhibit 8. In addition to the Business Case provided to BCBSMT Board of Directors, BCBSMT also conducted a separate HCSC operations due diligence assessment. This assessment was based upon an internal department-by-department review of various HCSC documents produced in response to BCBSMT's request for documents. BCBSMT's assessment was also based, in certain cases, upon on-site visits to HCSC facilities and discussions with HCSC personnel.

BCBSMT reviewed the following HCSC areas in the course of its due diligence:

(a) Information technology;

(b) Privacy and security;

(c) Internal audit;

(d) Legal;

(e) Finance;

(f) Operations;

(g) Medical and behavioral care medical management;

(h) Analytics and information management;

(i) Sales and marketing;

(j) Health care services;

(k) Compliance and human resources; and

(l) Corporate culture.

The purpose of the review was two-fold: (1) to outline pertinent information for those areas defining risk areas for HCSC, *e.g.,* finance, legal, audit; and (2) to provide an overview of

operation and service areas from an informational perspective, contrasting where possible, the expansion of services for BCBSMT members offered by HCSC in particular areas.

Following BCBSMT's due diligence and strategic assessment, the BCBSMT and HCSC executive leadership teams actively engaged each other to understand HCSC's value proposition, including its interest in being a leader in helping NIO Blue plans join forces. In the end, BCBSMT concluded from its due diligence that HCSC offered the best fit due to its:

- ***Financial strength***: HCSC has over $9.5B in statutory surplus at the end of the third quarter of 2012, providing its groups and members the security to handle the risk associated with insurance while remaining financially strong enough to invest in enhancements to serve members. At the end of 2011, HCSC had an RBC ratio of 1,227%. In addition, HCSC has posted strong net income figures over the past several years, generating over $1B in statutory net income in both 2010 and 2011 and over $400M in 2012Q1. Finally, HCSC's financial strength is reflected in its rating agency ratings. HCSC has an A.M. Best rating of A+ (Superior), a Standard & Poor's rating of AA- (Very Strong) and a Moody's rating of A1 (Good).
- **Dedication to the NIO Model**: HCSC is organized as a mutual health insurance company which since 1936 has operated as a nonprofit health care service plan. HCSC leadership strongly emphasized its commitment to remain a NIO plan, believing it best allows HCSC to serve its members and remain true to the historical legacy of Blue plans as nonprofit insurers started by hospitals and physicians respectively.
- **Shared commitment to providing coverage to as many people as possible**: HCSC remains committed to the fundamental health insurance business at a time when many health insurers are attempting to diversify earnings by offering non-insurance services. To that

end, HCSC's recent acquisitions including Bloom Health, MEDecision, and TMG Health, are all strongly focused on the core health business.

- **A culture that emphasizes the importance of being local**: HCSC's Blue plans have local affiliate boards and organizational structures that feature a local member-facing approach, with sales and marketing and provider services localized to the state. As part of HCSC, BCBSMT will still be recognized in its market as Blue Cross and Blue Shield of Montana, not HCSC. This model ensures that HCSC's Blue plans can leverage the scale benefits of HCSC corporate services while remaining a familiar integral and visible part of the local healthcare market.

- **Size and scale**: HCSC has over 13M members and operates Blue Cross Blue Shield-branded plans in four states: Illinois, Texas, New Mexico, and Oklahoma.

- **Employment growth opportunities**: While HCSC centralizes the management of certain functions and consolidates others, it has actively distributed roles dealing with localized issues, such as claims and customer service, throughout its states. HCSC is a growing company in a growing industry. In fact, during the last six years, HCSC's workforce has grown by 20%. HCSC's goal is to maintain or grow jobs at BCBSMT.

- **Proven track record integrating Blue plans**: HCSC has successfully integrated Blue plans in Texas in 1998, New Mexico in 2001, and Oklahoma in 2005, providing it with significant expertise in how to effectively manage integrations that do not disrupt core operations, including claims and customer service.

- ***Strong technology and capabilities***: HCSC's capabilities are competitive with, and in some cases superior to, major national MCOs. HCSC boasts several competencies and systems that are unique amongst NIO Blues, including care management through MEDecision,

two Tier IV data centers, strong data analytics, experience with large self-funded accounts, and a variety of traditional and exchange-based distribution platforms (including Bloom Health, which HCSC recently jointly acquired with other Blues plans). HCSC's underwriting and actuarial competencies, marketing and sales support, customer service, and strategic planning capacity related to an evolving and increasingly competitive market ahead were valuable reasons to align.

Based upon the foregoing, BCBSMT and HCSC concluded that the proposed Alliance was in their mutual interest and, importantly, also would be in the public interest. BCBSMT and HCSC moved forward with the necessary negotiations and contractual commitments, including the engagement of appropriate experts to validate their conclusions and assist in development of Transaction terms that protect the public assets and interest at the core of the Alliance.

6. Description and valuation of all consideration exchanges as a part of or as a result of the conversion

a. Schedule of Assets and Liabilities. *See* Exhibit 1.

b. Consideration of Exchanges (as of June 30, 2012). *See* Exhibit 2.

c. Asset Purchase Agreement. *See* Exhibit 3.

7. Extent to Which Assets Proposed to be Converted are Public Assets

For purposes of this Alliance and Transaction only, and for no other, BCBSMT and HCSC stipulate that the Conversion Statute applies as though BCBSMT is a Montana public benefit corporation and the following assets are public assets as defined in Montana Code Annotated § 50-4-701(9):

a. the assets and liabilities of the Acquired Business; and

b. the assets that remain in the old BCBSMT entity, but only after old BCBSMT has satisfied or otherwise discharged the remaining liabilities of old BCBSMT, including those of its subsidiaries.

8. <u>The Conversion and Alliance are in the Public Interest</u>

The Conversion Statute guides the conclusion that the proposed Alliance and the Transaction are in the public interest. In satisfaction of the mandatory criteria to be considered by the Attorney General and the Commissioner, the Applicants specifically represent as follows:

HCSC represents:

a. No officer, director, or trustee of BCBSMT will receive any immediate or future remuneration from HCSC as a result of a proposed Transaction except for the reasonable value of services rendered pursuant to a valid contract between the officer, director, or trustee and BCBSMT (Mont. Code Ann. § 50-4-715(2)(e); Appl. at 8).

b. Any management contract under the Transaction is for reasonable value (Mont. Code Ann. § 50-4-717(2)(f)).

c. HCSC will possess surplus in an amount sufficient to comply with the surplus required under law and provide for the security of HCSC's certificate holders, if any, and policyholders (Mont. Code Ann. § 50-4-717(2)(g)(iii)).

BCBSMT represents:

a. The fair market value of public assets is preserved and protected (Mont. Code Ann. § 50-4-715 (2)(a); Appl. at 7-9; *See* Consideration of Exchanges, Exhibit 2; Asset Purchase Agreement, Exhibit 3).

b. The fair market value of pubic assets is expended or invested with reasonable and prudent consideration of the potential risk of financial loss associated with the conversion transaction (Mont. Code Ann. § 50-4-715(2)(b); Appl. at 7-9).

c. The fair market value of the public assets will be distributed as provided in 50-4-720 (Mont. Code Ann. § 50-4-715(2)(c); Appl. at 8-9).

d. No part of the public assets BCBSMT will inure directly or indirectly to an officer, director, or trustee of BCBSMT or to an officer, director, trustee, shareholder, or employee of HCSC or to any other person that is not a foundation approved to receive the assets by the Attorney General (Mont. Code Ann. § 50-4-715(2)(d); Appl. at 8-9).

e. No officer, director, or trustee of BCBSMT will receive any immediate or future remuneration as a result of the proposed Transaction except for the reasonable value of services rendered pursuant to a valid contract between the officer, director, or trustee and BCBSMT (Mont. Code Ann. § 50-4-715(2)(e); Appl. at 8-9).

f. The public assets distributed to a foundation will be in the form of cash or a combination of cash or similar assets that are readily convertible to cash for which a secondary market exists (Mont. Code Ann. § 50-4-716(1); Appl. at 8-9; Asset Purchase Agreement, Exhibit 3).

g. BCBSMT exercised due diligence in deciding to engage in the Transaction (Appl. at 6-7, 10-21), selecting HCSC as the Transferee (Appl. at 21-24), and negotiating the terms and conditions of the Transaction (Appl. at 23-24; Asset Purchase Agreement, Exhibit 3); *see* Mont. Code Ann. § 50-4-717(2)(a).

h. Appropriate expert assistance was used in negotiating the Transaction (Mont. Code Ann. § 50-4-717(2)(b); expert reports and accompanying curricula vitae and credentials are attached as Exhibits 4-7).

i. All conflicts of interest were disclosed, including conflicts of interest of board members, executives, and experts retained by BCBSMT and HCSC (Mont. Code Ann. § 50-4-717(2)(c)).

j. The Transaction is compliant with Title 33, chapters 30 and 31 (Mont. Code Ann. § 50-4-717(2)(g)(ii)).

k. Provisions of the Asset Purchase Agreement that require the payment of money as liquidated damages or otherwise, in the event of a breach of the agreement by BCBSMT, are in the public interest (Mont. Code Ann. § 50-4-717(4)).

Independent Community Impact and Antitrust Expert Opinion concludes:

a. The Transaction does not have the likelihood of creating a significant adverse effect on the availability or accessibility of health care services or health insurance coverage in the affected community, but that failure to complete the Transaction may (Mont. Code Ann. § 50-4-717(2); Financial and Community Impact Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012). [Fin. & Comm. Impact Report], attached as Exhibit 4).

b. The Transaction includes sufficient safeguards to ensure that the affected community will have continued access to affordable health care (Mont. Code Ann. § 50-4-717(2)(e); Fin. & Comm. Impact Report, Exhibit 4).

c. The Transaction is equitable to the public interest, enrollees, insureds, shareholders, and certificate holders, if any, of BCBSMT (Mont. Code Ann. § 50-4-717(2)(g)(i); Fin. & Comm. Impact Report, Exhibit 4).

d. The Transaction will result in efficient economies of scale (Mont. Code Ann. § 50-4-717(3) (a); Fin. & Comm. Impact Report, Exhibit 4).

e. The Transaction will have no adverse impact on competition in any health care related market in Montana, including the market for health insurance and the markets for provider services, and thus there is no likelihood of a substantial lessening of competition in any line of the insurance business or in any provider market (Mont. Code Ann. § 50-4-717(3)(b); Fin. & Comm. Impact Report, Exhibit 4; Antitrust Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012)attached as Exhibit 6).

Mandatory Criteria are Met and Exceeded

The Alliance and the Transaction satisfy the mandatory criteria and exceed their minimum requirements.

From the representations of the Applicants and the evidence presented, the Attorney General, under Montana Code Annotated §§ 35-2-609, 35-2-617, and 50-4-715, should conclude that:

a. the fair market value of public assets is preserved and protected;

b. the fair market value of public assets will be expended or invested with reasonable and prudent consideration of the potential risk of financial loss associated with the Transaction;

c. the fair market value of the public assets of a nonprofit health entity will be distributed as provided in Montana Code Annotated § 50-4-720;

d. no part of the public assets of BCBSMT will inure directly or indirectly to an officer, director, or trustee of BCBSMT or to an officer, director, trustee, shareholder, or employee of HCSC or to any other person that is not a foundation approved to receive the assets by the Attorney General; and

e. no officer, director, or trustee of BCBSMT will receive any immediate or future remuneration as a result of the proposed Transaction except for the reasonable value of services rendered pursuant to a valid contract between the officer, director, or trustee and BCBSMT. *See* Schedule of Assets and Liabilities, Exhibit 1; Consideration of Exchanges, Exhibit 2; Asset Purchase Agreement, Exhibit 3.

As discussed in the description of the Transaction, the public assets will be deposited with a foundation in the form of cash or a combination of cash and assets readily convertible to cash and for which a secondary market exists, to be distributed in accordance with the requirements of Montana Code Annotated § 50-4-720, satisfying the criteria of Montana Code Annotated § 50-4-716. Appl. at 8-9.

BCBSMT exercised due diligence in deciding to enter into the Transaction, selecting HCSC as the Transferee, and negotiating the terms and conditions of the Transaction, including the use of appropriate expert assistance. The contracts and agreements between the parties are for reasonable value and the Transaction is compliant with Montana Code Annotated Title 33, chapters 30 and 31. That the Transaction is in the public interest and will not violate antitrust principles is validated by the independent expert opinions of NERA Economic Consulting. *See,* Fin. & Comm. Impact Report Exhibit 4. Specifically NERA concludes that:

> the proposed alliance is "in the public interest" since it will make BCBSMT financially more stable, more efficient, and a stronger competitor. Further the "public interest" is protected since the proposed alliance will not lead to a lessening of competition in any relevant market.

Id. at 3. The criteria of the Conversion Statute, specifically including Montana Code Annotated § 50-4-717, are thus satisfied and the Commissioner should also approve the Transaction and Alliance.

E. Copy of the Conversion Transaction Agreement. Asset Purchase Agreement. *See* Exhibit 3.

F. Financial and Community Impact Analysis Report from an Independent Expert. Financial and Community Impact Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012), *See* Exhibit 4.

G. Independent Valuation of the Fair Market Value of BCBSMT.

1. Report Prepared by Actuarial Services & Financial Modeling Inc. As Requested by Blue Cross and Blue Shield of Montana Regarding Actuarial Appraisal of Certain Health Care Contracts With Appraisal Dates of January 1, 2013 and June 30, 2012 (Oct. 19, 2012). *See* Exhibit 5.

2. Valuation Analysis, Blue Cross and Blue Shield of Montana As of June 30, 2012, Moss Adams LLP (Nov. 12, 2012). *See* Exhibit 7.

H. Antitrust Analysis. Antitrust Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012).. *See* Exhibit 6.

Wherefore, Applicants respectfully request that the Commissioner:

1. publish notice of the Application as provided in Montana Code Annotated § 50-4-709;

2. with the Attorney General, accept nominations from Applicants for a qualified person to preside over the public hearing required by Montana Code Annotated § 50-4-710;

3. with the Attorney General, jointly appoint a qualified person to preside over the public hearing required by Montana Code Annotated § 50-4-710;

4. set a time and place for a scheduling and discovery conference to govern the proceedings;

5. issue a Procedural Order governing the proceedings, including the treatment of Applicants' confidential and proprietary materials and trade secrets;

6. rule that the Bulk Reinsurance statute, Montana Code Annotated § 33-2-1201 *et seq.*, does not apply;

7. with the Attorney General, approve the Conversion Transaction and Alliance of the Applicants; and

8. prescribe other actions as are deemed necessary and proper in the proceedings.

Respectfully submitted this 15th day of November, 2012.

KELLER, REYNOLDS, DRAKE,
JOHNSON & GILLESPIE, P.C.

BY: Jacqueline T. Lenmark

Jacqueline T. Lenmark, Esq.
50 South East Chance Gulch
P.O. Box 598
Helena, Montana 59624

CERTIFICATE OF SERVICE

I, Jacqueline T. Lenmark, KELLER, REYNOLDS, DRAKE, JOHNSON & GILLESPIE, P.C., certify that on November 15, 2012, I served a true and correct copy of the foregoing **APPLICATION FOR APPROVAL OF ALLIANCE**, by hand delivery as follows:

Steve Bullock, Esq. Montana Attorney General Office of the Attorney General 215 North Sanders, Third Floor P.O. Box 201401 Helena, Montana 59620-1401 Hand-delivered November 16, 2012	Jesse Laslovich, Esq. Chief Legal Counsel Office of the Commissioner of Securities & Insurance State Auditor's Office 840 Helena Avenue Helena, Montana 59601 Hand-delivered November 15, 2012

Courtesy copy hand-delivered to Attorney General-elect Tim Fox, Gough, Shanahan, Johnson & Waterman, 33 South Last Chance Gulch, Helena, Montana 59601, on November 16, 2012.

DATED this 15 day of November, 2012.

Jacqueline T. Lenmark

Jacqueline T. Lenmark

EXHIBITS

1. Schedule of Assets and Liabilities to be transferred to HCSC and to be retained by BCBSMT (Nov. 15, 2012)

2. Consideration of Exchanges (as of June 30, 2012). The parties anticipate that, early next year, they will update the valuation to be dated as of December 31, 2012.

3. Asset Purchase Agreement between Blue Cross and Blue shield of Montana, Inc. and Health Care Service Corporation (Nov. 15, 2012) by and between BCBSMT and HCSC.

4. Financial and Community Impact Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012).

5. Report Prepared by Actuarial Services & Financial Modeling Inc. as Requested by Blue Cross and Blue Shield of Montana Regarding Actuarial Appraisal of Certain Health Care Contracts With Appraisal Dates of January 1, 2013 and June 30, 2012 (Oct. 19, 2012).

6. Antitrust Report, Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10, 2012).

7. Valuation Analysis, Blue Cross and Blue Shield of Montana As of June 30, 2012, Moss Adams LLP (Nov. 12, 2012).

8. Project Sapphire: Transaction Summary and Analysis (Oct. 8, 2012).

Assets and Liabilities

I. Explanation.

This schedule shows both (i) the BCBSMT's balance sheet items to be transferred to HCSC, or retained by the existing entity, on the transaction closing date and (ii) BCBSMT non-balance sheet items to be transferred to HCSC, or retained by the existing entity, on the transaction closing date. Assets and Liabilities to be transferred to HCSC include an "X" in the "Transferred to HCSC" column. Assets and Liabilities that will not be transferred to HCSC include an "X" in the "Remain in Existing Entity" column.

The value of each balance sheet item may be found on Schedule 1.01A. The individual balance sheet accounts associated with each item, and the value of the assets or liabilities in that account, may be found on Schedule 1.01S.

(1) Listed items may include more than one balance sheet account. For a detailed list of balance sheet accounts associated with each item, refer to schedule 1.01S.

II. Balance Sheet Items.

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
A. Scheduled Liabilities			
1. Pending and Unreported Claims	SL1	X	
2. Aggregate Policy and Claim Reserves	SL2	X	
3. Health Care and Other Claim Liabilities	SL3	X	
4. Trade Accounts Payable	SL4	X	
5. Compensation-Related Liabilities	SL5	X	
6. Other Accrued Liabilities			
6a. Commissions Payable	SL6.1	X	
6b. All other on balance sheet	SL6.2		X
7. Income Taxes Payable	SL7		X
8. Deferred Subscription Revenue	SL8	X	
9. Other Miscellaneous Liabilities			
9a. Due to/from BCBSMT Foundation	SL9.1		X
9b. Due to/from Caring Foundation	SL9.2		X
9c. Other Miscellaneous Liabilities - Impairment	SL9.3		X
9d. All other on balance sheet	SL9.4	X	

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
10. Pension and Related Obligations			
10a. DB Pension Obligations - WSIA & ICMI Employees	SL10.1		X
10b. All other on balance sheet	SL10.2	X	
11. Intangible Liabilities - Hospital Liabilities	SL11	X	
12. Contingent Liabilities - Litigation	SL12		X
Sub-Total A: Total Scheduled Liabilities		**X**	**X**
B. Scheduled Assets			
1. Health Receivables - Premium Related	SA1	X	
2. Health Receivables - Other Health	SA2	X	
3. Receivables from Affiliates			
3a. Due to/from Health-e-Web	SA3.1	X	
3b. Miscellaneous Receivables from Health-e-Web	SA3.2	X	
3c. All other on balance sheet	SA3.3		X
4. Other Miscellaneous Receivables	SA4	X	
5. Dividends and Interest Receivable	SA5		X
6. Deferred Taxes	SA6		X
7. Notes Receivable	SA7		X
8. Prepaid Expenses	SA8	X	
9. Land and Buildings			
9a. Land - Helena	SA9.1	X	
9b. All other on balance sheet	SA9.2		X
10. Software	SA10	X	
11. Furniture, Equipment, and Autos	SA11	X	
12. Projects in Progress	SA12		X
13. Subsidiaries and Closely-Held Investments			
13a. Regional Advantage	SA13.1	X	
13b. Prime Therapeutics	SA13.2	X	
13c. TriWest	SA13.3	X	
13d. Health-e-Web	SA13.4	X	
13e. WPMI	SA13.5	X	

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
13f. Clarkston Washington Residence	SA13.6	X	
13g. Lewiston Idaho Residence	SA13.7	X	
13h. All other Investments in Subsidiaries on balance sheet	SA13.8		X
13i. All other Closely Held Investments on balance sheet	SA13.9		X
14. Pension Assets			
14a. Annuities	SA14.1	X	
14b. Cash Surrender Value of Life Insurance	SA14.2	X	
14c. Fidelity Funds - Top Hat Plan	SA14.3	X	
15. Intangible Assets - Hospital Assets	SA15	X	
Sub-Total B: Total Scheduled Assets		**X**	**X**
C. Excess of A over B		**X**	
(to be paid to HCSC from available cash and investments)			
1. Cash and Short Term Investments			
1a. Wells Fargo - Merchant Account	CSTI1.1	X	
1b. Wells Fargo - FEP Investment Account	CSTI1.2	X	
1c. Wells Fargo - LRSP Controlled Disbursements	CSTI1.3	X	
1d. PNC - Medicare Advantage	CSTI1.4	X	
1e. Wells Fargo - Admin/VCD	CSTI1.5	X	
1f. First Interstate Bank - Lockbox	CSTI1.6	X	
1g. Wells Fargo - NSI Checking	CSTI1.7	X	
1h. Wells Fargo - QNXT Claims	CSTI1.8	X	
1i. Wells Fargo - QNXT Reissues	CSTI1.9	X	
1j. Payroll	CSTI1.10	X	
1k. Wells Fargo - Flex	CSTI1.11	X	
1l. BRP Cash & Cash Equivalents	CSTI1.12	X	
1m. All other on balance sheet	CSTI1.13		X
2. Common Stocks			
2a. WF Specialty Common Stock	CSTI2.1		X
2b. WF Premier Common Stock	CSTI2.2		X
2c. Other - BCSI	CSTI2.3		X

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
2d. Other - Plans Liability Insurance	CSTI2.4		X
2e. WF Specialty Allowance for FMV of Common Stocks	CSTI2.5		X
2f. WF Premier Allowance for FMV of Common Stocks	CSTI2.6		X
2g. Allowance for FMV of Common Stocks - Other	CSTI2.7		X
3. Bonds	CSTI3	X	X
Sub-Total C: Acquired Cash and Investments to be paid to HCSC at closing		**X**	

III. Non-Balance Sheet Items.

	Transferred to HCSC	Remain in Existing Entity
A. Assets		
1. Contracts. All right, title and interest of BCBSMT in, to and under all contracts (including without limitation all contracts listed in Schedule 2.01(a)(i)) to which BCBSMT is a party or assignee, in each case which first accrued before, on or after the Closing Date. Such contracts ("Contracts") shall include, without limitation (A) all Insurance Contracts of BCBSMT and administrative service contracts and arrangements of BCBSMT with businesses, governmental entities, other entities and individuals, (B) all contracts and arrangements of BCBSMT with physician groups, individual physicians, hospitals and other providers of health care (including without limitation the Hospital Contracts), (C) all contracts and arrangements of BCBSMT with reinsurers, (D) all contracts and arrangements of BCBSMT with producers or insurance agents or brokers, and (E) all contracts of BCBSMT with other vendors and suppliers. Such rights shall include without limitation all rights (including rights of refund and offset), powers, privileges, interests, deposits, claims, causes of action and options relating or pertaining to the Contracts, in each case whether first accruing before, on or after the Closing Date;	X	
2. Intangible Properties. All intangible properties and interests, causes of action and claims which first accrue before, on or after the Closing Date;	X	
3. Marks. All Marks;	X	

	Transferred to HCSC	Remain in Existing Entity
4. Materials. All materials and supplies, inventories, and work-in-progress, including, but not limited to, paper, cardboard, ink, bindery materials, films, plates, negatives, shipping materials, and repair and maintenance materials;	X	
5. Books and Records. All of BCBSMT's books, records, papers, instruments, licenses, certificates and authorizations of whatever nature and wherever located (excluding BCBSMT's minute book) that relate to the Business or the Assets or which are required or necessary in order for Purchaser to conduct the Business from and after the date hereof in the manner in which it is presently being conducted (collectively, the "Records");	X	
6. Telephone Numbers, Domain Names and Websites. All telephone numbers (including toll-free numbers), domain names and websites used in the operation of the Business;	X	
7. Other Assets. All other assets owned, leased or licensed by BCBSMT and used in the operation of the Business.	X	
8. Excluded Contracts. All right, title and interest of BCBSMT in, to and under the contracts, identified in Schedule 2.01(b)(ii) (the "Excluded Contracts");[1]		X
9. Retained Subsidiaries. The equity interests of the Retained Subsidiaries;		X
10. Retained Administrative Assets. The assets described in Section 2.01(b)(iii) of the Disclosure Schedule (the "Retained Administrative Assets");		X
11. Tax Refunds. Tax Refunds and other Tax assets as set forth in Article VII;		X
12. BCBSMT VEBA. The BCBSMT VEBA; and		X
13. Excluded Real Property. The Real Property identified in Section 2.01(b)(viii) of the Disclosure Schedule.		X
B. Liabilities		
14. All Liabilities in respect of the Excluded Assets;		X

[1] To include WSI purchase agreement and promissory note.

	Transferred to HCSC	Remain in Existing Entity
15. All Liabilities arising from, in connection with or related to the Excluded Contracts;		X
16. All Liabilities arising from, in connection with or related to the operation of the Business prior to the Closing (including Liabilities of the type described in 5.16 and Liabilities arising from or related to any breach of contract or breach of or violation of Law prior to the Closing), other than and solely to the extent of the Assumed Liabilities referred to in Section 2.02(a);		X
17. All Liabilities which arise from or relate to the ownership, management or operation of the Retained Subsidiaries (including any amounts owing by any Company to the Retained Subsidiaries) or any former Subsidiary or business unit of BCBSMT;		X
18. All Liabilities which arise from or relate to the Actions listed on Schedule 2.02(b)(iv) and any Actions (whether pending as of the Closing or brought subsequent to the Closing) based on allegations similar to those in the Actions listed on Schedule 2.02(b)(iv);		X
19. All Liabilities arising from or related to employees of the Companies or the Retained Subsidiaries (including with respect to the Excluded Employees), except to the extent expressly provided otherwise in Article VI;		X
20. All Liabilities under any employee benefit plans that BCBSMT participates in (except to the extent expressly provided otherwise in Article VI) or relating to BMT Employee Benefits Trust, Inc.;		X
21. All Liabilities in respect of the on-going administration or operation of BCBSMT or the Retained Subsidiaries (or their respective successors) after the Closing (including without limitation, any Liabilities incurred or created by BCBSMT after the Closing);		X
22. All Liabilities to be paid or performed by BCBSMT under this Agreement or the other Transaction Documents;		X

	Transferred to HCSC	Remain in Existing Entity
23. All Liabilities of BCBSMT incurred in connection with the negotiation and implementation of this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby (including fees and disbursements of counsel, brokers, financial advisors and accountants);		X
24. Any Liability for Taxes (A) of any Company (including without limitation the HeW Taxes) or (B) of any Person other than the Companies for which any Company is liable under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local, or non-U.S. Law), as a transferee or successor, by contract, or otherwise; and		X
25. Any Transaction Taxes or any Taxes resulting from excess parachute payments, within the meaning of Section 280G of the Code as a result of the Agreement or through the transactions contemplated thereby.		X

Note: There may be some overlap / duplication in the items in Part II and Part III.

BLUE CROSS BLUE SHIELD OF MONTANA, INC
CONSIDERATION OF EXCHANGES AS OF JUNE 30, 2012

	Total Assets Held By BCBS[a]	Liabilities & Surplus to Transfer to HCSC	Asset to Remain in BCBS
LIABILITIES:			
General Liabilities:			
Pending & Unreported Claims	58,028	58,028	
Rate Stabilization Reserves	1,375	1,375	
Claim & Case Reserves	0	0	
Health Care & Other Claim Liabilities	16,146	16,146	
Trade Accounts Payable	727	727	
Compensation Related Liabilities	2,978	2,978	
Other Accrued Liabilities	1,568		
Other Accrued Liabilities			177
A/P Commissions		1,391	
Federal Income Taxes Payable (Non-Current)	(2,185)		(2,185)
Deferred Subscription Revenue	18,755	18,755	
Other Miscellaneous Liabilities	8,584		
Other Miscellaneous Liabilities		7,069	
Securities Lending & Other Liabilities			1,514
Pension & Related Obligations:			
Defined Benefit Pension Liability	26,100		
HCSC Liability		25,717	
BCBS Liability			383
Defined Contribution Plan Liability (ARC)	223	223	
BRP Retirement Liability	26,197	26,197	
Accounts Payable - Deferred Compensation	660	660	
Post Retirement Life	15	15	
Post Retirement Medical	548	548	
New West Liability (Net)	20,033	20,033	
Contingent Liabilities:	4,870		4,870
TOTAL LIABILITIES	**184,620**	**179,861**	**4,759**
ASSETS:			
General Assets:			
Cash	7,366		
Cash Accounts			12,668
Cash Accounts / Claims		(5,302)	
Health Receivables - Premium Related	4,295	4,295	
Health Care Receivables - Other Health	39,260	39,260	
Medicare Risk Reinsurance Receivable	1,026	1,026	
Receivables from Affiliates	3,770		
Health-E-Web Receivables		250	
ICMI, CBMI Receivables			3,520
Other Miscellaneous Receivables	499	499	
Dividends & Interest Receivable	895		895
Deferred Taxes	(3,587)		(3,587)
Notes Receivable	22		22
Prepaid Expenses	3,512	3,512	
Property, Plant & Equipment (Net):			
Great Falls - Land, Building & Improvements	2,000		2,000
Fuller - Land, Building & Improvements	3,000		3,000
Park Ave - Land, Building & Improvements	3,300		3,300
Donovan - Land, Building & Improvements	4,100		4,100
Building Improvements	179		179
Fixed Asset Clearing	2		2
Land - Helena	3,166	3,166	
Furniture, Equipment & Automobiles (Net):			
Office Furniture	678	678	
Office Equipment	38	38	
Telephone Equipment	1,504	1,504	
Automobiles	62	62	
Computer Equipment	1,116	1,116	
Artwork	1	1	
Projects in Progress:	136		136

BLUE CROSS BLUE SHIELD OF MONTANA, INC
CONSIDERATION OF EXCHANGES AS OF JUNE 30, 2012

	Total Assets Held By BCBS[a]	Liabilities & Surplus to Transfer to HCSC	Asset to Remain in BCBS
Invested Assets:			
Bonds Account - Wells Fargo	81,246		
Bonds		48,886	
Bonds			32,360
Fidelity Funds - Top Hat Plan	578	578	
Common Stock Account - Wells Fargo Specialty	8,442		8,442
Common Stock Account - Wells Fargo Premier	27,503		27,503
Common Stock - TriWest	22,117	22,117	
Common Stock - BCSI	0.35		0.35
Other Plans Liability Insurance	137		137
Common Stock - Allowance for FMV Other	1,338		1,338
Investment in Subsidiaries - WPMI	196	196	
Investment in Subsidiaries - Other CBMI	2,875		2,875
Investment in Subsidiaries - WSIA	51,092		51,092
Investment in Subsidiaries - ICMI (Peak 1)	961		961
Investment in Subsidiaries - ICMI (Other)	350		350
Investment in Subsidiaries - Health-e-Web	3,881	3,881	
Investment in Regional Advantage	8	8	
Chatham Feasibility Plan	25		25
Other Investments - ID Residence, Net	267	267	
Other Investments - WA Residence, Net	197	197	
Other Investments - Prime Therapeutics	2,919	2,919	
Benefit Restoration Annuity	12,482	12,482	
Cash Surrender Value of Life Insurance	15,221	15,221	
New West Assets (Net)	23,003	23,003	
TOTAL ASSETS	**331,178**	**179,862**	**151,316**
ASSETS LESS LIABILITIES (SURPLUS)	**146,557**	**0**	**146,557**
VALUE OF LINES OF BUSINESS[b]	**17,611**	**17,611**	
CASH CONSIDERATION[c]		(17,611)	17,611
TOTAL TANGIBLE & INTANGIBLE ASSETS INCLUDED IN TRANSACTION	**164,168**	**0**	**164,168**

Notes:

a. Per Exhibit 22 of Moss Adams valuation report as of June 30, 2012.

b. Per third party analysis performed by Actuarial Services & Financial Modeling, Inc. as of June 30, 2012.

c. Per management, the cash consideration is equal to the value of the lines of business.

BLUE CROSS BLUE SHIELD OF MONTANA, INC
RECONCILIATION OF ASSET VALUE TO PURCHASE PRICE

SURPLUS VALUE OF BCBS[a]	**164,168**
Less: Retained Assets	
Receivables from Affiliates	(3,520)
Dividends & Interest Receivable	(895)
Notes Receivable	(22)
Property, Plant & Equipment:	(12,581)
Projects in Progress:	(136)
Investment in Subsidiaries	(55,277)
Closely Held Investments	(25)
Cash and Investments, Net of Retained Liabilities	(74,102)
Total:	**(146,557)**
Transaction Cash Consideration[b]	**17,611**

Notes:
a. Per Exhibit 22 of Moss Adams valuation report as of June 30, 2012.
b. Per management, the cash consideration is equal to the value of the lines of business.

ASSET PURCHASE AGREEMENT

between

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

and

HEALTH CARE SERVICE CORPORATION

Dated as of November 14, 2012

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT, dated as of November 14, 2012 (the "Execution Date"), is by and between BLUE CROSS AND BLUE SHIELD OF MONTANA, INC. ("BCBSMT"), and HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company ("Purchaser").

W I T N E S S E T H:

WHEREAS, BCBSMT and its subsidiary Health-e-Web, Inc. (collectively referred to herein as the "Companies") are engaged in the Business; and

WHEREAS, Purchaser wishes to acquire the Business by acquiring certain assets from, and assuming certain Liabilities of, BCBSMT on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, Purchaser and BCBSMT hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Act" means the Securities Act of 1933, as amended.

"Action" means any claim, action, suit, arbitration or proceeding by or before any Governmental Authority.

"Acquired Cash and Investments" means cash and marketable securities to be mutually agreed to by BCBSMT and Purchaser having a value equal to the excess of (i) the gross amount of the Assumed Liabilities identified in Part A of Schedule 1.01 (the "Scheduled Liabilities"), over (ii) the gross amount of the Assets identified in Part B of Schedule 1.01 (the "Scheduled Assets"), determined in each case (x) in accordance with STAT, consistently applied and (y) as of the Closing Date. For purposes of the Closing, the Acquired Cash and Investments will be (1) based upon the books and records of BCBSMT as of the calendar month ended immediately prior to the Closing Date, but adjusted to reflect BCBSMT's and Purchaser's best estimate of changes to the value of the Scheduled Liabilities and Scheduled Assets in the interim period prior to the Closing Date and (2) identified on a schedule (the "Acquired Cash and Investments Schedule") to be executed by Purchaser and BCBSMT at the Closing. A sample calculation of the Acquired Cash and Investments, is attached hereto as Schedule 1.01A. Acquired Cash and Investments shall not include any notes or receivables received by BCBSMT (or any of its Subsidiaries) in connection with the disposition of any Retained Subsidiary.

"Acquired Interests" means those securities, interests and rights in certain Persons identified in Schedule 1.01.

"Administrative Services Agreement" means the Administrative Services Agreement, dated as of September 10, 2012 by and between Purchaser and BCBSMT.

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

"Aggregate Consideration" means and includes, with respect to an Extraordinary Business Combination, the total amount of cash and the fair market value of all other property paid or payable (or services rendered or to be rendered for less than fair consideration), directly or indirectly, to BCBSMT or any of its Subsidiaries or to the Foundation, or to some other independent charitable foundation or charitable entity on behalf of BCBSMT or any of its Subsidiaries, or to any of its employees or directors, in connection with the transaction contemplated by the Extraordinary Business Combination, including, without limitation, payments with respect to any noncompetition, nonsolicitation, so-called employee stay or "retention" bonuses, and executive employee compensation or executive employee benefits in excess of that which is usual and customary for persons of similar levels of responsibility and experience based on the past practices of BCBSMT, but excluding payments made pursuant to employment agreements or arrangements in effect as of the date of this Agreement.

"Agreement" or "this Agreement" means this Asset Purchase Agreement, between BCBSMT and Purchaser (including the Exhibits hereto and the Disclosure Schedule) and all amendments hereto made in accordance with the provisions of Section 11.09.

"Assets" has the meaning specified in Section 2.01(a).

"Assumed Liabilities" has the meaning specified in Section 2.02(a).

"Assignment and Assumption Agreement" has the meaning specified in Section 2.07(b).

"BCBSA" means the Blue Cross Blue Shield Association.

"BCBSMT Pension Plan" has the meaning specified in Section 6.05.

"BCBSMT's Accountants" means Eide Bailly, LLP, independent certified public accountants of BCBSMT.

"Burdensome Condition" means, with respect to any required regulatory approval and/or any Law, rule, regulation or administrative interpretation made, adopted, declared, or announced (written or orally) to be applicable to Purchaser or the Companies or the transactions contemplated by this Agreement: (i) any term, condition, restriction or limitation that would be reasonably likely to have a material adverse effect on the economic or business benefits to Purchaser or the Companies of the transactions contemplated by this Agreement or to the operations of BCBSMT following Closing (as determined in the sole discretion of Purchaser or BCBSMT, as applicable), (ii) a requirement that Purchaser's operation of the Business following the Closing be subject to legal requirements or any restriction, limitation, condition or obligation on Purchaser that differs materially and adversely from those imposed on companies holding similar insurance licenses (or certificates of authority) engaged in a business like the Business, in

each case, as determined in the sole discretion of Purchaser, or (iii) a requirement that BCBSMT be subject to any restriction, limitation, condition or obligation that would reasonably be expected to have a Material Adverse Effect on BCBSMT or its ability to perform its obligations under this Agreement or any Transaction Document, to pay its obligations as they come due or to contribute funds to the Foundation as contemplated hereby.

"Business" means the Companies' business as currently conducted, including (i) the provision of indemnity and managed health insurance products and services, including without limitation health insurance, health maintenance organization, point-of-service, preferred provider organization, supplemental Medicare insurance, Medicaid managed care, third-party administrative services and integrated health plan services, and other products and services within Montana, including the provision of such products and services in Montana by BCBSMT under the Blue Cross and Blue Shield trademarks and service marks pursuant to a license from BCBSA and (ii) the claims clearing house business conducted by Health-e-Web.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by Law to be closed in Helena, Montana.

"CHAMPUS" means the Civilian Health and Medical Program of the Uniformed Services.

"Claim" shall mean any right or asserted right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured.

"Closing" has the meaning specified in Section 2.01(a).

"Closing Date" has the meaning specified in Section 2.06.

"Code" means the Internal Revenue Code of 1986, as amended through the date hereof.

"Company" means any of the Companies.

"Companies" has the meaning specified in the recitals to this Agreement.

"Competing Business" has the meaning specified in Section 5.17.

"Confidentiality Agreement" means the letter agreement dated as of May 23, 2012 between BCBSMT and Purchaser.

"Contracts" has the meaning specified in Section 2.01(a)(i).

"Control" (including the terms "controlled by" and "under common control with"), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee, personal representative or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee, personal representative or executor, by contract or otherwise,

including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Customary Action" has the meaning specified in Section 5.01(d).

"Damages" shall have the meaning specified in Section 9.01.

"Disclosure Schedule" means the Disclosure Schedule provided to Purchaser, and forming a part of this Agreement.

"Employee Roster" shall have the meaning set forth in Section 8.03(n).

"Encumbrance" means any security interest, pledge, mortgage, lien (including, without limitation, environmental and tax liens), charge, encumbrance or adverse claim of any kind.

"Environmental Laws" means any Law, including any judicial or administrative order, consent decree, judgment, written guidance or written policy relating to the environment, health, safety or Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §§ 6901 et seq.; the Clean Water Act, 33 U.S.C. §§ 1251 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq.; the Clean Air Act, 42 U.S.C. §§ 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. §§ 300f et seq.; the Atomic Energy Act, 42 U.S.C. §§ 2011 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. §§ 136 et seq.; and the Federal Food, Drug and Cosmetic Act, 21 U.S.C. §§ 301 et seq., in each case as amended through the date hereof, and similar laws adopted by states with jurisdiction over the Assets.

"Environmental Permits" means all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law.

"ERISA" has the meaning specified in Section 3.20(a).

"Estimated Acquired Cash and Investments Amount" has the meaning specified in Section 2.08.

"Excluded Assets" has the meaning specified in Section 2.01(b).

"Excluded Contracts" means the contracts identified in Section 2.01(b)(ii) of the Disclosure Schedule.

"Excluded Liabilities" has the meaning specified in Section 2.02(b).

"Execution Date" has the meaning specified in the preamble.

"Extraordinary Business Combination" means an sale, transfer or disposition or purchase of ten percent (10%) or more of the assets of or equity interests in the Companies or any merger, consolidation, business combination, affiliation, joint venture, recapitalization, assumption reinsurance, liquidation, dissolution or similar transaction that would be reasonably likely to

result in the transfer of control of BCBSMT and/or HeW (including a change in the composition of their respective Boards of Directors involving 40% or more of Board seats (excluding routine changes in Board seats which do not arise as a result of any transaction)).

"FEHBP" means the Federal Employee Health Benefits Program.

"Final Acquired Cash and Investments Amount" has the meaning specified in Section 2.08.

"Financial Statements" has the meaning specified in Section 3.06(a).

"First Superior Proposal" has the meaning specified in Section 10.01(c).

"Foundation" means an independent charitable foundation to which the Purchase Price shall be contributed by BCBSMT in connection with the transactions contemplated by this Agreement; provided, however, that in the event the Foundation shall not have been duly established prior to the Closing Date, references to the Foundation in this Agreement shall mean (i) until such time as the Foundation has been duly established an escrow account or escrow agent satisfactory to BCBSMT and the Purchaser, and (ii) thereafter, the Foundation.

"General Conveyance" has the meaning specified in Section 2.07(b).

"Government Contract" has the meaning specified in Section 3.11(d).

"Governmental Authority" means any United States federal, state or local or any foreign government, governmental, legislative, executive, regulatory, or administrative branch, authority, agency, department, or commission, including the IRS, and any court, tribunal, or judicial or arbitral body.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Hazardous Materials" means any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "contaminants" or "pollutants," or words of similar import, under any applicable Environmental Law.

"Health Benefit Permits" means those governmental licenses, franchises, permits, certificates, accreditations, provider numbers, consents, rights, privileges and other authorizations issued by Governmental Authorities which are necessary under applicable Law to the conduct of the Business, including without limitation licensure by state departments of insurance as a health insurer or health maintenance organization, federal qualification under the Federal HMO Act of 1973 and any required approval by the United States Department of Health and Human Services.

"Health Care Laws" means all Laws relating to: (i) the licensure, certification, qualification or authority to transact business in connection with the provision of, payment for, or

arrangement of, health benefits or health insurance, including Laws that regulate managed care, third-party payors and persons bearing the financial risk for the provision or arrangement of health care services and, without limiting the generality of the foregoing, Laws relating to Medicare and Medicaid programs; (ii) the solicitation or acceptance of improper incentives involving persons operating in the health care industry, including Laws prohibiting or regulating fraud and abuse, patient referrals or Provider incentives generally or under the following statutes: the Federal anti-kickback law (42 U.S.C. § 1320a-7b) and the regulations promulgated thereunder, the Stark laws (42 U.S.C. § 1395nn) and the regulations promulgated thereunder, the Federal False Claims Act (31 U.S.C. §§ 3729, et seq.), the Federal Civil Monetary Penalties Law (42 U.S.C. § 1320a-7a), the Federal Program Fraud Civil Remedies Act (31 U.S.C. § 3801 et seq.) and the Federal Health Care Fraud Law (18 U.S.C. § 1347); (iii) the administration of health-care claims or benefits or processing or payment for health care services, treatment or supplies furnished by providers, including third party administrators, utilization review agents and persons performing quality assurance, credentialing or coordination of benefits; (iv) billings to insurance companies, health maintenance organizations and other managed care plans, claims for reimbursement or otherwise related to insurance fraud and abuse; (v) the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended; (vi) any Laws governing the privacy, security, integrity, accuracy, transmission, storage or other protection of information about or belonging to actual or prospective participants in BCBSMT's programs; (vii) any state insurance, health maintenance organization or managed care Laws (including Laws relating to Medicaid programs) pursuant to which BCBSMT is required to be licensed or authorized to transact business; and (viii) the Patient Protection and Affordable Care Act (Pub. L. 111-148) as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152) and the regulations promulgated thereunder.

"Health-e-Web" means Health-e-Web, Inc. a Montana for profit corporation.

"HeW Shares" means all of the issued and outstanding shares of common stock of Health-e-Web.

"HeW Taxes" has the meaning specified in Section 9.01.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Income Taxes" means Taxes which are imposed upon or with respect to, measured by, or based upon income, including federal and state income and alternative minimum income taxes, together with interest, additions to tax and penalties thereon.

"Indebtedness" means, with respect to any Person, (a) all indebtedness of such Person, whether or not contingent, for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, (c) all obligations of such Person evidenced by notes (including surplus notes), bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of BCBSMT or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in

accordance with U.S. GAAP or STAT, recorded as capital leases, (f) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities, (g) all obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock, valued, in the case of redeemable preferred stock, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (h) all Indebtedness of others referred to in clauses (a) through (g) above guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or otherwise to assure a creditor against loss, and (i) all Indebtedness referred to in clauses (a) through (g) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Encumbrance on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Indemnified Party" means a Person seeking indemnification under Section 9.01 or Section 9.02, as applicable.

"Indemnifying Party" means a Person against whom indemnity is sought under Section 9.01 or Section 9.02, as applicable.

"Independent Accounting Firm" shall mean an accounting firm mutually acceptable to BCBSMT and Purchaser.

"Insurance Contracts" means all policies, certificates, and other agreements of insurance and service agreements for the administration of health benefit plans, whether HMO, PPO, health care or health benefit service contract, health insurance or other product and whether individual or group, in effect on or after the Closing Date (including all supplements, endorsements, riders and ancillary agreements in connection therewith) which are issued by the Companies in connection with the Business.

"Intellectual Property" means (a) inventions, whether or not patentable, whether or not reduced to practice or whether or not yet made the subject of a pending patent application or applications, (b) ideas and conceptions of potentially patentable subject matter, including, without limitation, any patent disclosures, whether or not reduced to practice and whether or not yet made the subject of a pending patent application or applications, (c) national (including the United States) and multinational statutory invention registrations, patents, patent registrations and patent applications (including all reissues, divisions, continuations, continuations-in-part, extensions and reexaminations) and all rights therein provided by multinational treaties or conventions and all improvements to the inventions disclosed in each such registration, patent or application, (d) trademarks, service marks, trade dress, logos, trade names and corporate names, whether or not registered, including all common law rights, and registrations and applications for

registration thereof, including, but not limited to, all marks registered in the United States Patent and Trademark Office, the Trademark Offices of the States and Territories of the United States of America, and the Trademark Offices of other nations throughout the world, and all rights therein provided by multinational treaties or conventions, (e) copyrights (registered or otherwise) and registrations and applications for registration thereof, and all rights therein provided by multinational treaties or conventions, (f) moral rights (including, without limitation, rights of paternity and integrity), and waivers of such rights by others, (g) computer software, including, without limitation, source code, operating systems and specifications, data, data bases, files, documentation and other materials related thereto, (h) trade secrets and confidential, technical or business information (including ideas, formulas, compositions, inventions, and conceptions of inventions whether patentable or unpatentable and whether or not reduced to practice), (i) whether or not confidential, technology (including know-how and show-how), manufacturing and production processes and techniques, research and development information, drawings, specifications, designs, plans, proposals, technical data, copyrightable works, financial, marketing and business data, pricing and cost information, business and marketing plans and customer and supplier lists and information, (j) copies and tangible embodiments of all the foregoing, in whatever form or medium, (k) all rights to obtain and rights to apply for patents, and to register trademarks and copyrights, and (1) all rights to sue and recover and retain damages and costs and attorneys' fees for present and past infringement of any of the Intellectual Property rights hereinabove set out.

"IRS" means the Internal Revenue Service of the United States.

"Law" means any federal, state, local or foreign statute, law (including the common law), ordinance, regulation, rule, code, order, or requirement.

"Leased Real Property" means the real property identified in Section 8.01(e) of the Disclosure Schedule and leased by the Companies as tenant, and which real property is to be subleased by BCBSMT to Purchaser, together with, to the extent leased by the Companies, all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems, equipment and items of personal property of the Companies attached or appurtenant thereto, and all easements, licenses, rights and appurtenances relating to the foregoing.

"Liabilities" means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable, including, without limitation, those arising under any Law (including, without limitation, any Environmental Law), Action or Governmental Order, and those arising under any contract, agreement, arrangement, commitment or undertaking.

"Licensed Intellectual Property" means all Intellectual Property used in the Business and licensed or sublicensed by any of the Companies from a third party.

"Marks" shall mean all trademarks, service marks, names and licenses owned or used by BCBSMT, including, but not limited to, (a) all trademarks, service marks, names and licenses granted or licensed by BCBSA and (b) those set forth in Section 3.14(a)(i) of the Disclosure Schedule.

"Material Adverse Effect" means any circumstance relating to, change in, or effect on, the Business or the Companies that, individually or in the aggregate with any other circumstances relating to, changes in, or effects on, the Companies or the Business either (A) causes, or would reasonably be expected to cause, loss or damage to the Companies in excess of $1,000,000, or (B) causes, or would reasonably be expected to cause (x) a termination, revocation or other loss or modification of any certificate of authority necessary to conduct the Business or sell any product in any state held by any Company, or (y) a termination, revocation or other loss or modification of any of the Marks.

"Material Contract" has the meaning specified in Section 3.13(a).

"New West Contracts" means those certain Employee Benefit Plan Commitment Agreements by and between BCBSMT and each of Billings Clinic, Bozeman-Deaconess Health Services, Community Medical Center, Inc., Northern Montana Hospital and St. Peter's Community Hospital.

"Option Notice" has the meaning specified in Section 5.13(b).

"Owned Intellectual Property" means all Intellectual Property used in the Business and in which any of the Companies has an ownership right, title or interest.

"Owned Real Property" means the real property identified in Section 8.01(e) of the Disclosure Schedule, owned by BCBSMT, and which is to be leased by BCBSMT to Purchaser or acquired from BCBSMT by Purchaser under the terms of this Agreement, together with all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems, equipment and items of personal property of BCBSMT attached or appurtenant thereto and all easements, licenses, rights and appurtenances relating to the foregoing.

"Permits" has the meaning specified in Section 3.12(d).

"Permitted Encumbrances" means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced: (a) liens for Taxes, assessments and governmental charges or levies not yet due and payable; (b) Encumbrances imposed by Law, such as materialmen's, mechanics', carriers', workmen's and repairmen's liens and other similar liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than thirty (30) days and (ii) are not in excess of $50,000 in the case of a single property; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (d) minor survey exceptions, reciprocal easement agreements and other customary encumbrances on title to real property that (i) were not incurred in connection with any Indebtedness, (iii) do not render title to the property encumbered thereby unmarketable and (iv) do not, individually or in the aggregate, materially and adversely affect the value of or the use of such property for its present purposes; and (e) any lien, levy or assessment contested in good faith by the Companies for which it establishes adequate reserves on its books.

"Person" means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group

that would be deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

"Plans" has the meaning specified in Section 3.20(a).

"Post-Closing Administrative Services Agreement" means the Post-Closing Administrative Services Agreement, by and between BCBSMT and Purchaser, pursuant to which Purchaser will provide ministerial services related to BCBSMT's winding down of its business and affairs, a copy of which is attached hereto as Exhibit 2.07(d).

"Purchase Price" has the meaning specified in Section 2.03.

"Purchaser" has the meaning specified in the recitals to this Agreement.

"Purchaser Financial Statements" has the meaning specified in Section 4.06.

"Purchaser Indemnitees" has the meaning specified in Section 9.01

"Purchaser's Accountants" means Ernst & Young LLP, the independent certified public accountants of Purchaser.

"Real Property" means the Leased Real Property and the Owned Real Property.

"Receivables" means any and all accounts receivable, notes and other amounts receivable from third parties, including, without limitation, customers and employees, arising from the conduct of the Business before the Closing Date (other than accounts, notes and other amounts receivable that are Excluded Assets), whether or not in the ordinary course, together with any unpaid financing charges accrued thereon.

"Records" has the meaning specified in Section 2.01(a)(viii).

"Reference Balance Sheet" means the audited balance sheet (including related notes and schedules thereto, if any) of BCBSMT, prepared in accordance with STAT and dated as of December 31, 2011, a copy of which is set forth in Section 3.06(a)(i) of the Disclosure Schedule.

"Reference Balance Sheet Date" means December 31, 2011.

"Release" means releasing, disposing, discharging, injecting, spilling, leaking, leaching, dumping, emitting, escaping, emptying, seeping, placing and the like into or upon any land or water or air or otherwise entering into the environment.

"Retained Administrative Assets" has the meaning specified in Section 2.01(b)(iii).

"Retained Employees" has the meaning specified in Section 6.01.

"Retained Subsidiaries" means Combined Benefits Management, Inc., Western States Insurance Agency, Peak 1 Administration, and any other Subsidiary of BCBSMT (other than Health-e-Web and the Acquired Interests).

"Retained Subsidiaries' Employees" has the meaning specified in Section 6.05.

"Secondary Payor Rules" has the meaning specified in Section 3.30.

"STAT" means statutory accounting practices prescribed or permitted by the Montana Department of Insurance (or other applicable domiciliary regulatory authority) applied on a consistent basis.

"Straddle Period" has the meaning specified in Section 7.04.

"Subsidiary" of any Person means any corporation, limited liability company, partnership, joint venture, trust or estate of which (or in which) fifty percent (50%) or more of (a) the outstanding capital stock of such corporation having power to elect a majority of the board of directors or other governing body of such entity, (b) the interest in the capital or profits of such limited liability company, partnership or joint venture, or (c) the beneficial interest of such trust or estate, is at the time directly or indirectly owned by such Person.

"Superior Proposal" means a proposal relating to an Extraordinary Business Combination that BCBSMT's Board of Directors determines, in its good faith reasonable judgment, to be superior to the transactions contemplated hereby taking into account a variety of considerations which may include, but are not limited to, the financial status of the acquiror, the expertise and experience of the acquiror, the computer systems of the acquiror, the continuation of benefits to subscribers, employment of employees and payment consideration, together with such other considerations as BCBSMT's Board of Directors determines in its good faith (after consultation with its legal counsel) that it is advisable to consider in order to fulfill its duties under applicable Law.

"Tangible Personal Property" has the meaning specified in Section 3.16(a).

"Tax" or "Taxes" means any and all taxes, fees, levies, duties, tariffs, imposts, assessments, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto), including, without limitation: taxes or other charges on or with respect to income, franchises, licenses, occupations, windfall or other profits, severance, gross receipts, premiums, property, intangibles, sales, use, net worth, capital stock, compensation, payroll, employment, social security, workers' compensation, unemployment, and withholding; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, conveyance, controlling interest transfer, value added, or gains taxes; and license, registration and documentation fees; provided, however, that tax shall not include charges under a Government Contract.

"Tax Proceeding" means any audit, examination, administrative proceeding, protest, appeal, investigation, inquiry, or judicial or court proceeding relating to the determination, assessment, adjustment, imposition, or collection of any Tax by any Governmental Authority.

"Tax Refunds" means any and all Tax refunds, or Tax credits arising therefrom received by or credited to any of the Companies or to which any of the Companies is or becomes entitled, including all interest thereon.

"Tax Return" means any tax return, declaration, statement, report, schedule, form, information return, refund claim, amended return, or estimated payment form relating to any Tax.

"Termination Fee" has the meaning specified in Section 5.08(a).

"Third Party Transaction" has the meaning specified in Section 5.08(a).

"Transaction Documents" means this Agreement, the Disclosure Schedule, the Administrative Services Agreement, the Assignment and Assumption Agreement, the Escrow Agreement, the Post-Closing Administrative Services Agreement, the leases for the Owned Real Property substantially in the form attached to this Agreement as Exhibit 8.01(e), the assignments of leases related to the Leased Real Property identified in Section 8.01(e) of the Disclosure Schedule and any other document required to be delivered pursuant to Section 2.07 or Article VIII.

"Transaction Taxes" has the meaning specified in Section 7.05.

"U.S. GAAP" means United States generally accepted accounting principles and practices in effect from time to time applied consistently throughout the periods involved.

"Vendor" means individuals or entitles that the Companies have substantial business relationships with, including but not limited to: brokers, agents, suppliers, independent contractors, consultants, etc.

"WPMI Shares" means all of the issued and outstanding shares of common stock of WPMI LLC held by BCSBMT or any of its Subsidiaries.

ARTICLE II
PURCHASE OF ASSETS; ASSIGNMENT OF CONTRACTS; CONSIDERATION; CLOSING

Section 2.01 Purchase of BCBSMT Assets.

(a) On the terms and subject to the conditions set forth in this Agreement, at the closing described in Section 2.06 (the "Closing"), Purchaser shall purchase from BCBSMT, and BCBSMT shall sell, assign, transfer, convey and deliver to Purchaser, all of the assets of BCBSMT (other than the Excluded Assets) wherever located (the "Assets"), free and clear of all Encumbrances other than Permitted Encumbrances, including without limitation the following:

(i) Contracts. All right, title and interest of BCBSMT in, to and under all contracts to which BCBSMT is a party or assignee, other than the Excluded Contracts, in each case which first accrued before, on or after the Closing Date. Such contracts ("Contracts") shall include, without limitation (A) all Insurance Contracts of BCBSMT and administrative service contracts and arrangements of BCBSMT with businesses, governmental entities, other entities and individuals, (B) all contracts and arrangements of

BCBSMT with physician groups, individual physicians, hospitals and other providers of health care (including without limitation the New West Contracts), (C) all contracts and arrangements of BCBSMT with reinsurers, (D) all contracts and arrangements of BCBSMT with producers or insurance agents or brokers, and (E) all contracts of BCBSMT with other vendors and suppliers. Such rights shall include without limitation all rights (including rights of refund and offset), powers, privileges, interests, deposits, claims, causes of action and options relating or pertaining to the Contracts, in each case whether first accruing before, on or after the Closing Date;

(ii) Acquired Cash and Investments. The Acquired Cash and Investments;

(iii) HEW Shares. The HEW Shares;

(iv) Acquired Interests. The Acquired Interests and all Books and Records with respect thereto;

(v) Intangible Properties. All intangible properties and interests, causes of action and claims which first accrue before, on or after the Closing Date;

(vi) Marks. All Marks;

(vii) Materials. All materials and supplies, inventories, and work-in-progress, including, but not limited to, paper, cardboard, ink, bindery materials, films, plates, negatives, shipping materials, and repair and maintenance materials;

(viii) Books and Records. All of BCBSMT's books, records, papers, instruments, licenses, certificates and authorizations of whatever nature and wherever located (excluding BCBSMT's minute book) that relate to the Business or the Assets or which are required or necessary in order for Purchaser to conduct the Business from and after the date hereof in the manner in which it is presently being conducted (collectively, the "Records");

(ix) Receivables. All Receivables of BCBSMT and all other rights of BCBSMT to payment for goods sold or leased or for services rendered or for coverage afforded (including premium receivables, amounts due from providers, health care receivables, salvage and subrogation, coordination of benefit amounts and reinsurance recoverables), in each case for periods before the Closing Date or with respect to items or claims first accruing before the Closing Date, including without limitation those that are not evidenced by instruments or chattel paper, whether or not they have been earned by performance or have been written off or reserved against as a bad debt or doubtful account in any financial statements of BCBSMT, together with all instruments and all documents of title representing any of

the foregoing, all rights in any merchandise or goods which any of the same represent, and all rights, title, security and guarantees in favor of BCBSMT with respect to any of the foregoing;

(x) Intellectual Property. All Owned Intellectual Property and Licensed Intellectual Property;

(xi) Real Estate. All right, title and interest of BCBSMT to the Real Property identified in Section 8.01(e) of the Disclosure Schedule;

(xii) Insurance. All insurance policies issued to BCBSMT and all of BCBSMT's rights thereunder, except to the extent that any of the Companies, their Affiliates or any Person claiming through any of them have coverage rights under any such insurance policies in relation to Excluded Liabilities;

(xiii) Furniture, Fixtures and Equipment. All furniture, fixtures and equipment of BCBSMT, specifically including all computer hardware and software owned or used by BCBSMT (including all computer hardware and software and all affiliated and supporting systems (together with an inventory of all such furniture, fixtures and equipment);

(xiv) Deposits. All deposits by BCBSMT with a third party, including statutory deposits with or on account of the Montana Insurance Department, security deposits, and any deposits with or on account of the BCBSA;

(xv) Telephone Numbers, Domain Names and Websites. All telephone numbers (including toll-free numbers), domain names and websites used in the operation of the Business;

(xvi) Prepaid Expenses. All prepaid expenses of the Business as of the Closing Date;

(xvii) Other Specified Assets. All assets marked with an 'x' under the column heading 'HCSC' in Schedule 1.01 (including the bank accounts so identified therein); and

(xviii) Other Assets. All other assets owned, leased or licensed by BCBSMT and used in the operation of the Business.

For the avoidance of doubt, (A) Purchaser is acquiring all assets of the type included in Schedule 1.01 and marked with an 'x' under the column heading 'HCSC' and (B) the Assets described in Section 2.01(a)(i), Section 2.01(a)(v)-(viii), Section 2.01(a)(xii) and Section 2.01(a)(xv) are not reflected in Schedule 1.01 because such items are typically not carried on statutory balance sheets and because the parties are in agreement that the value for such items is reflected in the Purchase Price and therefore need not be included in Schedule 1.01.

(b) Notwithstanding the foregoing, BCBSMT shall not assign, and does not hereby assign, to Purchaser, and the Assets shall not include, the following assets, business, and operations (the "Excluded Assets"):

(i) Cash. Cash, other than any cash included in the Acquired Cash and Investments;

(ii) Excluded Contracts. All right, title and interest of BCBSMT in, to and under the contracts, identified in Schedule 2.01(b)(ii) (the "Excluded Contracts");

(iii) Retained Administrative Assets. The assets described in Section 2.01(b)(iii) of the Disclosure Schedule (the "Retained Administrative Assets");

(iv) Retained Investments. Investments, other than any investments included in the Acquired Cash and Investments;

(v) Retained Subsidiaries. The equity interests of the Retained Subsidiaries;

(vi) Tax Refunds. Tax Refunds and other Tax assets as set forth in Article VII;

(vii) BCBSMT VEBA. BMT Employee Benefits Trust, Inc.; and

(viii) Excluded Real Property. The Real Property identified in Section 2.01(b)(viii) of the Disclosure Schedule.

Section 2.02 Assumption of Liabilities.

(a) Effective as of the Closing, Purchaser shall assume, perform and discharge only the following specific Liabilities of BCBSMT (collectively, the "Assumed Liabilities") (and specifically excluding the Excluded Liabilities);

(i) All Liabilities of the Companies under the Contracts referenced in clauses (A) - (E) of Section 2.01(a)(i), (other than in respect of any breach, default or violation thereof);

(ii) Liabilities in respect of trade accounts payable, solely to the extent exclusively relating to the Business (other than in respect of any breach, default or violation of any contract with respect thereto);

(iii) All Liabilities marked with an 'x' under the column heading 'HCSC' in Schedule 1.01; and

(iv) All Liabilities of the Companies specifically assumed by Purchaser pursuant to Article VI.

(b) Notwithstanding anything herein (or in any other Transaction Document) to the contrary, Purchaser does not and shall not assume, any Liabilities other than the Assumed Liabilities specifically described in Section 2.02(a), and all Liabilities of the Companies or the Retained Subsidiaries other than the Assumed Liabilities are expressly excluded from the Assumed Liabilities and referred to herein collectively as the "Excluded Liabilities." For the avoidance of doubt and without limitation of the foregoing, the Excluded Liabilities include, among other Liabilities:

(i) All Liabilities in respect of the Excluded Assets;

(ii) All Liabilities arising from, in connection with or related to the Excluded Contracts;

(iii) All Liabilities arising from, in connection with or related to the operation of the Business prior to the Closing (including Liabilities of the type described in Section 5.16 and Liabilities arising from or related to any breach of contract or breach of or violation of Law prior to the Closing), other than and solely to the extent of the Assumed Liabilities referred to in Section 2.02(a);

(iv) All Liabilities which arise from or relate to the ownership, management or operation of the Retained Subsidiaries (including any amounts owing by any Company to the Retained Subsidiaries) or any former Subsidiary or business unit of BCBSMT;

(v) All Liabilities which arise from or relate to the Actions listed on Schedule 2.02(b)(v) and any Actions (whether pending as of the Closing or brought subsequent to the Closing) based on allegations similar to those in the Actions listed on Schedule 2.02(b)(v);

(vi) All Liabilities arising from or related to employees of the Companies or the Retained Subsidiaries (including with respect to the Excluded Employees), except to the extent expressly provided otherwise in Article VI;

(vii) All Liabilities under any employee benefit plans that BCBSMT participates in (except to the extent expressly provided otherwise in Article VI) or relating to BMT Employee Benefits Trust, Inc.;

(viii) All Liabilities in respect of the on-going administration or operation of BCBSMT or the Retained Subsidiaries (or their respective successors) after the Closing (including without limitation, any Liabilities incurred or created by BCBSMT after the Closing);

(ix) All Liabilities to be paid or performed by BCBSMT under this Agreement or the other Transaction Documents;

(x) All Liabilities of BCBSMT incurred in connection with the negotiation and implementation of this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby (including fees and disbursements of counsel, brokers, financial advisors and accountants);

(xi) any Liability for Taxes (A) of any Company (including without limitation the HeW Taxes) or (B) of any Person other than the Companies for which any Company is liable under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local, or non-U.S. Law), as a transferee or successor, by contract, or otherwise; and

(xii) any Transaction Taxes or any Taxes resulting from excess parachute payments, within the meaning of Section 280G of the Code, as a result of this Agreement or the transactions contemplated hereby.

(c) Purchaser assumes no obligations, liability or commitment of the Companies other than as set forth in Section 2.02(a). BCBSMT shall pay, satisfy and discharge all Excluded Liabilities.

(d) Purchaser accepts and assumes the Assumed Liabilities subject to any and all rights, defenses, setoffs and counterclaims to which BCBSMT (or HeW) would be entitled with respect to the Assumed Liabilities. It is expressly understood and agreed by the parties that no rights, defenses, setoffs or counterclaims are waived by the execution of the Agreement or the consummation of the transactions contemplated by this Agreement and that, as of the Closing Date, Purchaser shall be fully entitled to and subrogated to all such rights, defenses, setoffs and counterclaims and the benefits thereof as if it were BCBSMT (or HeW). Purchaser (and not BCBSMT) shall be entitled to defend, compromise and settle each and every Assumed Liability.

(e) All premiums and other receipts on the Assumed Liabilities (whether in the form of checks, drafts, money orders, postal notes or otherwise) received after the Closing by any party or person shall be the sole property of Purchaser. BCBSMT shall promptly deliver to Purchaser all premiums and other receipts received after Closing by BCBSMT or any of its Affiliates on the Assumed Liabilities. All premiums and other receipts after Closing shall bear all necessary endorsements required to effect transfer thereof to Purchaser.

(f) BCBSMT shall cooperate with Purchaser, and shall promptly supply Purchaser with any and all necessary data and information in its possession, in connection with Purchaser's efforts to secure insurance coverage for any Assumed Liabilities.

Section 2.03 Purchase Price. Subject to the terms, covenants and conditions of this Agreement, at the Closing, Purchaser shall, in addition to the assumption of the Assumed Liabilities, pay to BCBSMT (or, if required, to the Foundation), as consideration for the transfer by BCBSMT of the Assets to Purchaser and the other obligations of BCBSMT hereunder, a cash purchase price of $17,611,000 (Seventeen Million Six Hundred Eleven Thousand Dollars),

payable by wire transfer of immediately available funds to an account designated by BCBSMT (the "Purchase Price").

Section 2.04 Further Assurances.

(a) BCBSMT shall transfer and deliver to Purchaser within a reasonable time after its receipt, any cash or other property that BCBSMT may receive subsequent to the Closing Date that Purchaser would otherwise be entitled to receive under this Agreement in respect of any Assets, Claims, Contracts, subscriptions, commitments, accounts, sales orders, purchase orders, Receivables of any character, or any other items transferred or to be transferred to Purchaser pursuant to this Agreement, including any amounts payable as interest in respect thereof.

(b) From and after Closing, BCBSMT will (if requested by Purchaser) advise all account debtors of BCBSMT to make payment of such accounts (but excluding any Excluded Assets) to Purchaser at an office or post office box designated by Purchaser. BCBSMT hereby constitutes and appoints Purchaser as the true and lawful attorney of BCBSMT, for the benefit of and at the expense of Purchaser: (i) to collect for the account of Purchaser all Receivables of any character and any items to be sold and transferred to Purchaser as provided in this Agreement; and (ii) to endorse in favor of Purchaser all checks or other instruments received by Purchaser or BCBSMT on and after the Closing Date, in respect of accounts receivable and other claims of BCBSMT transferred to Purchaser under the terms of this Agreement.

(c) From and after the Closing Date, upon request of Purchaser, BCBSMT shall duly execute, acknowledge and deliver all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances, as may be reasonably required to convey to and vest in Purchaser, and protect its rights, title and interest in and enjoyment of, all the Assets and the Business of BCBSMT to be assigned, transferred and conveyed pursuant to and as provided in and subject to the provisions of this Agreement and as may be appropriate otherwise to carry out the transactions contemplated by this Agreement. BCBSMT shall take all such steps as may be required to put Purchaser in actual possession and operating control of the Assets purchased in accordance with this Agreement.

Section 2.05 Name. Effective as of the Closing Date, BCBSMT shall cease to use the name "Blue Cross" "Blue Shield" or any similar name. On the Closing Date, BCBSMT shall file with the office of the Secretary of State of the State of Montana all documents necessary to change the name of BCBSMT to a name reasonably satisfactory to Purchaser.

Section 2.06 Time and Place of the Closing. The Closing of the transactions described in this Agreement shall take place (a) at the offices of BCBSMT, 560 N. Park Avenue, Helena, MT 59601 at 9:00 A.M. on the last Business Day of the calendar month in which the conditions set forth in Section 8.01, Section 8.02, and Section 8.03 shall have been fulfilled or waived, such Closing to be effective at 11:59 p.m. on the Closing Date, or (b) at such other place, time and date as the parties may agree in writing (the "Closing Date").

Section 2.07 Actions to be Taken at the Closing. At the Closing, the Parties shall take the following actions and make the following deliveries:

(a) Purchase Price Payments. Purchaser shall pay BCBSMT (or, if required, the Foundation), the Purchase Price as described in Section 2.03.

(b) Assignment and Assumption Agreement. BCBSMT and Purchaser shall execute and deliver an Assignment and Assumption Agreement in the form attached to this Agreement as Exhibit 2.07(b) (the "Assignment and Assumption Agreement") with respect to the transfer of the Assets (including without limitation the Acquired Cash and Investments) and the assumption of the Assumed Liabilities. BCBSMT shall deliver to Purchaser all other stock powers, bills of sale with endorsements, assignments, and other good and sufficient instruments of transfer, conveyance and assignment as shall be effective to vest in Purchaser good title, free and clear of all Encumbrances other than Permitted Encumbrances, to the Assets.

(c) Records. BCBSMT shall deliver to Purchaser all Records.

(d) Other Transaction Documents. Each of BCBSMT and Purchaser shall execute and deliver the Escrow Agreement, the Post-Closing Administrative Services Agreement and each of the other Transaction Documents to which such Person is a party.

Section 2.08 Post-Closing Adjustment.

The purpose of BCBSMT transferring the Acquired Cash and Investments to Purchaser is to ensure that Purchaser receives one dollar of Assets for each dollar of Assumed Liabilities. The parties acknowledge and agree that the Acquired Cash and Investments Schedule will reflect estimates of the Scheduled Assets and Scheduled Liabilities as of the Closing Date (such estimated amount calculated in connection with the Closing, the "Estimated Acquired Cash and Investments Amount"). Within 60 days after the Closing, Purchaser shall submit to BCBSMT Purchaser's estimate ("Purchaser's Estimate") of the Scheduled Assets and Scheduled Liabilities and corresponding calculation of the Acquired Cash and Investments. If BCBSMT disputes Purchaser's Estimate of the Acquired Cash and Investments within thirty (30) days of Purchaser's delivery of Purchaser's Estimate to BCBSMT, then for a period of not more than thirty (30) days, the parties shall work together in good faith to determine the actual value of the Scheduled Assets and the Scheduled Liabilities and actual Acquired Cash and Investments (as finally determined pursuant to this Section 2.08, the "Final Acquired Cash and Investments Amount"). Any unresolved disputes with respect to the foregoing as of the end of such thirty (30) day period, shall be submitted for arbitration between the parties pursuant to Section 11.11. If the Final Acquired Cash and Investments Amount is less than the Estimated Acquired Cash and Investments Amount, then Purchaser shall, within 10 Business Days of the date of the parties' agreement (or the resolution of any dispute regarding the same or the date that is thirty (30) days following the delivery of Purchaser's Estimate in the event that BCBSMT does not timely deliver a notice of dispute with respect thereto), pay to BCBSMT by wire transfer of immediately available funds to the account designated by BCBSMT, the amount of such difference. If the Final Acquired Cash and Investments Amount is greater than the Estimated Acquired Cash and Investments Amount, then BCBSMT shall, within 10 Business Days of the

date of the parties' agreement (or the resolution of any dispute regarding the same or the date that is thirty (30) days following the delivery of Purchaser's Estimate in the event that BCBSMT does not timely deliver a notice of dispute with respect thereto), pay to Purchaser by wire transfer of immediately available funds to the account designated by Purchaser, the amount of such difference.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF BCBSMT

As an inducement to Purchaser to enter into this Agreement, BCBSMT hereby represents and warrants to Purchaser that, as of the date of this Agreement and as of the Closing Date:

Section 3.01 Organization and Authority.

(a) BCBSMT is a mutual benefit health service corporation duly organized, validly existing and in good standing under the laws of the State of Montana. HeW is a corporation duly organized, validly existing and in good standing under the laws of the state in which it was organized. Subject to the necessary approvals by Governmental Authorities described in Section 3.05, BCBSMT has all necessary corporate power and authority to enter into this Agreement and the other Transaction Documents, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the other Transaction Documents by BCBSMT, the performance by BCBSMT of its obligations hereunder and thereunder and the consummation by BCBSMT of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of BCBSMT. This Agreement has been, and upon their execution the other Transaction Documents will be, duly executed and delivered by BCBSMT, and (assuming due authorization, execution and delivery by Purchaser) this Agreement constitutes, and upon their execution the other Transaction Documents will constitute, legal, valid and binding obligations of BCBSMT enforceable against BCBSMT in accordance with their respective terms, except that such enforcement may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting or relating to the enforcement of creditors' rights generally, (ii) applicable insurance company delinquency, rehabilitation and liquidation laws and (iii) general equitable principles.

(b) Except as set forth in Section 3.01(b) of the Disclosure Schedule, each of BCBSMT and HeW is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the properties owned or leased by it or the operation of the Business makes such licensing or qualification necessary, except where the failure to be so licensed or qualified and in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, each of BCBSMT and HeW has all material Health Benefit Permits necessary to own its assets and conduct its Business as such Business is now conducted, and all such Health Benefit Permits are in full force and effect and are listed in Section 3.01(b) of the Disclosure Schedule. Except as set forth on in Section 3.01(b) of the Disclosure Schedule, none of the Companies has engaged in any activity which

would reasonably be expected to cause the loss, limitation, restriction, revocation or suspension of any of the material Health Benefit Permits, and no action, proceeding, claim or notification with respect to any loss, limitation, restriction, revocation or suspension of any of the material Health Benefit Permits is pending or, to the knowledge of BCBSMT, threatened. Except as set forth in Section 3.05 of the Disclosure Schedule, the execution and delivery of this Agreement and the consummation of the transactions contemplated herein will not limit, restrict, revoke, suspend or terminate, or result in the limitation, loss, restriction, revocation, suspension or termination of, any of the Health Benefit Permits.

(c) The Companies have previously made available to Purchaser true and complete copies of all required filings made by the Companies within the past three (3) years to federal and state Governmental Authorities, including without limitation the Montana Department of Insurance. As of their respective dates, such filings did not contain any untrue statement of a material fact except such as would not result in a violation of any Law which, individually or in the aggregate, would be reasonably expected to have a Material Adverse Effect.

Section 3.02 Capitalization and Ownership Interests.

(a) As of the date of this Agreement, BCBSMT is a Montana mutual benefit health service corporation with no authorized or issued capital stock. There are no outstanding or authorized options, warrants, stock subscription rights, preemption rights, stock appreciation rights, phantom stock, profit participation or similar rights with respect to BCBSMT or HeW, or any agreement or obligation to issue or grant any of the foregoing. The HeW Shares included in the Assets constitute all of the issued and outstanding shares of capital stock of HeW.

(b) Section 3.02(b) of the Disclosure Schedule sets forth each corporation, partnership, joint venture, association or other entity in which BCBSMT or any of its Subsidiaries owns, of record or beneficially, any direct or indirect equity or other ownership interest, or any right (contingent or otherwise) to acquire the same together with a description of such ownership interest, except for the ownership of securities having no more than five percent (5%) of the outstanding voting power of any entity which are listed on any national securities exchange or traded actively in the national over-the-counter market. Except as described in Section 3.02(b) of the Disclosure Schedule, neither BCBSMT nor HeW is a member of (nor is any part of the Business conducted through) any partnership, nor is BCBSMT or HeW a participant in any joint venture or similar arrangement. Except as noted in Section 3.02(b) of the Disclosure Schedule, BCBSMT's ownership interest in the entities set forth therein are owned by BCBSMT free and clear of all Encumbrances other than Permitted Encumbrances. BCBSMT has full power, right and authority to vote all of such ownership interests. Except as set forth in Section 3.02(b) of the Disclosure Schedule, neither BCBSMT nor HeW is a party to or bound by any voting trust, proxy, or other agreement affecting or relating to its right to transfer or vote the ownership interests set forth in Section 3.02(b) of the Disclosure Schedule.

Section 3.03 Books and Records. In all material respects the minute books of the Companies for the period since January 1, 2009 contain accurate records of all meetings and accurately reflect all meetings and other actions taken by the Board of Directors of such entity, all committees of the Board of Directors, and members (if any). Complete and accurate copies of all such minute books have been provided to Purchaser.

Section 3.04 No Conflict. Except as set forth in Section 3.04 of the Disclosure Schedule or as may result from any facts or circumstances relating to Purchaser, the execution, delivery and performance of this Agreement and the other Transaction Documents by BCBSMT and HeW do not and will not (a) violate, conflict with or result in the breach of any provision of the charter or By-laws (or similar organizational documents) of any of the Companies, (b) conflict with or violate any Law or Governmental Order applicable to any of the Companies or any of their respective assets, properties or businesses in a manner that would reasonably be expected to have a Material Adverse Effect, or (c) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the creation of any Encumbrance on any of the assets or properties of any of the Companies pursuant to, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which any of the Companies is a party or by which any of their respective assets or properties is bound or affected, except, with respect to this clause (c), such as would not, individually or in the aggregate, reasonably be expected to be have a Material Adverse Effect.

Section 3.05 Consents and Approvals of Governmental Authorities. Except for: (i) the filing of appropriate documents to effect the transactions contemplated herein as required by the laws of the State of Montana, (ii) the approval of the Montana Department of Insurance, the Montana Department of Justice and the Illinois Insurance Department and such other Governmental Authorities as have jurisdiction over Purchaser, (iii) the filing of a Pre-Merger Notification pursuant to the HSR Act, if applicable, and (iv) the consents and approvals listed in Section 3.05 of the Disclosure Schedule, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Authority is required to be obtained or made by the Companies in connection with the execution, delivery and performance of this Agreement and each Transaction Document or the transactions contemplated herein and therein, except such as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or give rise to a Burdensome Condition.

Section 3.06 Financial Information; Books and Records.

(a)

(i) True and complete copies of (x) the audited STAT balance sheets of BCBSMT for each of the two (2) fiscal years ended as of December 31, 2010 and December 31, 2011, and the related audited statements of income, retained earnings, and changes in financial position, together with all related notes and schedules thereto, accompanied by the reports thereon of BCBSMT's Accountants (a copy of which has been

previously delivered to Purchaser), and (y) the unaudited STAT financial statements of BCBSMT for the period ended September 30, 2012 (the "Latest Balance Sheet Date" and the balance sheet as of such date, the "Latest Balance Sheet") have been delivered by BCBSMT to Purchaser (collectively referred to herein as the "Financial Statements"). The Financial Statements. (1) were prepared in accordance with the books of account and other financial records of BCBSMT, (2) present fairly and accurately in all material respects the financial condition and results of operations and cash flows of BCBSMT as of the dates thereof or for the periods covered thereby, (3) have been prepared in accordance with STAT applied on a basis consistent with past practices throughout the periods involved, and (4) will include all adjustments (consisting only of normal recurring accruals) other than, in the case of any interim financial statement, normal year end adjustments that are necessary, for a fair presentation of financial condition and results of the operations as of the dates thereof for the periods covered thereby. Any statutory statements delivered pursuant to Section 5.16 will satisfy all criteria and requirements in the foregoing clauses (1)-(4).

(ii) True and complete copies of (x) the audited GAAP balance sheets of HeW for each of the two (2) fiscal years ended as of December 31, 2010 and December 31, 2011, and the related audited statements of income, retained earnings, and changes in financial position, together with all related notes and schedules thereto, accompanied by the reports thereon of BCBSMT's Accountants (all of which are expressly acknowledged to be consolidated in the audited financial statements of its parent, Combined Benefits, Management, Inc.), and (y) the unaudited GAAP financial statements of HeW for the period ended September 30, 2012 (the "Latest HeW Balance Sheet") have been delivered by BCBSMT to Purchaser (collectively referred to herein as the "HeW Financial Statements"). The HeW Financial Statements (1) were prepared in accordance with the books of account and other financial records of HeW, (2) present fairly and accurately in all material respects the financial condition and results of operations and cash flows of HeW as of the dates thereof or for the periods covered thereby, (3) have been prepared in accordance with GAAP applied on a basis consistent with past practices and throughout the periods involved, and (4) will include all adjustments (consisting only of normal recurring accruals) other than, in the case of any interim financial statement, normal year end adjustments and that are necessary for a fair presentation of financial condition and results of the operations as of the dates thereof for the periods covered thereby. Any financial statements delivered pursuant to Section 5.16 will satisfy all criteria and requirements in the foregoing clauses (1)-(4).

(b) The books of account and other financial records of the Companies: (i) have been maintained in accordance with STAT (or in the case of HeW, in accordance with GAAP) in each case applied on a basis consistent with past practices and throughout

the periods involved, (ii) have been maintained in accordance with good business and accounting practices and (iii) are true and correct in all material respects.

(c) The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to BCBSMT as established or reflected on the Reference Balance Sheet:

(A) were (1) determined in accordance with STAT, (2) fairly stated in accordance with sound actuarial principles, and (3) based on sound actuarial assumptions;

(B) met the requirements of the applicable insurance laws (including those applicable to health maintenance organizations) of the State of Montana or any other state having such jurisdiction, in all material respects; and

(C) were adequate and sufficient (under generally accepted actuarial standards consistently applied) to cover the total amount of all the reasonably anticipated matured and unmatured Liabilities of the Companies under all outstanding Insurance Contracts pursuant to which any of the Companies has any liability.

(iii) The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to BCBSMT as established or reflected on any statutory statement delivered pursuant to Section 5.15 will comply with the requirements and meet the standards set forth in subsections (A)-(C) above.

(d) BCBSMT's surplus, determined in accordance with STAT, is sufficient to meet the minimum Managed Care Organization Risk Based Capital requirements adopted by BCBSA to maintain the Marks.

Section 3.07 No Undisclosed Liabilities.

(a) Except with respect to the Excluded Liabilities, there are no Liabilities of the Companies of a type required to be reflected on the Financial Statements other than Liabilities (i) reflected or reserved against on the Reference Balance Sheet or the GAAP balance sheet of HeW, (ii) disclosed in Section 3.07(a) of the Disclosure Schedule, or (iii) incurred since the date of the Reference Balance Sheet in the ordinary course of business and consistent with past practice of the Companies and which do not and would not reasonably be expected to have a Material Adverse Effect. Reserves that are reflected on the Reference Balance Sheet against Liabilities are in amounts that have been established on a basis consistent with the past practices of the Companies and in accordance with STAT in the case of BCBSMT or GAAP in the case of Health-e-Web.

(b) Other than Excluded Liabilities, as of the Reference Balance Sheet Date there were no material Liabilities of the Companies which are known to BCBSMT and which were not reported on either (x) the face of the Latest Balance Sheet or the face of the Latest HeW Balance Sheet or (z) Section 3.07(b) of the Disclosure Schedule.

Section 3.08 Receivables. Section 3.08 of the Disclosure Schedule is an aged list of the Receivables as of the Latest Balance Sheet Date showing separately those Receivables that as of such date had been outstanding (i) for thirty (30) days or less, (ii) thirty-one (31) to sixty (60) days, (iii) sixty-one (61) to ninety (90) days, and (iv) more than ninety (90) days. Except to the extent, if any, reserved for on the Latest Balance Sheet, all Receivables reflected on the Latest Balance Sheet arose from, and the Receivables existing on the Closing Date will have arisen from, the ordinary course of the Business consistent with past practice of the Companies. Except as set forth in Section 3.08 of the Disclosure Schedule, reserves on the Latest Balance Sheet for the non-collection of Receivables were reasonable on the Latest Balance Sheet Date based on the past experience of the Companies.

Section 3.09 Conduct in the Ordinary Course; Absence of Certain Changes, Events and Conditions.

(a) Since the Reference Balance Sheet Date, there has been no Material Adverse Effect.

(b) Since the Reference Balance Sheet Date, except as disclosed in Section 3.09 of the Disclosure Schedule, the Business has been conducted in the ordinary course and consistent with past practice. As amplification and not limitation of the foregoing, except as disclosed in Section 3.09 of the Disclosure Schedule or in the ordinary course and consistent with past practice, since the Reference Balance Sheet Date, none of the Companies has:

(i) permitted or allowed any of its material Assets (whether tangible or intangible) to be subjected to any material Encumbrance, other than Permitted Encumbrances and Encumbrances that will be released at or prior to the Closing;

(ii) written down or written up (or failed to write down or write up) other than in accordance with STAT consistent with past practice, in any material way, the value of any Receivables or revalued any assets other than in the ordinary course of business consistent with past practice and in accordance with STAT;

(iii) made any material change in any method of accounting or accounting practice or policy other than such changes required or permitted by STAT and disclosed in Section 3.09 of the Disclosure Schedule;

(iv) amended, terminated, canceled or compromised any claims or waived any other rights of material value with respect to the Assets;

(v) sold, transferred, leased, subleased, licensed or otherwise disposed of any material Assets, real, personal or mixed (including, without limitation, leasehold interests and intangible property);

(vi) issued, sold or transferred any notes, bonds or other securities, or any option, warrant or other right to acquire the same;

(vii) taken any action or omitted to take any action which would reasonably be expected to cause BCBSMT to no longer meet the requirements of Section 833(c) of the Code;

(viii) merged with, entered into a consolidation with or acquired an equity or other ownership interest of five percent (5%) or more in any Person or acquired a substantial portion of the assets or business of any Person or any division or line of business thereof;

(ix) except as specifically provided for in the Companies' capital expense budgets for 2012, made any capital expenditure or commitment for any capital expenditure in excess of $50,000 individually or $100,000 in the aggregate;

(x) except as is consistent with the Companies' ordinary course operations, issued any sales orders or otherwise agreed to make any purchases involving exchanges in value in excess of $50,000 individually or $200,000 in the aggregate from any particular vendor or relating to a specific project;

(xi) made any material changes in the Business' methods of operation, including, without limitation, material changes in practices and policies relating to purchasing, marketing, selling and pricing;

(xii) made any material express or deemed election or settled or compromised any material liability with respect to Taxes;

(xiii) incurred any Indebtedness individually or in the aggregate in excess of $50,000;

(xiv) made any loan to, guaranteed any Indebtedness of or otherwise incurred any Indebtedness on behalf of any other Person;

(xv) failed to pay any creditor any material amount owed to such creditor when due;

(xvi) except as specifically provided in the Companies' annual operating budgets for 2012 (and even in such circumstance, subject to disclosure of any individual increase in compensation which exceeds 10%) granted any increase, or announced any increase, in the wages, salaries, compensation, bonuses, incentives, payable by it to any of its employees, or granted or announced any increase in any pension or other benefits payable by it to any of its employees including, without limitation, any increase or change pursuant to any Plan, or established or increased or promised to increase any benefits under any Plan, in either case except as required by Law or any collective bargaining agreement;

(xvii) hired any employees except in the ordinary course of business, or entered into any agreement, arrangement or transaction with any of its directors, officers or employees (or, to the knowledge of BCBSMT, with any spouse, lineal descendant or Affiliate of, any such Person);

(xviii) terminated, discontinued, closed or disposed of any facility or other business operation, or laid off any employees (other than layoffs of less than fifty (50) employees in any six (6) month period in the ordinary course of business consistent in all material respects with past practices) or implemented any early retirement, separation or severance program providing early retirement benefits or announced any such action or program for the future;

(xix) disclosed any secret or confidential material Intellectual Property (except by way of issuance of a patent or pursuant to a confidentiality agreement) or permitted to lapse or go abandoned any material Intellectual Property (or any registration or grant thereof or any application relating thereto) owned by it;

(xx) allowed any material Permit or Environmental Permit that was issued to it to lapse or terminate or failed to renew any material insurance policy, Permit or Environmental Permit;

(xxi) failed to maintain its property and equipment in good repair and operating condition in all material respects;

(xxii) suffered any casualty, loss or damage with respect to any of the Assets which in the aggregate have a replacement cost of more than $100,000, whether or not such losses or damage shall have been covered by insurance;

(xxiii) consented to any material modification or amendment to or the termination of any Material Contract or its rights thereunder, except in the ordinary course of the Business consistent with past practice;

(xxiv) amended or restated its charter or By-laws (or other organizational documents); or

(xxv) agreed, whether in writing or otherwise, to take any of the actions specified in this Section 3.09 or granted any options to purchase, rights of first refusal, rights of first offer or any other similar rights with respect to any of the actions specified in this Section 3.09, except as expressly contemplated by this Agreement or the other Transaction Documents.

Section 3.10 Litigation. Except as set forth in Section 3.10 of the Disclosure Schedule (which, with respect to each Action disclosed therein, sets forth the parties, nature of

the proceeding, date and method commenced, amount of damages or other relief sought and, if applicable, paid or granted), there are no Actions by or against any of the Companies pending before any Governmental Authority (or, to the knowledge of BCBSMT, threatened to be brought by or before any Governmental Authority) that would reasonably be expected to have a Material Adverse Effect. None of the matters disclosed in Section 3.10 of the Disclosure Schedule would reasonably be expected to affect the legality, validity or enforceability of this Agreement, any other Transaction Documents or the consummation of the transactions contemplated hereby or thereby. Except as set forth in Section 3.10 of the Disclosure Schedule, none of the Companies or any of their respective assets or properties, including, without limitation, the Assets, is subject to any Governmental Order (nor, to the knowledge of BCBSMT, are there any such Governmental Orders threatened to be imposed by any Governmental Authority) which has had or would reasonably be expected to have a Material Adverse Effect.

Section 3.11 Compliance with Laws. Except as otherwise set forth in Section 3.11 of the Disclosure Schedule:

(a) The Companies have conducted and continue to conduct the Business in accordance with all Laws in all material respects, including without limitation Health Care Laws and Governmental Orders applicable to the Companies or any of their respective properties or assets, and BCBSMT is not aware of any acts or circumstances which would constitute or result in any such violation. Section 3.11 of the Disclosure Schedule sets forth a list of each material Governmental Order applicable to the Companies or any of their respective properties or assets, and copies of such Governmental Orders have been provided to the Purchaser. No such Governmental Order has had or would reasonably be expected to have a Material Adverse Effect.

(b) None of the Companies is a party to any material contract with or other undertaking to, or is subject to any material order by, or is a recipient of any supervisory letter or other written communication of any kind from, any Governmental Authority, including without limitation on its investment, sales or trade practices and policies, its underwriting practices and policies, or its management. None of the Companies has been advised by a Governmental Authority that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any order, contract or other communication of the kind described above in this Section 3.11(b).

(c) There are no current or pending audits with regard to any contract currently or formerly in existence between any of the Companies and Medicare, FEHBP, CHAMPUS, Medicaid, Indian Health Service or any other governmental health benefit program and none of the Companies has been the subject of any such audit within the last three (3) years.

(d) The Companies are operating and have operated in compliance in all material respects with all contractual, statutory, regulatory and other requirements applicable to the Companies as providers of insurance coverage to employees of the federal, state and local governments and subdivisions and to beneficiaries under programs sponsored or administered by any such governments or subdivisions thereof (collectively "Government Contracts") and none of them is subject to any material claim for a penalty,

fine, return of premium, repayment of costs charged, renegotiation of charges or fees, change in claims or billings as a result of audit, adjustment, charge, retroactive restatements of costs or charges, or other liability in respect of any Government Contract.

(e) The Companies are, and the Companies' businesses are being conducted, in compliance in all material respects with the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191), as amended by the Health Information Technology for Economic and Clinical Health Act (Pub. L. No. 111-5), any implementing regulations and any state medical information Laws applicable to the business of the Companies or their Subsidiaries (collectively, the "Privacy Laws").

Section 3.12 Environmental and Other Permits and Licenses: Related Matters. Except as set forth in Section 3.12 of the Disclosure Schedule:

(a) There are no outstanding or, to BCBSMT's knowledge, threatened actions, claims, proceedings, determinations or judgments by any party, including but not limited to any Governmental Authority, against or involving any of the Companies, or to BCBSMT's knowledge, involving any of the Companies' predecessors in interest in any matter arising under any Environmental Law or requiring the remediation or removal of Hazardous Materials that would reasonably be expected to have a Material Adverse Effect. There are no outstanding or, to BCBSMT's knowledge, threatened orders, determinations or written notices of violation issued by any Governmental Authority administering Environmental Laws in connection with ownership of or operation by the Companies of the Business which have not been complied with in all material respects or resolved to the satisfaction of such Governmental Authority and that would reasonably be expected to have a Material Adverse Effect.

(b) The Business is in compliance in all material respects with all applicable Environmental Laws governing the Companies and the Business including, but not limited to, all discharges of Hazardous Materials into or onto the soil and/or the ground or surface water, emissions of Hazardous Materials into the ambient air, and generation, accumulation, labeling, transportation, removal, handling, treatment, storage and disposal of Hazardous Materials. The Companies have complied in all material respects with all notice, record keeping and reporting requirements imposed by any Governmental Authority and any informational requests or demands arising under any Environmental Laws.

(c) To the knowledge of BCBSMT, none of the Companies has released, disposed of or caused or permitted the disposal of any Hazardous Materials upon any of the Real Property or any of the real properties at which the Companies have conducted the Business in violation in any material respect of applicable Environmental Laws. To the knowledge of BCBSMT, none of the Companies has, directly or indirectly, disposed of Hazardous Materials off-site in violation in any material respect of applicable Environmental Laws.

(d) Except as disclosed in Section 3.12 of the Disclosure Schedule and except for Health Benefit Permits which are covered in Section 3.01(b), the Companies currently

hold all the health and safety and other permits, licenses, authorizations, franchises, certificates, exemptions and approvals of Governmental Authorities (collectively, "Permits"), including, without limitation, Environmental Permits, necessary for the current use, occupancy and operation of each of its assets and properties, including, without limitation, the Assets, and the conduct of the Business, excluding those the absence of which would not or would not reasonably be expected to have a Material Adverse Effect, and all such Permits and Environmental Permits are in full force and effect in all material respects. Except as disclosed in Section 3.12 of the Disclosure Schedule, the Companies are, in all material respects, in compliance with all material Permits and the requirements of all Environmental Permits. Section 3.12 of the Disclosure Schedule identifies all material Permits and Environmental Permits which are nontransferable or which will require the consent of any Governmental Authority in order to be transferred to Purchaser in the event of the consummation of the transactions contemplated by this Agreement.

Section 3.13 Material Contracts.

(a) For purposes of this Agreement, "Material Contracts" shall mean and include (1) all contracts, agreements, leases and subleases requiring an annual payment by the Companies in excess of $50,000 concerning the management or operation of any Real Property (including, without limitation, brokerage contracts) listed or otherwise disclosed in Section 8.01(e) of the Disclosure Schedule, (2) all agreements relating to Intellectual Property set forth in Section 3.14(a) of the Disclosure Schedule, (3) all Insurance Contracts set forth in Section 3.18 of the Disclosure Schedule, (4) all agreements relating to the furnishing of health care services set forth in Section 3.19 of the Disclosure Schedule, and (5) each of the contracts and agreements listed in clauses (i)-(x) in Section 3.13(b), in any case whether such contract or agreement is in writing or oral.

(b) Section 3.13(b) of the Disclosure Schedule lists each of the following contracts and agreements (including, without limitation, oral agreements) of each of the Companies:

(i) each contract, agreement, invoice, purchase order and other arrangement, for the purchase of personal property with any supplier or for the furnishing of services to the Companies or otherwise related to the Business under the terms of which any of the Companies (A) is likely to pay or otherwise give consideration in the aggregate either during the calendar year ended December 31, 2012 or over the remaining term of such contract of more than $100,000 for medical services of a physician or physician group, $100,000 for medical and/or hospital services from a single hospital, or $100,000 with respect to any other supplier or service provider, and (B) cannot be canceled by any of the Companies without penalty or further payment and without more than ninety (90) days' notice;

(ii) all broker, distributor, dealer, manufacturer's representative, franchise, agency, sales promotion, market research, marketing consulting

and advertising contracts and agreements requiring an annual payment by the Companies of an amount in excess of $50,000;

(iii) all management contracts and contracts with independent contractors or consultants (or similar arrangements) which are not cancelable without penalty or further payment and without more than thirty (30) days' notice requiring payment by BCBSMT of an amount in excess of $50,000;

(iv) all contracts and agreements relating to Indebtedness, other than those regarding Indebtedness of less than $100,000 in the aggregate and which have been incurred in the ordinary course of business consistent with past practice;

(v) all contracts and agreements with any Governmental Authority other than Insurance Contracts;

(vi) all contracts and agreements that limit the ability of any of the Companies to compete in any line of business or with any Person or in any geographic area or during any period of time or to contract with any Person;

(vii) all contracts and agreements between or among any Company and any Affiliate of BCBSMT;

(viii) all contracts and agreements providing for annual benefits in excess of $50,000 under any Plan;

(ix) all contracts, agreements, leases and subleases relating to the Tangible Personal Property (specifically including all computer hardware); and

(x) other contracts and agreements, whether or not made in the ordinary course of the Business, which are material to the Companies or the conduct of the Business, or the absence of which would reasonably be expected to have a Material Adverse Effect.

Section 3.04 or Section 3.05 of the Disclosure Schedule or Exhibit 8.0l(c) or 8.0l(e) also indicates whether consent is necessary to transfer to Purchaser each such Material Contract to which any Company is a party without penalty or other adverse consequence. For purposes of this Section 3.13 and Section 3.15, Section 3.16 and Section 3.17, the term "lease" shall include any and all leases, subleases, sale/leaseback agreements or similar arrangements.

(c) Except as disclosed in Section 3.13(c) of the Disclosure Schedule and subject to obtaining third party consents listed in or Section 3.04 or Section 3.05 of the Disclosure Schedule or Exhibit 8.0l(c) or 8.0l(e), each Material Contract: (i) is valid and binding on the respective parties thereto and is in full force and effect, (ii) is freely and fully assignable to Purchaser without penalty or other material adverse consequences, and

(iii) upon consummation of the transactions contemplated by this Agreement and the Transaction Documents, except to the extent that any consents set forth in Section 3.04 or Section 3.05 of the Disclosure Schedule or Exhibit 8.0l(c) or 8.0l(e) are not obtained, shall continue in full force and effect without penalty or other adverse consequence. None of the Companies is in material breach of, or default under, any Material Contract.

(d) Except as disclosed in Section 3.13(d) of the Disclosure Schedule, to BCBSMT's knowledge, no other party to any Material Contract is in breach thereof or default thereunder.

(e) Except as disclosed in Section 3.13(e) of the Disclosure Schedule, there is no contract, agreement or other arrangement granting any Person any preferential right to purchase any of the material properties or assets of any of the Companies, including, without limitation, the Assets.

(f) The Companies have not entered into any material contract with a Vendor (whether written or oral) or otherwise engaged the services of any individual or entity that has been: (i) charged with a criminal offense involving government business, (ii) listed by a federal governmental agency as debarred or excluded from government business, (iii) to BCBSMT's knowledge after due inquiry, proposed for disbarment, exclusion or suspension, or (iv) to BCBSMT's knowledge after due inquiry, otherwise excluded from federal program participation.

Section 3.14 Intellectual Property.

(a) Section 3.14(a)(i) of the Disclosure Schedule sets forth a true and complete list and identification of each patent and patent application, and of each material registration or application for registration of all registrable Owned Intellectual Property, and Section 3.14(a)(ii) of the Disclosure Schedule sets forth a true and complete list of all licenses and sublicenses of material Licensed Intellectual Property with the exception of "off-the-shelf" software. Except as otherwise described in Section 3.14(a)(a)(i) of the Disclosure Schedule for each item listed in Section 3.14(a)(a)(i) of the Disclosure Schedule which is held by assignment, the assignment has been duly recorded with the state or national trademark office from which the original patent or registration issued or before which the patent application or application for registration is pending. Except as disclosed in Section 3.14(a)(iii) of the Disclosure Schedule, the rights of the Companies in or to such Owned Intellectual Property or Licensed Intellectual Property do not, to the knowledge of BCBSMT, conflict with or infringe on the rights of any other Person, and none of the Companies has received any written notice from any Person to such effect.

(b) Except to the extent any of the following would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect: (i) all the Owned Intellectual Property is owned by the Companies, free and clear of any Encumbrance other than Permitted Encumbrances and (ii) no Actions have been made or asserted or are pending (nor, to the knowledge of BCBSMT, has any such Action been threatened) against any of the Companies either (A) based upon or challenging or seeking to deny or restrict the use by the Companies of any of the Owned Intellectual Property or (B)

alleging that any services provided, or products manufactured or sold by the Companies are being provided, manufactured or sold in violation of any patents or trademarks, or any other rights of any Person. To the knowledge of BCBSMT, no Person is using any patents, copyrights, trademarks, service marks, trade names, trade secrets or similar property that are confusingly similar to the Owned Intellectual Property or that infringe upon the Owned Intellectual Property or upon the rights of the Companies therein. Except as disclosed in Section 3.14(b) of the Disclosure Schedule, none of the Companies has granted any license or other right to any other Person with respect to the Owned Intellectual Property. Subject to obtaining all third party consents listed in Section 3.04 or Section 3.05 of the Disclosure Schedule or Exhibit 8.0l(c) or 8.01(e), the consummation of the transactions contemplated by this Agreement will not result in the termination or impairment of any of the material Owned Intellectual Property.

(c) BCBSMT has, or has caused to be, delivered to Purchaser correct and complete copies of all licenses and sublicenses for material Licensed Intellectual Property set forth in Section 3.14(a)(ii) of the Disclosure Schedule and any and all ancillary documents pertaining thereto (including, but not limited to, all amendments, consents and evidence of commencement dates and expiration dates).

(d) No Actions are pending (nor, to the knowledge of BCBSMT, has any such Action been threatened) against any of the Companies either (i) based upon or challenging or seeking to deny or restrict the use by the Companies of any of the Licensed Intellectual Property or (ii) alleging that any Licensed Intellectual Property is being licensed, sublicensed or used in violation of any patents or trademarks, or any other rights of any Person, except such actions as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(e) Subject to obtaining third-party consents listed in Section 3.04 or Section 3.05 of the Disclosure Schedule or Exhibit 8.01(c) or 8.0l(e), as a result of the transactions contemplated hereby, upon the Closing, Purchaser shall own or possess, or own or possess adequate and enforceable licenses, sublicenses or other rights to use, without payment of any fee other than fees pursuant to the terms of those licenses, sublicenses or other grants of rights which are listed on Section 3.14(a)(ii) of the Disclosure Schedule, all the Owned Intellectual Property and Licensed Intellectual Property material to the operation of the Business.

(f) The Intellectual Property to be transferred as a result of the transactions contemplated hereby constitutes all the material Intellectual Property used in the conduct of the Business.

Section 3.15 Real Property.

(a) Section 8.01(e) of the Disclosure Schedule lists: (i) the street address of each parcel of Owned Real Property and (ii) the current owner of each such parcel of Owned Real Property (if other than BCBSMT or HeW).

(b) Section 8.01(e) of the Disclosure Schedule lists: (i) the street address of each parcel of Leased Real Property, and (ii) the identity of the lessor, lessee and current occupant (if different from lessee) of each such parcel of Leased Real Property..

(c) Except as described in Section 3.15(c) or Section 3.11 of the Disclosure Schedule, there is no violation of any Law (including, without limitation, any building, planning or zoning Law) relating to any of the Owned Real Property or, to the knowledge of BCBSMT, the Leased Real Property, except for such violations as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth in Section 3.15(c) of the Disclosure Schedule, none of the Companies has leased or subleased any parcel or any portion of any parcel of Real Property to any other Person, nor has any Company assigned its interest under any lease or sublease listed in Section 3.15(b) of the Disclosure Schedule to any third party.

(d) There are no condemnation proceedings or eminent domain proceedings of any kind pending or, to the knowledge of BCBSMT, threatened against any of the Owned Real Property or, to the knowledge of BCBSMT, the Leased Real Property that would reasonably be expected to have a Material Adverse Effect.

(e) Except as described in Section 3.15(e) of the Disclosure Schedule and for such matters as would not reasonably be expected to have a Material Adverse Effect, no improvements on the Owned Real Property or, to the knowledge of BCBSMT, the Leased Real Property and none of the current uses and conditions thereof violate in any respect any applicable deed restrictions or other applicable covenants, restrictions, agreements, existing site plan approvals, zoning or subdivision regulations, or urban redevelopment plans as modified by any duly issued variances, and no material Permits, licenses or certificates pertaining to the ownership or operation of all improvements on the Owned Real Property, or, to the knowledge of BCBSMT, the Leased Real Property other than those which are transferable with the Real Property are required by any Governmental Authority having jurisdiction over the Real Property.

(f) Except as described in Section 3.15(f) of the Disclosure Schedule and for such matters as would not reasonably be expected to have a Material Adverse Effect, no improvements on any Owned Real Property encroach on any adjoining premises, and there are no encroachments on any Owned Real Property by any improvements located on any adjoining premises.

(g) Subject to obtaining third-party consents listed in Section 3.04 or Section 3.05 of the Disclosure Schedule, the Companies have, and upon the Closing Purchaser will have, the full right to exercise any renewal options contained in the leases and subleases pertaining to the Leased Real Property on the terms and conditions contained therein and upon due exercise would be entitled to enjoy the use of each Leased Real Property for the full term of such renewal options.

Section 3.16 Tangible Personal Property.

(a) Section 3.16(a) of the Disclosure Schedule sets forth a schedule listing each item or distinct group of machinery, equipment, tools, supplies, furniture, fixtures, personalty, vehicles, rolling stock and other tangible personal property used in the Business or owned or leased by any of the Companies with a book value in excess of $50,000 (the "Tangible Personal Property").

(b) BCBSMT has, or has caused to be, made available to Purchaser correct and complete copies of all leases and subleases for Tangible Personal Property and any and all material ancillary documents pertaining thereto (including, but not limited to, all amendments, consents and evidence of commencement dates and expiration dates). With respect to each of such leases and subleases:

(i) such lease or sublease, together with all ancillary documents delivered pursuant to the first sentence of this Section 3.16(b), is legal, valid, binding, enforceable (except that such enforcement may be subject to (A) bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting or, relating to the enforcement of creditors' rights generally, (B) applicable insurance company delinquency, rehabilitation and liquidation laws and (C) general equitable principles), and in full force and effect and represents the entire agreement between the respective lessor and lessee with respect to such property;

(ii) except as set forth in Section 3.16(b) of the Disclosure Schedule and subject to obtaining third-party consents listed on Exhibit 8.01(e), such lease or sublease will not cease to be legal, valid, binding, enforceable and in full force and effect on terms identical to those currently in effect as a result of the consummation of the transactions contemplated by this Agreement, nor will the consummation of the transactions contemplated by this Agreement constitute a breach or default under such lease or sublease or otherwise give the lessor a right to terminate such lease or sublease;

(iii) except as otherwise disclosed in Section 3.16(b) of the Disclosure Schedule, with respect to each such lease or sublease: (A) none of the Companies has received any notice of early cancellation or termination under such lease or sublease and no lessor has any right of early termination or cancellation under such lease or sublease except in connection with the default of the Companies thereunder, (B) none of the Companies has received any notice of a breach ·or default under such lease or sublease, which breach or default has not been cured, and (C) none of the Companies has granted to any other Person any rights, adverse or otherwise, under such lease or sublease; and

(iv) neither BCBSMT or Hew (as applicable), nor (to the knowledge of BCBSMT) any other party to such lease or sublease, is in breach or default in any material respect, and, to the knowledge of BCBSMT, subject to obtaining any consent (listed in Section 3.04 or

Section 3.05 of the Disclosure Schedule or Exhibit 8.01(c) or 8.01(e)) to assign such lease or sublease pursuant to this Agreement, no event has occurred that, with notice or lapse of time would constitute such a breach or default or permit termination, modification or acceleration under such lease or sublease.

(c) The Companies have the full right to exercise any renewal options contained in the leases and subleases pertaining to the Tangible Personal Property on the terms and conditions therein and upon due exercise would be entitled to enjoy the use of each item of leased Tangible Personal Property for the full term of such renewal options.

Section 3.17 Assets. Except as disclosed in Section 3.17 of the Disclosure Schedule, the Companies own, lease or have the legal right to use all the properties and assets constituting the Assets, including, without limitation, the Owned Intellectual Property, the Licensed Intellectual Property, the Real Property and the Tangible Personal Property, used in the conduct of the Business or otherwise owned, leased or used by the Companies and, with respect to contract rights, is a party to and enjoys the right to the benefits of all contracts, agreements and other arrangements used by, or necessary to the Companies in the conduct of the Business, free and clear of all Encumbrances, other than Permitted Encumbrances, all of which properties, assets and rights are conveyed to Purchaser hereunder (directly or indirectly). The Companies have title or contract rights with respect to or, in the case of leased or subleased Assets, valid and subsisting leasehold interests in all the Assets sufficient to permit the Companies to conduct the Business as it is currently being conducted, and to consummate the transactions contemplated by this Agreement. Except as set forth in Section 3.17 of the Disclosure Schedule, the Companies have good (subject in certain cases to the consent of third parties) title to all the Owned Real Property. The Assets, as conveyed hereunder and under the other Transaction Documents, include all properties, rights, titles and interests necessary for the operation of the Business.

Section 3.18 Significant Agreements. Listed in Section 3.18 of the Disclosure Schedule are the names and addresses of all employers, multiple employers associations, trusts and other health benefits plans with which the Companies have Insurance Contracts for the provision or administration of health benefits to more than 100 employees, members or beneficiaries (including government sponsored plans such as Medicaid and Medicare). Except as disclosed in Section 3.18 of the Disclosure Schedule, BCBSMT has not received any notice and has no reason to believe that (i) any significant Insurance Contract of any of the Companies will terminate prior to the renewal or termination date specified therein, or (ii) the Companies' provision of services pursuant to any such Insurance Contract will be substantially reduced prior to the renewal or termination date specified therein.

Section 3.19 Suppliers. Listed in Section 3.19 of the Disclosure Schedule are the names and addresses of suppliers and other providers of goods or services (other than physicians, hospitals or other Persons furnishing health care services) which invoiced any of the Companies for amounts in excess of $100,000 in each case during the twelve-month period ended August 31, 2012, and the amount for which each such supplier invoiced the Companies during such period. Except as disclosed in Section 3.19 of the Disclosure Schedule, BCBSMT has not received any notice that any such supplier will not sell supplies, merchandise and other goods to Purchaser at any time after the Closing Date on terms and conditions substantially

equivalent to those imposed on current sales to the Business, subject to general and customary price increases.

Section 3.20 Employee Benefit Matters.

(a) Plans and Material Documents. Section 3.20(a) of the Disclosure Schedule lists (i) all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA")) and all bonus, incentive, deferred compensation, retiree medical or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, and all employment, termination, severance or other contracts or agreements, whether legally enforceable or not, and whether funded or not, to which any of the Companies is a party, with respect to which any of the Companies has any obligation or which are maintained, contributed to or sponsored by any of the Companies for the benefit of any current or former employee, officer or director of any of the Companies, including frozen or terminated plans as to which any of the Companies may still have liability, (ii) each employee benefit plan for which any of the Companies could incur liability under Section 4069 of ERISA in the event such plan has been or were to be terminated, (iii) any plan in respect of which any of the Companies could incur liability under Section 4212(c) of ERISA, (iv) any contracts, arrangements or understandings between any of the Companies and any employee of any of the Companies including, without limitation, any contracts, arrangements or understandings (A) relating to a sale of any of the Companies, (B) relating to the payment of severance benefits, or (C) relating to the payment of benefits as a result of a change of control, (v) all cafeteria plans established pursuant to Section 125 of the Code, and (vi) all rabbi trusts, secular trusts or other funding vehicles for any benefit plan or arrangement listed in Section 3.20(a) of the Disclosure Schedule, other than trusts established pursuant to Section 401(a) of the Code for a benefit plan or arrangement listed in Section 3.20(a) of the Disclosure Schedule (all of the above, collectively, the "Plans"). Except as disclosed on Section 3.20(a) of the Disclosure Schedule, there are no other employee benefit plans, programs, arrangements or agreements, whether formal or informal, whether in writing or not, with respect to which any of the Companies has any obligation or which are maintained, contributed to or sponsored by any of the Companies for the benefit of any current or former employee, officer or director.

(b) Absence of Certain Types of Plans. Except as set forth on Section 3.20(b) of the Disclosure Schedule, none of the Plans is a multiemployer plan (within the meaning of Section 3(37) or 4001(a)(3) of ERISA) or a single employer pension plan (within the meaning of Section 4001(a)(15) of ERISA) for which any of the Companies could incur liability under Section 4063 or 4064 of ERISA. Except as set forth in Section 3.20(b) of the Disclosure Schedule, none of the Plans (i) provides for any payment in the nature of compensation (within the meaning of Internal Revenue Code section 280G(b)(2)(A)) such as the payment of separation, severance, termination or similar type benefits to any Person or obligates any of the Companies to make such payments as a result of any transaction contemplated by this Agreement or as a result of a change in control within the meaning of such term under Section 280G of the Code or change in the ownership of a substantial portion of the assets of the corporation within the meaning of

Section 280G of the Code, or (ii) provides for or promises retiree medical, disability or life insurance benefits to any current or former employee, officer or director of any of the Companies. Each of the Plans is subject only to the laws of the United States or a political subdivision thereof.

(c) Compliance with Applicable Law. Except as disclosed on Section 3.20(c) of the Disclosure Schedule, and except for such matters as would not reasonably be expected to have a Material Adverse Effect, each Plan is now and always has been operated and administered in accordance with the requirements of all applicable Law, each of the Companies has performed all obligations required to be performed by it under, and is not in default under, any Plan, and no legal Action pending or, to the knowledge of BCBSMT, threatened with respect to any Plan (other than claims for benefits in the ordinary course) and, to the knowledge of BCBSMT, no fact or event exists that could give rise to any such Action.

(d) Qualification of Certain Plans. Except as disclosed with reasonable specificity on Section 3.20(d) of the Disclosure Schedule, each Plan which is intended to be qualified under Section 401(a) of the Code (including but not limited to Plans intended to comply with Section 401(k) of the Code) has received a favorable determination letter from the IRS after 1996 that it is so qualified; and each trust established in connection with any Plan which is intended to be exempt from federal income taxation under either Sections 501(a) or 501(c)(9) of the Code has received a determination letter from the IRS after 1996 that it is so exempt, and, to the knowledge of BCBSMT, no fact or event has occurred since the date of such determination letter from the IRS to adversely affect such qualified status.

(e) Absence of Certain Liabilities and Events. Neither the Companies nor, to the knowledge of BCBSMT, any other party in interest (within the meaning of Section 3(14) of ERISA) or disqualified person (within the meaning of Section 4975 of the Code) has, engaged in a prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) with respect to any Plan. None of the Companies has incurred any liability for any excise tax arising under Section 4971, 4972, 4980 or 4980B of the Code and, to the knowledge of BCBSMT, no fact or event exists which could give rise to any such liability. None of the Companies has incurred any liability under, arising out of or by operation of Title IV of ERISA (other than liability for premiums to the Pension Benefit Guaranty Corporation arising in the ordinary course). No complete or partial termination has occurred within the five (5) years preceding the date hereof with respect to any Plan. No reportable event (within the meaning of Section 4043 of ERISA) has occurred or is expected to occur with respect to any Plan subject to Title IV of ERISA. No Plan had an accumulated funding deficiency (within the meaning of Section 304 of ERISA or Section 431 of the Code), whether or not waived, as of the most recently ended plan year of such Plan. None of the assets of the Companies is the subject of any lien arising under Section 302(f) or Section 303(k) of ERISA or Section 412(n) or Section 430(k) of the Code; the Companies have not been required to post any security under Section 307 of ERISA or Section 401(a)(29) of the Code; and no fact or event exists which could give rise to any such lien or requirement to post any such security.

(f) Plan Contributions and Funding. All contributions, premiums or payments required to be made with respect to any Plan have been made on or before their due dates. All such contributions, for years for which Returns have been filed, have been fully deducted for income tax purposes and no such deduction has been challenged or disallowed by any government entity and no fact or event exists which could give rise to any such challenge or disallowance.

Section 3.21 Labor Matters.

(a) (i) None of the Companies is a party to any collective bargaining agreement or other labor union contract applicable to persons employed by the Companies or in the Business, and, to BCBSMT's knowledge, there are no organizational campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit involving employees of the Companies; (ii) there are no strikes, slowdowns or material work stoppages pending or, to BCBSMT's knowledge, threatened between any of the Companies and any of their respective employees, and none of the Companies has experienced any such strike, slowdown or work stoppage within the past three (3) years; (iii) the Companies have paid in full to all their respective employees, or adequately accrued for in accordance with STAT in the case of BCBSMT or GAAP in the case of Health-e-Web, as applicable, all wages, salaries, commissions, bonuses, benefits and other compensation due to or on behalf of such employees; (iv) none of the Companies is a party to or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to employees or employment practices; and (v) the Companies are in compliance in all material respects with the requirements of the Workers Adjustment and Retraining Notification Act and any of its state or municipal equivalents ("WARN").

(b) BCBSMT has provided Purchaser copies of all contracts requiring the annual payment by any of the Companies of an amount in excess of $50,000 with any of its employees, agents, consultants, officers, salespeople, sales representatives, distributors, or dealers that is not cancelable by the Companies without penalty or premium on not more than thirty (30) days' notice. Except as set forth in Section 3.21 of the Disclosure Schedule, none of the Companies has promulgated any policy or entered into any agreement relating to the payment of severance pay to any current employees whose employment is terminated or suspended, voluntarily or otherwise.

Section 3.22 Key Employees.

(a) BCBSMT has provided Purchaser all material information concerning the name, place of employment, the current annual salary rates, bonuses, deferred or contingent compensation, pension, accrued vacation, "golden parachute", "change of control", non-competition and other like benefits paid or payable (in cash or otherwise), the date of employment and a description of position and job function of each current salaried employee, officer, director, consultant or agent of any of the Companies whose annual compensation exceeded (or, in the calendar year 2012, is expected to exceed) $150,000. Except as set forth in Section 3.22 of the Disclosure Schedule, none of the senior management of the Companies has resigned or threatened to resign.

(b) All directors, officers, management employees, and technical and professional employees of the Companies have been notified of their obligation to the Companies to maintain in confidence all confidential or proprietary information acquired by them in the course of their employment.

Section 3.23 Certain Interests.

(a) Except as disclosed in Section 3.23(a) of the Disclosure Schedule, to the knowledge of BCBSMT, no officer or director of the Companies, or his or her spouse or parent, sibling or lineal descendants (in each case, whether by birth or adoption):

(i) has any direct or indirect financial interest in any competitor of the Companies or any supplier required to be identified in Section 3.19 of the Disclosure Schedule, provided, however, that the ownership of securities representing no more than two percent (2%) of the outstanding voting power of any competitor or supplier, and which are also listed on any national securities exchange or traded actively in the national over-the-counter market, shall not be deemed to be a financial interest so long as the Person owning such securities is not involved with the management or operation of such competitor or supplier;

(ii) owns, directly or indirectly, in whole or in part, or has any other interest in any material tangible or intangible property which the Companies use or have used in the conduct of the Business or otherwise; or

(iii) has outstanding any Indebtedness to the Companies.

(b) Except as disclosed in Section 3.23(b) of the Disclosure Schedule, none of the Companies has any Liability or any other material obligation of any nature whatsoever to, any officer or director of the Companies, or, to the knowledge of BCBSMT, to his or her spouse or parent, sibling or lineal descendants (in each case, whether by birth or adoption) other than base salary, annual bonus and Plan benefit compensation obligations incurred in the ordinary course of business, and reimbursable business expenses incurred by them in the ordinary course of business.

(c) Except as disclosed in Section 3.23(c) of the Disclosure Schedule, to the knowledge of BCBSMT, no director, officer, agent or employee of any of the Companies, or any member of the family of such director, officer, agent or employee has, directly or indirectly received, or will directly or indirectly receive, any fee, commission, compensation or other consideration whatsoever from the Companies for in any manner aiding, promoting or assisting in the fulfillment of this Agreement, except as may be disclosed in certificates or affidavits to be filed with the Montana Department of Insurance.

Section 3.24 Tax Matters.

Except as disclosed with reasonable specificity on Section 3.24 of the Disclosure Schedule:

(a) All Tax Returns required to be filed with respect to the Companies, the Business and/or the Assets have been timely filed, each such Tax Return is true, correct and complete in all material respects, and the Companies have paid all Taxes required to be paid on or before the due date for payment thereof.

(b) The Companies have withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party, and all Forms W-2 and 1099 required to be filed with respect thereto have been properly completed and timely filed.

(c) No Tax Proceedings are pending, in progress, or, to the knowledge of BCBSMT, threatened with respect to either of the Companies.

(d) No adjustment, deficiency, assessment, or claim in respect of any Tax has been proposed, made, asserted or, to the knowledge of BCBSMT, threatened, against any Company, and neither Company has waived any statute of limitations in respect of any Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) There are no Encumbrances for Taxes on any assets or income of either of the Companies other than Permitted Encumbrances.

(f) Neither Company is required to file Tax Returns in any state (or subdivision thereof) other than Montana, and no claim has ever been made by a Governmental Authority in a jurisdiction in which either Company does not file Tax Returns that such Company is or may be subject to taxation by the jurisdiction.

(g) Neither Company has participated in any "reportable transaction" within the meaning of Section 6707A(c)(1) of the Code and Section 1.6011-4(b) of the Treasury Regulations.

(h) Neither Company (i) has ever been a member of an "affiliated group" within the meaning of Section 1504(a) of the Code filing a consolidated federal income Tax Return (or any similar provision of state, local or foreign Law) other than such an "affiliated group" with respect to which BCBSMT was the common parent or (ii) has any liability for the Taxes of any Person under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local, or non-U.S. Law), as a transferee or successor, by contract, or otherwise.

(i) Neither Company has participated in or cooperated with an international boycott within the meaning of Section 999 of the Code.

(j) No material change has occurred in the operations of any Company or in its structure (in each such case, within the meaning of Section 833(c)(2)(C) of the Code) after August 16, 1986.

(k) Each of the high deductible health plans that any of the Companies administers, insures, and/or markets, or that any of the Companies sponsors for its

employees, and the spouses and dependents of its employees, as compatible with health savings accounts as defined in Section 223(d) of the Code) (each such plan, an "HSA qualified HDHP") satisfies the requirements of Sections 223(c)(2) and 223(g) of the Code. Any such HSA qualified HDHP provides a preventive drug benefit that is exempt from the health plan's deductible satisfies the requirements for the safe harbor set forth in Section 223(c)(2)(C) of the Code.

(l) Health-e-Web will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) beginning after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date, (ii) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local, or non-U.S. income Tax Law) executed on or prior to the Closing Date, (iii) intercompany transaction or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local, or non-U.S. income Tax Law) (iv) any use of an improper method of accounting for a taxable period ending on or prior to the Closing Date, (v) installment sale or open transaction disposition made on or prior to the Closing Date, (vi) prepaid amount received on or prior to the Closing Date, or (vii) election under Section 108(i) of the Code.

(m) Health-e-Web has not (i) requested or received any private letter ruling from the IRS (or any comparable ruling from any other Governmental Authority) or (ii) granted any power of attorney with respect to any Tax matter that has not expired or been revoked.

(n) No payments made to or on behalf of any service provider in connection with the transactions contemplated by this Agreement will be subject to the excise Tax imposed under Section 4999 of the Code.

Section 3.25 Insurance.

(a) Section 3.25(a) of the Disclosure Schedule sets forth the following information with respect to each material insurance policy (including policies providing property, casualty, liability, workers' compensation, and bond and surety arrangements) under which any of the Companies has been an insured, a named insured or otherwise the principal beneficiary of coverage, which policy covers occurrences or claims made as of or during the three (3) years preceding the date hereof:

(i) the name of the insurer and the names of the principal insured and each named insured;

(ii) the policy number and the period of coverage; and

(iii) the type, scope (including an indication of whether the coverage was on a claims made, occurrence or other basis) and amount of coverage.

(b) With respect to each such insurance policy: (i) to the knowledge of BCBSMT, the policy is legal, valid, binding and enforceable in accordance with its terms in all material respects (except that such enforcement may be subject to (A) bankruptcy, insolvency, reorganization, moratorium, or similar Laws affecting or relating to the enforcement of creditors' rights generally, (B) applicable insurance company delinquency, rehabilitation and liquidation Laws and (C) general equitable principles) and except for policies that have expired under their terms in the ordinary course, is in full force and effect; and (ii) none of the Companies is in breach or default in any material respect (including any breach or default with respect to the payment of premiums or the giving of notice), and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default or permit termination or modification under the policy.

(c) Section 3.25(c) of the Disclosure Schedule sets forth all material risks against which any of the Companies is self-insured or which are covered under any risk retention program in which any of the Companies participates and details for the last five (5) years of the Companies' loss experience with respect to such risks.

(d) At no time subsequent to January 1, 2009 has any of the Companies (i) been denied any insurance or indemnity bond coverage which it has requested, (ii) failed to have its material assets and risks covered by valid insurance policies issued by responsible insurance companies in types and amounts of coverage that are commercially reasonable for companies engaged in businesses similar to the Business, (iii) made any material reduction in the scope or amount of its insurance coverage, (iv) been notified in writing that any existing material insurance coverage will not be available in the future substantially on the same terms as are now in effect, or (v) suffered any extraordinary increase in premium for renewed coverage. Since January 1, 2009, no insurance carrier has canceled, failed to renew or reduced any insurance coverage for any of the Companies or given any notice or other indication of its intention to cancel, not renew or reduce any such coverage.

(e) At the time of the Closing, all material insurance policies currently in effect or comparable replacement policies will be outstanding and duly in force.

Section 3.26 Accounts; Lockboxes; Safe Deposit Boxes; Powers of Attorney. Section 3.26 of the Disclosure Schedule is a true and complete list of (i) the names of each bank, savings and loan association, securities or commodities broker or other financial institution in which any of the Companies has an account, including cash contribution accounts, and the names of all persons authorized to draw thereon or have access thereto, (ii) the location of all lockboxes and safe deposit boxes of the Companies and the names of all Persons authorized to draw thereon or have access thereto, and (iii) the names of all Persons, if any, holding powers of attorney from any of the Companies relating to the Business or the Companies.

Section 3.27 Brokers. Except as set forth in Section 3.27 of the Disclosure Schedule, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or the

other Transaction Documents based upon arrangements made by or on behalf of either of the Companies.

Section 3.28 Arrangements for Reinsurance and Stop-Loss Insurance. Except as set forth in Section 3.28 of the Disclosure Schedule, to the knowledge of BCBSMT, none of the Companies has any liability on the date of this Agreement under any stop-loss or reinsurance arrangements for the benefit of any self-funded employer accounts, except as to defined retentions.

Section 3.29 Brokers and Agents; Fronting. To BCBSMT's knowledge, no broker/agent through which any of the Companies places or sells products who is among the top fifty (50) brokers/agents based on annual commission volume has indicated any unwillingness to participate with Purchaser in connection with the Business. Except as indicated in Section 3.29 of the Disclosure Schedule, none of the Companies is a party to any pools or fronting, quota-sharing or similar agreement to place or sell insurance for the full or partial benefit of any other insurance company.

Section 3.30 Medicare Secondary Payor Rules. Except as set forth in Section 3.30 of the Disclosure Schedule, without in any way limiting the generality of other representations and warranties made herein by BCBSMT, all actions taken or failed to have been taken by the Companies or their respective agents in connection with the insuring or administration of healthcare plans maintained for the Companies' employer clients or other clients have been taken or omitted in compliance in all material respects with the so-called "Medicare Secondary Payor Rules," and all applicable federal Laws, as supplemented by the regulations of the Department of Health and Human Services, concerning Medicare Secondary Payor liability ("Secondary Payor Rules"); no healthcare plan administered or insured by any of the Companies has any liability of any nature (including but not limited to any liability under the Code, ERISA, the Social Security Act and Age Discrimination in Employment Act) to the United States of America or to any other Person with respect to the Secondary Payor Rules. None of the Companies nor any of their respective agents have incurred any liability with respect to acts taken or omitted prior to Closing under existing or prior contracts with its employer clients or other clients for any excise tax liability under Section 5000 of the Code.

Section 3.31 Reinsurance and Coinsurance. Section 3.31 of the Disclosure Schedule contains a list of all reinsurance or coinsurance treaties or agreements, including retrocessional agreements, to which any of the Companies is a party or under which either Company has any existing rights, obligations or liabilities ("Reinsurance"). Except as set forth in Section 3.31 to the Disclosure Schedule hereto, no insurer or reinsurer or group of affiliated insurers or reinsurers accounted for either the direction to the Companies or the ceding by the Companies of insurance or reinsurance business, in either case, in an aggregate amount equal to two percent or more of the consolidated gross premium income of the Companies taken as a whole for the year ended December 31, 2011. BCBSMT was entitled to take credit in its statutory financial statements for the year 2011 in accordance with STAT and applicable Law for that portion of the Reinsurance as to which credit was taken in such statements. The treaties and agreements constituting the Reinsurance are in full force and effect in all material respects. The transactions to be effected under this Agreement will not materially limit the ability of the Companies to collect any amounts owing under the terms of the Reinsurance.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to BCBSMT to enter into this Agreement, Purchaser hereby represents and warrants to BCBSMT that, as of the date of this Agreement and as of the Closing Date:

Section 4.01 Organization and Authority of Purchaser. Purchaser is a mutual insurance company duly organized, validly existing and in good standing under the Laws of the State of Illinois. Subject to the necessary approvals by Governmental Authorities described in Article VIII, Purchaser has or will have all necessary corporate power and authority to enter into this Agreement and the other Transaction Documents, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the other Transaction Documents have been duly authorized by all requisite corporate action on the part of Purchaser. This Agreement has been, and upon their execution the Transaction Documents will be, duly executed and delivered by Purchaser, and (assuming due authorization, execution and delivery by BCBSMT) this Agreement constitutes, and upon their execution the Transaction Documents will constitute, legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms, except that such enforcement may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting or relating to the enforcement of creditors' rights generally, (ii) applicable insurance company delinquency; rehabilitation and liquidation Laws and (iii) general equitable principles.

Section 4.02 No Conflict. Assuming compliance with the requirements of the HSR Act, except as may result from any facts or circumstances relating solely to BCBSMT, the execution, delivery and performance of this Agreement and the other Transaction Documents by Purchaser do not and will not (a) violate, conflict with or result in the breach of any provision of the Articles of Incorporation or By-laws of Purchaser, (b) conflict with or violate any Law or Governmental Order applicable to Purchaser, or (c) except as set forth on Section 4.02 of the Disclosure Schedule, conflict with, or result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the creation of any Encumbrance on any of the assets or properties of Purchaser pursuant to, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which Purchaser is a party or by which any of such assets or properties is bound or affected, which, in the cases of clauses (b) and (c), would have a material adverse effect on the ability of Purchaser to consummate the transactions contemplated by this Agreement or by the Transaction Documents.

Section 4.03 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Purchaser.

Section 4.04 No Pecuniary Interest. To Purchaser's knowledge, no director, officer, agent or employee of Purchaser, or any member of the family of such, director, officer, agent or employee, has directly or indirectly received, or will directly or indirectly receive, any fee, commission, compensation or other consideration whatsoever for in any manner aiding,

promoting or assisting in the fulfillment of this Agreement, except as may be disclosed in certificates or affidavits to be filed with the Illinois Insurance Department and the Montana Department of Insurance.

Section 4.05 Consents and Approvals of Governmental Authorities. Except for: (i) the filing of appropriate documents to effect the transactions contemplated herein as required by the Laws of the State of Montana, (ii) the approval of the Montana Department of Insurance and the Montana Department of Justice (including approvals of such matters as (x) the transactions contemplated herein, (y) any approvals or permits necessary to allow Purchaser to continue to issue the same Insurance Contracts, and to continue to use the same rate structure, currently used or available to BCBSMT (including HMO and TPA licenses), and (z) approvals of management or administrative agreements), and such other Governmental Authorities as have jurisdiction· over BCBSMT, and the Illinois Insurance Department and the Texas Department of Insurance, and (iii) the filing of a Pre-Merger Notification pursuant to the HSR Act, if applicable, and the consents and approvals listed in Section 4.05 of the Disclosure Schedule, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Authority is required to be obtained or made by Purchaser in connection with the execution, delivery and performance of this Agreement and the other Transaction Documents and the transactions contemplated herein and therein by Purchaser, except such as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement.

Section 4.06 Financial Statements. True and complete copies of (i) the audited STAT balance sheets of Purchaser for each of the two (2) fiscal years ended as of December 31, 2010 and December 31, 2011, and the related audited STAT statements of income, retained earnings, and changes in financial position, together with all related notes and schedules thereto, accompanied by the reports thereon of Purchaser's Accountants and (ii) the unaudited STAT financial statements for Purchaser for the period ended September 30, 2012, have been delivered by Purchaser to BCBSMT (collectively referred to herein as the "Purchaser Financial Statements"). The Purchaser Financial Statements (i) present fairly and accurately in all material respects the financial condition and results of operations of Purchaser as of the dates thereof or for the periods covered thereby, and (ii) have been prepared in accordance with STAT, applied on a basis consistent with past practices and throughout the periods involved. Since December 31, 2011, no event has occurred that would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement.

Section 4.07 Investment Representations.

(a) Purchaser is acquiring the HeW Shares for its own account for investment and not for distribution, assignment or resale to others.

(b) Purchaser understands that the HeW Shares have not been registered under the Act in reliance upon an exemption therefrom for nonpublic offerings, and understands that the HeW Shares may not be sold or otherwise transferred unless such sale or other transfer is registered under the Act or an exemption from registration is available, and a legend evidencing such restrictions will be placed on such shares.

(c) Purchaser is, and as of the Closing Date will be, an "accredited investor" within the meaning given such term in Regulation D promulgated under the Act.

(d) Purchaser either by itself or with the assistance of financial advisors employed by it has sufficient knowledge and experience to evaluate the merits and bear the economic risks of an investment in the HeW Shares.

Section 4.08 Financing. Purchaser has sufficient funds or financing commitments to permit Purchaser to consummate the transaction contemplated by this Agreement.

ARTICLE V
ADDITIONAL AGREEMENTS

Section 5.01 Conduct of Business Prior to the Closing.

(a) BCBSMT covenants and agrees that, except with the prior approval of Purchaser, between the Execution Date and the Closing, the Companies shall conduct the Business only in the ordinary course and either consistent with the Companies' prior practice or pursuant to Customary Actions. Without limiting the generality of the foregoing, the Companies shall use commercially reasonable efforts to: (i) continue their advertising and promotional activities in accordance with past practice or pursuant to Customary Actions; (ii) not materially shorten or lengthen the customary payment cycles for any ·of their payables or receivables; (iii) (A) preserve intact their business organization and the business organization of the Business, (B) keep available to Purchaser the services of the employees of the Companies, (C) continue in full force and effect without material modification all existing insurance policies currently maintained in respect of the Companies and the Business, and (D) preserve their current relationships, in all material respects, with their customers, suppliers, producers, agents, brokers, providers, Vendors and other persons with which they have significant business relationships; (iv) exercise, but only after notice to Purchaser and receipt of Purchaser's prior written approval, any rights of renewal pursuant to the terms of any of the leases or subleases set forth in Section 3.15(b) of the Disclosure Schedule which by their terms would otherwise expire; and (v) not engage in any practice, take any action, fail to take any action or enter into any transaction which would reasonably be expected to cause any representation or warranty of BCBSMT to be untrue in any material respect at any time prior to the Closing Date, or result in a breach in any material respect of any covenant made by BCBSMT in this Agreement.

(b) Except in the ordinary course and either consistent with past practice or pursuant to Customary Actions, BCBSMT covenants and agrees that, after the Execution Date and prior to the Closing, without the prior written consent of Purchaser, BCBSMT will not do any of the things enumerated in clauses (i) through (xxi) and (xxiii) through (xxvi) in the second sentence of Section 3.09(b), except as set forth on Section 5.01(b) of the Disclosure Schedule.

(c) Promptly following execution of this Agreement, BCBSMT will cooperate with Purchaser in planning for the combination and integration of the businesses. BCBSMT shall advise Purchaser of the status of achieving BCBSMT's then current business plan (as has been presented to Purchaser), including all of the material components thereof, such as sales, enrollment, revenues, investment income, quarterly claim trends, medical loss ratio, administrative expenses, net income, reserves and statutory capital (as indicated on the quarterly balance sheet). BCBSMT will also keep Purchaser informed and consult with Purchaser about its general rating, rate formulations, pricing, product forms, product offerings and purchasing policies, as well as the applicable trends and retention experience arising from BCBSMT's business planning and underwriting process.

(d) For purposes of this Agreement, a "Customary Action" means an action taken that occurs in the ordinary course of the relevant Person's business and where the taking of such action is generally recognized as being customary for enterprises of similar size and scope in such Person's line of business.

Section 5.02 Access to Information.

(a) From the Execution Date until the Closing, upon reasonable notice, and subject to attorney/client privilege, BCBSMT shall, and shall cause each of its Subsidiaries, officers, directors, employees, agents, accountants and counsel to: (i) afford the officers, employees and authorized agents, accountants, counsel, and representatives of Purchaser reasonable access, during normal business hours, to the offices, properties, other facilities, books and records of the Companies including, without limitation, customer lists and contracts, membership lists, claims data, employee and benefits files, and relevant provider information, and to those officers, directors, employees, agents, accountants and counsel of the Companies who have any knowledge relating to the Companies or the Business, (ii) furnish to the officers, employees and authorized agents, accountants, counsel, and representatives of Purchaser such additional financial and operating data and other information regarding the Business and the assets, properties and goodwill of the Companies as Purchaser may from time to time reasonably request, and (iii) cooperate with and assist Purchaser in planning and preparing for post-Closing operations, including without limitation matters relating to customer and employee retention.

(b) For a period of six (6) years (or such longer period as may be reasonably necessary to assist BCBSMT in the winding-up of its business and affairs (including payment of the Excluded Liabilities), but in any event, not more than ten (10) years) after the Closing Date, Purchaser shall (i) retain the books and records of the Companies which are transferred to Purchaser pursuant to this Agreement relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of the Companies, and (ii) upon reasonable notice, afford the officers, employees and authorized agents and representatives of BCBSMT reasonable access (including the right to make, at BCBSMT's expense, photocopies), during normal business hours, to such books and records, in each case, to the extent necessary for BCBSMT to wind-up its business and affairs (including payment of the Excluded Liabilities).

Section 5.03 Confidentiality. Except for disclosures made in accordance with Section 5.07(b), BCBSMT agrees to, and will cause its Subsidiaries, its agents, representatives, Affiliates, employees, officers and directors to: (i) treat and hold as confidential (and not disclose or provide access to any Person to) all information relating to trade secrets, processes, patent or trademark applications, product development, price, customer and supplier lists, pricing and marketing plans, policies and strategies, operations methods, product development techniques, business acquisition plans, new personnel acquisition plans and any other confidential information with respect to the Business, the Companies, or Purchaser and Purchaser's business, (ii) in the event that any of the Companies or any such agent, representative, Affiliate, employee, officer or director becomes legally compelled to disclose any such information, provide Purchaser with prompt written notice of such requirement so that Purchaser may seek a protective order or other remedy or waive compliance with this Section 5.03, (iii) in the event that such protective order or other remedy is not obtained, or Purchaser waives compliance with this Section 5.03, furnish only that portion of such confidential information which is legally required to be provided and exercise its reasonable best efforts to obtain assurances that confidential treatment will be accorded such information; and (iv) promptly furnish (at or as soon as practicable following the Closing or the termination of this Agreement) to Purchaser any and all copies (in whatever form or medium) of all such confidential information which relates to the Purchaser or the Purchaser's business then in the possession of the Companies or any of their respective agents, representatives, Affiliates, employees, officers and directors and destroy any and all additional copies then in the possession of the Companies or any of their respective agents, representatives, Affiliates, employees, officers and directors of such information and of any analyses, compilations, studies or other documents prepared, in whole or in part, on the basis thereof; provided, however, that BCBSMT may retain one copy of all such information for transaction archival purposes, and that this sentence shall not apply to any information that, at the time of disclosure, is available publicly and was not disclosed in breach of this Agreement by any of the Companies, their respective agents, representatives, Affiliates, employees, officers or directors; and provided further that specific information shall not be deemed to be within the foregoing exception merely because it is embraced in general disclosures in the public domain. In addition, any combination of features shall not be deemed to be within the foregoing exception merely because the individual features are in the public domain unless the combination itself and its principle of operation are in the public domain. BCBSMT agrees and acknowledges that remedies at Law for any breach of its obligations under this Section 5.03 are inadequate and that in addition thereto Purchaser shall be entitled to seek equitable relief, including injunction and specific performance, in the event of any such breach, without the necessity of demonstrating the inadequacy of money damages. Until the Closing, BCBSMT and Purchaser shall continue to abide by the Confidentiality Agreement.

Section 5.04 Regulatory and Other Authorizations; Notices and Consents.

(a) Without limiting the generality or effect of any other provision hereof, each of the parties will use commercially reasonable efforts to take, or cause to be taken, all reasonable actions, and to do or cause to be done, and to assist and cooperate with the other party in doing, all things reasonable, necessary or advisable, and proper to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Authorities

and the making of all necessary registrations and filings (including those referred to in Section 3.05 and Section 4.05), and the taking of all reasonable steps as may be necessary to obtain approval or waiver from, or to avoid an Action or proceeding by, any Governmental Authority, (ii) the obtaining of all necessary. consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated by this Agreement, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Authority vacated or reversed, and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement; provided that the forgoing shall not require either party to consent to any Burdensome Condition. Without limiting the generality of this paragraph (a), the parties agree to the allocation of principal responsibilities set forth in paragraphs (b) through (d) as follows:

(b) HSR. Each party hereto agrees to make an appropriate filing pursuant to the HSR Act, if applicable, with respect to the transactions contemplated by this Agreement on or prior to a date to be mutually agreed by the parties, and, thereafter, to supply as promptly as practicable to the appropriate Governmental Authorities any additional information and documentary material that may be requested pursuant to the HSR Act.

(c) Conversion Transaction Filing. The parties shall jointly prepare and file the Montana Conversion Transaction regulatory filings and other regulatory filings in connection with this Agreement and the transactions contemplated hereby, and shall coordinate the conduct of the hearing before the Montana Department of Insurance and Montana Attorney General in connection with such filings.

(d) Third Party Consents. BCBSMT shall give promptly such notices to third parties and use its commercially reasonable efforts to obtain such third party consents as Purchaser may reasonably deem necessary in connection with the transactions contemplated by this Agreement. If such consent, approval or authorization cannot be obtained, BCBSMT will use commercially reasonable efforts to provide Purchaser with the rights and benefits of the affected lease, license, contract, commitment or other agreement or arrangement for the term of such lease, license, contract or other agreement or arrangement, and, if BCBSMT provides such rights and benefits, Purchaser shall assume the obligations and burdens thereunder. Purchaser shall cooperate and use commercially reasonable efforts to assist BCBSMT in giving such notices and obtaining such consents; provided, however, that Purchaser shall have no obligation to give any guarantee or other consideration of any nature in connection with any such notice or consent or to consent to any change in the terms of any Material Contract which Purchaser determines in the reasonable exercise of its judgment to be adverse to the interests of Purchaser or the Business.

(e) Regulatory Discussions. Each party shall exercise its reasonable best efforts to, (i) in advance of any scheduled discussions or meetings with any relevant Government Authority regarding the transactions contemplated herein or other

transactions material to the Business, advise the other party of the issues it believes are likely to be discussed in such discussions or meetings (and the participants in such discussions or meetings) and consult with the other party as to the other party's views on such issues, and (ii) provide to the other party, promptly after any discussion or meeting with regulatory authorities regarding the transactions contemplated herein or other transactions material to the Business, a briefing of the issues discussed and the positions taken by such party and the applicable Government Authority.

Section 5.05 Notice of Developments. Prior to the Closing, each party shall promptly notify the other in writing of (i) all events, circumstances, facts and occurrences arising subsequent to the date of this Agreement and known to such party which would reasonably be expected to result in any material breach of a representation or warranty or covenant of such party in this Agreement or which would reasonably be expected to have the effect of making any representation or warranty of such party in this Agreement untrue or incorrect in any material respect (it being understood and agreed that any such notification shall not have the effect of modifying the Disclosure Schedules for purposes of determining the accuracy of the representations and warranties of such party under Section 8.02(b) or Section 8.03(a), as the case may be, nor have the effect of curing any breach of any representation or warranty for purposes of Section 9.01 or Section 9.02, as the case may be), and (ii) any written notice or other written communication from or to any rating agency in connection with this Agreement or the transactions contemplated hereby, or otherwise, and from or to any Governmental Authority in connection with this Agreement or the transactions contemplated hereby, and (iii) all other adverse developments known to such party affecting the assets, Liabilities, business, financial condition, operations, results of operations, customer or supplier relations or employee relations of any of the Companies or the Business (other than immaterial items).

Section 5.06 Reinsurance Matters. Each of the parties shall use its reasonable best efforts, and shall reasonably cooperate with each other in such efforts, to obtain endorsements to each reinsurance agreement or coinsurance treaty or agreement which constitutes Reinsurance to the extent necessary to add the Purchaser as an additional reinsured party to such agreements or treaties. Each of such endorsements shall not reduce any rights under the applicable reinsurance agreement or coinsurance treaty or agreement.

Section 5.07 No Solicitation or Negotiation.

(a) BCBSMT agrees that, between the Execution Date and the earlier of the Closing and the termination of this Agreement, none of the Companies nor any of their respective Affiliates, officers, directors, representatives or agents will (i) solicit, initiate or encourage any other proposals or offers from any Person for an Extraordinary Business Combination, or (ii) engage in any discussions or negotiations with, or furnish to any other Person any information with respect to, or otherwise cooperate in any way, assist or participate in, facilitate or encourage any effort or attempt by any other Person relating to, an Extraordinary Business Combination. BCBSMT immediately shall cease and cause to be terminated all existing discussions and negotiations with any Persons conducted heretofore with respect to an Extraordinary Business Combination. BCBSMT agrees not to, without the prior written consent of Purchaser, release any Person from, or

waive any provision of, any confidentiality or standstill agreement to which BCBSMT is a party.

(b) Nothing contained in this Section 5.07 or in any other provision of this Agreement shall prohibit BCBSMT from (i) stating that it is bound by this Agreement, (ii) making any disclosure of information required by Law (provided BCBSMT uses commercially reasonable efforts to obtain confidential treatment for such information), (iii) communicating any information to the Board of Directors, management or advisors of any of the Companies, or (iv) to the extent required to comport with the exercise of the fiduciary duties of the Board of Directors of BCBSMT (after consultation with its outside counsel and financial advisors), providing non-public information regarding the Companies to, or negotiating with, any third party (provided such party is subject to an executed confidentiality agreement) that makes, or expresses in writing an interest in making, an unsolicited proposal for an Extraordinary Business Combination if the Board of Directors of BCBSMT shall have determined in its good faith reasonable judgment, after consultation with its outside legal counsel and financial advisors, that its statutory or fiduciary duties require it to provide non-public information to and pursue negotiations with such third party to determine if the unsolicited proposal or the written expression of an interest therein for an Extraordinary Business Combination is a Superior Proposal. Notwithstanding the foregoing provisions of this Section 5.07(b), neither BCBSMT nor its Board of Directors may terminate this Agreement except in accordance with the terms of Article X.

(c) From the Execution Date hereof until the earlier of the Closing Date or the termination of this Agreement, BCBSMT shall notify Purchaser (in accordance with Section 11.02 hereof) promptly (and in any event within forty-eight (48) hours) after receipt of a written proposal or offer for an Extraordinary Business Combination, and shall, in any such notice to Purchaser, indicate in reasonable detail the identity of the Person making such proposal or offer and the terms and conditions of such proposal or offer. BCBSMT will keep Purchaser fully informed of the status and details (including amendments or proposed amendments) of any such proposal or offer.

Section 5.08 Termination Fees.

(a) In the event that this Agreement is terminated pursuant to Section 10.01(a) or Section 10.01(c) BCBSMT shall pay to Purchaser, by wire transfer of immediately available funds, an amount equal to 3% of the Purchase Price (the "Termination Fee") (i) if terminated pursuant to Section 10.01(c), then at the time of the termination of this Agreement, and (ii) if within 2 years from the date this Agreement is terminated pursuant to Section 10.01(a), BCBSMT enters into an agreement providing for or consummates an Extraordinary Business Combination with a party other than Purchaser (a "Third Party Transaction"), then upon the consummation of the Third Party Transaction. No Termination Fee shall be payable by BCBSMT upon the consummation of a Third Party Transaction that occurs after the second anniversary of the termination of this Agreement as described above.

(b) The payment of fees provided for in Section 5.08(a) shall not in any way limit any remedies against BCBSMT under this Agreement for breach of any covenant, representation or warranty of this Agreement by BCBSMT, and Purchaser reserves its rights to pursue its remedies, at Law or in equity, against BCBSMT therefor. BCBSMT acknowledges that the agreements contained in this Section 5.08 are an integral part of the transactions contemplated by this Agreement and are not a penalty, and that, without these agreements, Purchaser would not enter into this Agreement.

Section 5.09 Directors.

(a) At least 90 days prior to the Purchaser's first annual members' meeting after the Closing Date, BCBSMT will deliver to the Purchaser a list of four (4) candidates to be considered for nomination and election to the Purchaser's Board of Directors. Purchaser will use its reasonable best efforts (including the voting of proxies held by Purchaser's management) to cause one (1) of such candidates to be nominated and elected to the Board of Directors of Purchaser for a three year term at Purchaser's first annual members' meeting after the Closing Date. The nomination and election of this individual is subject to Purchaser's by-laws and corporate policies relevant to director qualifications.

(b) After the Closing, Purchaser will create a local advisory board having a majority of Montana residents to provide advice, consultation and recommendations to Purchaser's Board of Directors on matters relating to Purchaser's Montana business.

(c) Notwithstanding anything to the contrary in this Agreement, the Purchaser is not assuming, and will not become subject to any corporate governance, board composition or other similar requirements governing BCBSMT or any of the Retained Subsidiaries.

Section 5.10 Use of Proceeds; Contribution.

(a) The Purchase Price shall be paid to BCBSMT (or if required, the Foundation).

(b) Purchaser shall have no other responsibility or obligation whatsoever to make a contribution or other payment to the Foundation.

Section 5.11 HeW Shares; WPMI Shares. Prior to the Closing, BCBSMT shall cause Combined Benefits Management, Inc. to distribute, sell or otherwise transfer the HeW Shares and the WPMI Shares to BCBSMT. Any obligation of BCBSMT to pay for or otherwise purchase or provide value for the HeW Shares and the WPMI Shares (and any Taxes arising with respect thereto) shall be an Excluded Liability.

Section 5.12 Further Action.

(a) Each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under applicable Laws, and execute and deliver such documents and other

papers, as may be required to carry out the provisions of this Agreement and consummate and make effective the transactions contemplated by this Agreement.

(b) At the request of Purchaser, BCBSMT shall reasonably cooperate with, and use reasonable best efforts to assist, Purchaser in recovering under the insurance policies of BCBSMT for claims with respect to the Business existing or arising from any past acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur (including loss under property insurance coverage) prior to the Closing or any conditions existing or alleged to have existed prior to the Closing. Additionally, BCBSMT shall use reasonable best efforts, subject to the terms of such insurance policies of BCBSMT, to preserve and retain the right to make claims and receive recoveries under such insurance policies of BCBSMT for the benefit of BCBSMT and/or Purchaser under any such insurance policy of BCBSMT maintained as of the date hereof by either BCBSMT or its Affiliates covering any loss, liability, damage or expense (to the full extent of the existing coverage) relating to the Assets, the Business, or the Assumed Liabilities that relates to or arises out of occurrences prior to the Closing.

Section 5.13 Right to Match Offer After Termination of Agreement.

(a) During the term of this Agreement, BCBSMT shall comply with the provisions of Section 5.07 relating to an Extraordinary Business Combination. This Section 5.13 shall apply from and after the effective date of the termination of this Agreement for any reason except a termination of this Agreement by BCBSMT pursuant to Section 10.01(b) or Section 10.01(c) (after payment to Purchaser of the Termination Fee described in Section 5.08(a)) made in accordance with and subject to BCBSMT's compliance with the requirements applicable to such termination. Except as provided in the preceding sentence, this Section 5.13 shall survive termination of this Agreement until the third anniversary of the termination hereof.

(b) BCBSMT shall not enter into a commitment with a third party with regard to the terms of an Extraordinary Business Combination within one hundred eighty (180) days following the effective date of the termination of this Agreement other than with respect to a termination pursuant to Section 10.01(b) or Section 10.01(c) (the "Initial Period") unless notice of the proposed terms thereof (an "Option Notice") is delivered to Purchaser. The Option Notice shall state the name of the third party, the nature of the Extraordinary Business Combination, the Aggregate Consideration and all other material terms of the proposed Extraordinary Business Combination. BCBSMT shall give Purchaser the first option to consummate the Extraordinary Business Combination at 100% of the Aggregate Consideration and otherwise substantially on the terms contained in the Option Notice. Purchaser shall have thirty (30) days from its receipt of the Option Notice to exercise its option, in which case BCBSMT shall conclude an agreement on such terms with Purchaser. Alternatively, Purchaser may elect not to exercise its option by giving BCBSMT written notice within such 30-day period of such declination. The failure of Purchaser to give timely written notice to BCBSMT of Purchaser's exercise of its option shall be deemed to be a declination of the option by Purchaser. If BCBSMT and the third party do not enter into such a definitive agreement for the Extraordinary Business Combination proposed in the Option Notice within sixty (60) days following

Purchaser's actual or deemed declination of its option, BCBSMT shall again be subject to the terms and conditions of this Section 5.13.

(c) If an Option Notice is not delivered to Purchaser during the Initial Period or if an Option Notice is delivered within such time but a definitive agreement for the Extraordinary Business Combination on the terms specified in the Option Notice is not thereafter executed by BCBSMT and the third party within the time provided for in paragraph (b) above, then, until the third (3rd) anniversary of the effective date of such termination, Purchaser shall have the following continuing right of first refusal with respect to Extraordinary Business Combinations proposed after the expiration of the Initial Period. In such event, an Option Notice shall be delivered to Purchaser by BCBSMT after the expiration of the Initial Period when BCBSMT reaches acceptable terms regarding an Extraordinary Business Combination with a third party, and shall state the name of the third party, the nature of the Extraordinary Business Combination, the Aggregate Consideration and all other material terms of the proposed Extraordinary Business Combination. BCBSMT shall give Purchaser the first option to consummate the Extraordinary Business Combination substantially on the terms contained in the Option Notice; provided that the Aggregate Consideration payable by Purchaser shall be 110% of the Aggregate Consideration set forth in the Option Notice. Purchaser shall have thirty (30) days from its receipt of the Option Notice to exercise its option, in which case BCBSMT shall execute an agreement on such terms with Purchaser. Alternatively, Purchaser may elect not to exercise its option. The failure of Purchaser to give timely written notice to BCBSMT of Purchaser's exercise of its option shall be deemed to be a declination of the option by Purchaser. If BCBSMT and the third party do not enter into a definitive agreement for the Extraordinary Business Combination within sixty (60) days following Purchaser's actual or deemed declination of its option, BCBSMT shall again be subject to the terms and conditions of this Section 5.13.

(d) Nothing in this Section 5.13 shall limit or relieve BCBSMT of its obligation to pay the Termination Fee pursuant to, and on the conditions set forth in, Section 5.08.

Section 5.14 Disclosure Addendum. Until the Closing, BCBSMT shall, on the first Business Day of each calendar quarter and on the Business Day immediately prior to the Closing Date, deliver to Purchaser an addendum to the Disclosure Schedule to update the Disclosure Schedules delivered concurrently with the execution and delivery of this Agreement so that the Disclosure Schedules, together with the addenda, are accurate as of the date of such delivery (it being understood and agreed that the delivery of such quarterly addenda shall in no way affect BCBSMT's obligations pursuant to Section 5.05). Such addenda shall not have the effect of modifying the Disclosure Schedules for purposes of determining the accuracy of the representations and warranties of BCBSMT under Section 8.03(a) nor have the effect of curing any breach of any representation or warranty for purposes of Section 9.01.

Section 5.15 Statutory Insurance Statements. Between the date of this Agreement and the Closing Date, BCBSMT shall deliver to Purchaser all annual and quarterly financial statements of BCBSMT, prepared in accordance with STAT, required to be filed with

the governmental authority regulating insurance in the State of Montana promptly after filing such statements with the State of Montana.

Section 5.16 Intercompany Arrangements. Prior to the Closing and without any liability to Purchaser or HeW, BCBSMT shall terminate, or cause to be terminated, any contract or other arrangement between BCBSMT or HeW, on the one hand, and any Retained Subsidiary (except as set forth in Section 5.16 of the Disclosure Schedule), on the other hand, which Purchaser shall request to be terminated.

Section 5.17 Noncompetition. During the period beginning on the Closing Date and ending 3 years after the Closing Date, BCBSMT and the Retained Subsidiaries, excluding however Western States Insurance Agency (collectively the "BCBSMT Remaining Entities") will not directly or indirectly solicit any present or former customers of the Companies, or engage, whether as principal or as an agent, officer, director, employee, consultant, shareholder or otherwise, alone or in association or joint venture with any other Person, in any Competing Business; provided, however, that nothing in this Section 5.17 shall be construed to prohibit or limit in any way (a) any of the BCBSMT Remaining Entities from owning not more than 5% percent of any class of equity securities of any entity that is listed on a national securities exchange or registered pursuant to the Securities Exchange Act of 1934, as amended, provided that none of the Remaining Entities participates in the management or operation of such corporation or (b) any officer or director of BCBSMT from accepting employment with any Competing Business if such officer or director may do so without violating any agreement with BCBSMT. For purposes of this Agreement, the term "Competing Business" shall mean any type of insurance, managed care or administrative services that the Companies perform as of the Closing Date.

Section 5.18 Termination of the Administrative Services Agreement. For the avoidance of doubt and not in limitation of Section 11.06 or any other provision herein or therein, the Administrative Services Agreement shall terminate in accordance with the terms thereof upon the Closing.

Section 5.19 Attorney-Client Privilege.

Purchaser and BCBSMT will cooperate and work together in a good faith effort to maintain, for BCBSMT's benefit, the attorney-client privilege and attorney work product status accorded to documents and files (in paper and electronic form) and legal advice to the extent relating to (1) Excluded Assets and Excluded Liabilities and (ii) BCBSMT's evaluation and negotiation of the transactions contemplated by this Agreement. Purchaser and BCBSMT will cooperate and work together in a good faith effort to maintain, for HCSC's benefit, the attorney-client privilege and work product status accorded to documents and files (in paper and electronic form) and legal advice with respect to the Business, the Assets and the Assumed Liabilities following the Closing.

ARTICLE VI
EMPLOYEE MATTERS

Section 6.01 Retained Employees. Effective as of the Closing, Purchaser shall provide offers of employment to all employees listed on the Employee Roster as of the Closing Date (the "Retained Employees"). BCBSMT shall (x) on or before December 15, 2012, provide to Purchaser a list of all employees employed by BCBSMT as of the date of this Agreement, and (y) update such list thereafter to reflect terminations and new hires necessary for the conduct of the Business, providing such update to Purchaser on or prior to the fifteenth calendar day of each calendar month until the Closing. With respect to each Retained Employee, Purchaser shall offer employment at an annual base salary equal to or greater than the annual base salary of such Retained Employee in effect as of immediately prior to the Closing. Notwithstanding the foregoing, Purchaser shall not be obligated to hire any individual receiving long-term disability benefits from the Companies (the "Excluded Employees").

Section 6.02 Treatment of Retained Employees in Employee Benefit Plans of Purchaser.

(a) Effective as of the Closing, Purchaser shall cause all Retained Employees who accept offers of employment with Purchaser to become eligible to participate in all employee benefit plans sponsored by Purchaser, except as provided for herein, including all retirement plans, payroll, welfare, and other benefit programs offered to similarly situated employees of Purchaser. Purchaser will grant Retained Employees who accept offers of employment with full credit for all service with the Companies as reflected on the books and records of the Companies as of the last date of hire for purposes of eligibility and vesting, but with the exception of paid time off accrual) not benefit accrual, under Purchaser's retirement plans, welfare plans or other employee benefits and programs. The rights of Retained Employees to participate in employee benefit plans maintained by Purchaser and the benefits provided thereunder shall be determined in accordance with the provisions of such plans and programs. Nothing in this Section 6.02 shall preclude Purchaser from making any amendments or modifications to any such plans and programs or terminating any such plans or programs consistent with the provisions of such plans and programs.

(b) Purchaser's cash or deferred compensation arrangement, which is qualified under Section 401(k) of the Internal Revenue Code shall accept individual rollover contributions derived from distributions upon separation from service of the accounts of Retained Employees in the Blue Cross and Blue Shield of Montana Tax-favored Savings Program, as provided by the relevant sections of such Programs.

Section 6.03 Treatment of BCBSMT Welfare Benefit Plans and Other Programs.

(a) For the Plan Year in which the Closing occurs, Purchaser shall keep in effect, at Purchaser's sole and absolute discretion either by becoming the policyholder, or adopting a similar plan or program, substantially similar coverage to that provided by the BCBSMT group health plan in effect at the time of Closing. The Retained Employees

shall be permitted, and the parties shall work together, to transfer all deductible and coinsurance balances under the BCBSMT group health plan in effect at the time of Closing, and elections and account balances under the BCBSMT health savings account, flexible spending account, and dependent care account to Purchaser's administrators. No later than the first Plan Year following the Plan Year in which the Closing occurs, Retained Employees shall participate in the open enrollment for the Purchaser health benefit plans and programs that Purchaser generally makes available to its employees other than Retained Employees. Nothing in this Section 6.03 shall preclude Purchaser from making any amendments or modifications to any such plans and programs or terminating any such plans or programs consistent with the provisions of such plans and programs.

(b) On or before the Closing Date, the Companies shall pay the Retained Employees the cash value of their accrued balances under the Companies' Earned Personal Time ("EPT") program, and the EPT program will terminate. The Retained Employees will transition to Purchaser's Paid Time Off Program in a manner that is established by the parties and consistent with Montana law.

Section 6.04 Termination of Participation in Employee Benefit Plans. Except as otherwise provided for herein, as of the Closing Date, BCBSMT shall take such action as necessary to terminate the Companies participation as a participating employer in all employee benefit plans that the Companies participated in as a participating employer prior to the Closing Date except to the extent that it is determined after the Closing that such employee benefit plans remain for the benefit of employees who continue in the service of BCBSMT after the Closing Date.

Section 6.05 BCBSMT's Pension Plan.

(a) On or before Closing, with respect to participants in the Non-Contributory Retirement Program for Certain Employees of Blue Cross and Blue Shield of Montana, Inc. ("BCBSMT Pension Plan") who are employed by the Retained Subsidiaries ("Retained Subsidiaries' Employees"), BCBSMT will take all necessary actions, as acceptable to Purchaser, including adopting plan amendments, to terminate active participation of Retained Subsidiaries' Employees who are employed on such date. Purchaser shall have no liability for future accruals for the Retained Subsidiaries' Employees.

(b) On or before the Closing Date, BCBSMT shall contribute approximately $27 million (the "Estimated Contribution Amount") to the BCBSMT Pension Plan trust. The Estimated Contribution Amount has been calculated in accordance with Accounting Standards Codification (ASC) 715 and has been estimated by the parties as that which is required to fully fund (i) past benefit accruals for participants in the BCBSMT Pension Plan, (ii) benefit accruals from the date of this Agreement through December 31, 2014 for participants in the BCBSMT Pension Plan and (iii) post-Closing benefit accruals for BCBSMT Pension Plan participants in Group I and Group II in accordance with Section 6.05(c) below (such amount being referred to as the "Full Funding Amount"). The parties shall calculate and agree on a final calculation of the Full Funding Amount (the

"Final Contribution Amount") at least 10 days prior to the Closing Date, and BCBSMT shall contribute immediately available funds equal to the Final Contribution Amount to the BCBSMT Pension Plan on or prior to the Closing Date. The funding status of the BCBSMT Pension Plan, taking into account the Final Contribution Amount, shall be reflected in the Acquired Cash and Investments Schedule to be executed by the Parties at the Closing and the amount of Acquired Cash and Investments to be transferred to Purchaser at the Closing. Effective on the Closing Date, Purchaser shall assume the benefit obligations, assume control of the BCBSMT Pension Plan trust, and take all actions necessary to become the plan sponsor of the BCBSMT Pension Plan.

(c) After becoming the plan sponsor of the BCBSMT Pension Plan, Purchaser may, in its sole and absolute discretion, merge the BCBSMT Pension Plan into the Purchaser's pension plan and, irrespective of whether such merger is implemented, shall utilize a three-tiered transition approach to provide the following post-closing benefit accruals to certain BCBSMT Pension Plan participants based on age and years of vesting service, as such term is defined under the BSBCMT Pension Plan, as of Closing. These benefits shall be as follows: (1) Group I, consisting of participants with at least 25 years of vesting service or participants whose age and vesting service equals or exceeds 75, shall continue to earn benefits under the BCBSMT Pension Plan formula in effect as of Closing and shall accrue such benefit in lieu of any "cash balance" benefit or any other defined benefit structure implemented by Purchaser in the future; (2) Group II, consisting of participants whose age and vesting service equals or exceeds 60 and who do not qualify under Group I, shall be entitled to a two-part pension benefit. The first part of the pension benefit shall be based on the BCBSMT Pension Plan formula in effect as of Closing with service, compensation, and age taken into account through such date. After Closing, Group II participants shall no longer accrue any further BCBSMT Pension Plan benefits, provided, however, age and compensation earned by the participants subsequent to Closing shall be taken into account in determining each Group II participant's final accrued benefit under the BCBSMT Pension Plan formula. The second part of the pension benefit for Group II participants shall consist of benefits which accrue on and after the Closing under the Purchaser's cash balance formula or any other defined benefit structure implemented by Purchaser in the future subsequent to the Closing Date; and (3) Group III, consisting of participants who do not qualify for Group I or II, shall be entitled to a benefit based on the BCBSMT Pension Plan formula in effect as of Closing with service, compensation and age taken into account through the later of such date or December 31, 2014. After Closing or December 31, 2014, as applicable, although age will be considered in determining each Group III participant's final accrued benefit equivalent under the BCBSMT Pension Plan formula, Group III participants shall accrue no further benefit for any service credit or compensation under the BCBSMT Pension Plan formula, and shall be eligible to participate in the cash balance formula or any other defined benefit structure implemented by Purchaser in the future.

(d) Except as otherwise provided in this Section 6.05 which is intended to preserve the BCBSMT Pension Plan formula for the participants as detailed above, nothing in this Section 6.05 is intended to limit Purchaser's ability or discretion to amend, modify, revise, terminate or otherwise change its pension plan in accordance with the terms of the plan.

Section 6.06 Treatment of Retained Employees in BCBSMT's Nonqualified Plans. Consistent with the rules contained under Section 409A of the Internal Revenue Code, and applicable interpretive authority, BCBSMT shall amend and freeze and the Purchaser shall assume the liabilities as of Closing of the Blue Cross and Blue Shield of Montana, Inc. Executive Deferred Compensation Plan (the "Top Hat Plan") and the Blue Cross and Blue Shield of Montana Benefit Restoration Plan (the "BRP") as reflected in Schedule 1.01 (the "Nonqualified Plans"). With respect to all Retained Employees who accept offers of employment with Purchaser in connection with the asset transfer provided by this Agreement, there shall be no "separation from service," as such term applies to the Nonqualified Plans (or as such term applies to any other plan, agreement or arrangement of BCBSMT that is not a Nonqualified Plan as defined in this Section 6.06 but is subject to Section 409A of the Internal Revenue Code and under which any such Retained Employee is a participant or to which any such Retained Employee is a party), on the Closing Date. Such Retained Employees shall instead be considered separated from service on the date of separation from the Purchaser. BCBSMT shall transfer to Purchaser all accrued Nonqualified Plan liabilities, including any asset, trust or other accounts, which Plan liabilities shall be included as a Scheduled Liability in the calculations required in Schedule 1.01 to determine Acquired Cash and Investments payable to Purchaser.

Those Retained Employees who participate in the Nonqualified Plans and who accept offers of employment with Purchaser shall cease active participation in the Nonqualified Plans, as follows:

(a) For any such Retained Employee who is a Participant in the Top Hat Plan on the Closing Date, the Deferred Compensation as defined in Section 1.12 of the Top Hat Plan shall no longer include future contributions and shall be limited to the Participant's Account Balance determined as of the Closing Date and subject to adjustment after the Closing Date only with respect to the notional investments in which the Account is deemed to be invested, including any deemed income, expense, gain and loss attributed to the notional investments, under the terms of the Top Hat Plan or any successor plan established by Purchaser, and with respect to any distributions to the Participant or Participant's beneficiary.

(b) For any such Retained Employee who is a Participant in the BRP on the Closing Date, the dollar amount of the BRP annuity benefit shall be determined under the terms of the plan as if the Participant incurred a Separation from Service on the Closing Date, regardless of the actual date of commencement of the annuity benefit under the terms of the BRP as of Closing, provided however that if the BRP is amended on or before the Closing Date to provide that such benefit shall be adjusted to an actuarially equivalent amount of annuity benefit commencing on the actual date of commencement of the annuity benefit, and such actuarial equivalence is defined by reference to the discount rate and mortality table used in the most recent (as of the Closing Date) annual valuation of the plan for purposes of FASB Accounting Standards Codification 715 ("ASC 715"), such adjustment shall not be deemed to constitute "active participation."

Section 6.07 WARN, COBRA, and HIPAA Notices. To the extent required of the Companies or any of their respective Affiliates by applicable Law, the Companies or any such Affiliate shall provide all notices relating to the termination of employees of the Companies

or any Affiliate in connection with the transactions contemplated by this Agreement, including, without limitation, the notice obligations arising under the Worker Adjustment and Retraining Notification Act ("WARN"), the Consolidated Omnibus Budget and Reconciliation Act of 1985, or the Health Insurance Portability and Accountability Act of 1996. WARN related Liabilities to any such employees which result from any delay in providing WARN notices to such employees shall be paid by the party causing the delay.

Section 6.08 Non-Solicitation of Employees. During the period beginning on the date of this Agreement and ending two (2) years after the Closing Date, none of the Companies shall hire or solicit to hire any Retained Employee unless such Retained Employee did not accept employment with Purchaser, has been terminated by Purchaser or has received a written notice from Purchaser stating that Purchaser does not intend to continue to employ such Retained Employee in a position similar to the one he or she had with the Companies.

Section 6.09 Miscellaneous.

(a) Except as expressly provided in this Article VI, Purchaser shall not be subject to any Liability under any Plan or other benefit arrangement of any kind of the Companies and their Affiliates after the Closing Date including, but not by way of limitation, any Liability under Title IV of ERISA. BCBSMT shall pay or perform any liability under any Plan or other benefit arrangement of any kind which is not expressly assumed by Purchaser under this Article VI.

(b) Nothing in this Article VI is intended to cause Purchaser to employ a Retained Employee on a basis other than as an employee at will. No provision of this Article VI shall create any third-party beneficiary rights in any Retained Employee in respect of continued employment or any benefit that may be provided pursuant to this Article VI.

ARTICLE VII
TAX MATTERS

Section 7.01 Allocation. Within 180 days after Closing, Purchaser shall propose a determination of the allocation of the Purchase Price and the Assumed Liabilities among the Assets and prepare and deliver to BCBSMT a written schedule showing such proposed allocation. BCBSMT agrees to be bound by and follow such allocation for all income tax purposes unless BCBSMT shall, within 30 days of delivery of the proposed allocations, conclude in good faith that the allocations are unreasonable and provide notice of such conclusion and the reasons therefore to Purchaser, in which case the parties shall endeavor in good faith to agree upon allocations. Should the parties not reach agreement within 20 days after BCBSMT has provided notice of their disagreement to Purchaser, the parties shall submit the matter to the Independent Accounting Firm, which shall be asked to determine appropriate allocations within 30 days of the submission of the matter, and the parties agree to be bound by and follow the determination of the Independent Accounting Firm. Purchaser and BCBSMT shall each timely file Form 8594 with the IRS in accordance with the allocation established pursuant to this Section 7.01.

Section 7.02 [Intentionally Omitted]

Section 7.03 Tax Returns and Payments.

(a) BCBSMT shall prepare and file or otherwise furnish in proper form to the appropriate Governmental Authority (or cause to be prepared and filed or so furnished) in a timely manner all Tax Returns relating to the Companies, and, for all periods through and including the Closing Date, the Business, and/or the Assets, with respect to all taxable periods ending before or including the Closing Date, including (without limitation) all affiliated, consolidated, combined, or unitary Tax Returns that include BCBSMT and Health-e-Web. All such Tax Returns shall be true, correct, and complete in all material respects, and shall be prepared in a manner consistent with past practice except as otherwise required by applicable Law. BCBSMT shall timely pay, or cause to be timely paid, all Taxes shown as due on such Tax Returns. BCBSMT shall cause Health-e-Web to make or deposit (or shall on Health-e-Web's behalf make or deposit) all estimated Tax payments due on or before the Closing Date on a timely basis, in such manner and amounts as will prevent any penalties.

(b) BCBSMT shall include the income of Health-e-Web (including any deferred items triggered into income by Section 1.1502-13 of the Treasury Regulations and any excess loss account taken into income under Section 1.1502-19 of the Treasury Regulations) on BCBSMT's consolidated federal Income Tax Returns (and any analogous affiliated, consolidated, combined or unitary state or local Income Tax Returns) for all periods through the Closing Date and pay any federal, state and local Income Taxes attributable to such income. All Tax Returns with respect to such Income Taxes shall be prepared and filed in a manner consistent with past practice, except as otherwise required by applicable Law, provided that Health-e-Web's items of income, gain, deduction, and loss for the period ending on the Closing Date shall be determined under Section 1.1502-76 of the Treasury Regulations, and BCBSMT shall make no election and shall take no action to transfer or attribute to itself any net operating loss or other Tax attribute of Health-e-Web, including, but not limited to, an election under Section 1.1502-20(g) of the Treasury Regulations. BCBSMT shall provide a copy of each such Tax Return to Purchaser at least thirty (30) days prior to the filing deadline for such Tax Return for Purchaser's review and approval, which approval shall not be unreasonably withheld or delayed. Purchase shall cause Health-e-Web to furnish information to BCBSMT as reasonably requested by BCBSMT to allow BCBSMT to satisfy its obligations under this Section 7.03(b).

(c) Purchaser shall prepare and file, or cause to be prepared and filed, all Tax Returns to be filed by Health-e-Web after the Closing Date with respect to taxable periods ending prior to, or including, the Closing Date, except for Tax Returns described in Section 7.03(b). Each such Tax Return shall be prepared in a manner consistent with past practice, except as otherwise required by applicable Law. Purchaser shall provide a copy of each such Tax Return to BCBSMT at least thirty (30) days prior to the filing deadline for such Tax Return for BCBSMT's review and approval, which approval shall not be unreasonably withheld or delayed. BCBSMT shall pay or cause to be paid the Taxes shown as due on any such Tax Return to the extent such Taxes relate to (or

include) any taxable period (or portion thereof, determined in accordance with Section 7.04 ending on or before the Closing Date.

Section 7.04 Straddle Periods. To the extent permitted or required by Law or administrative practice, the taxable year of Health-e-Web which includes the Closing Date shall be treated as closing on (and including) the Closing Date. In the case of any Tax period that includes (but does not end on) the Closing Date (a "Straddle Period"), the amount of any Taxes of Health-e-Web not based upon or measured by income, activities, events, the level of any item, gain, receipts, proceeds, profits or similar items for portion of the Straddle Period ending on the Closing Date will be deemed to be the amount of such Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days in the Straddle Period ending on the Closing Date and the denominator of which is the number of days in such Straddle Period. The amount of any other Taxes for a Straddle Period that relate to the portion of the Straddle Period ending on the Closing Date will be determined based on an interim closing of the books as of the close of business on the Closing Date; provided, however, that any item determined on an annual or periodic basis (such as deductions for depreciation or real estate Taxes) shall be apportioned on a daily basis.

Section 7.05 Transaction Taxes.

BCBSMT shall be responsible for and shall timely pay, or promptly reimburse Purchaser for, any and all Taxes (including any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) which become payable in connection with the transactions contemplated by this Agreement, including, but not limited to, any transfer, gains, sales, use, value added, stock transfer, and stamp Taxes; any Income Taxes imposed as a result of triggering "intercompany gains" under Section 1.1502-13 of the Treasury Regulations or similar provisions of federal, state or local Tax laws; and any transfer, recording, registration, and other fees (collectively, "Transaction Taxes"). If any Transaction Tax is paid or deposited on or prior to the Closing Date, or the Assets are otherwise reduced on account of a Transaction Tax, then the Purchase Price shall, without duplication, be reduced by the amount of such Transaction Tax or BCBSMT shall pay such amount to Purchaser. To the extent applicable, Purchaser shall complete and execute a resale or other exemption certificate with respect to any inventory items deemed sold hereunder, and shall provide BCBSMT with an executed copy thereof.

Section 7.06 Cooperation and Exchange of Information.

Upon the terms set forth in Section 5.02, BCBSMT and Purchaser will provide each other with such cooperation and information (including copies of Tax Records) as either of them reasonably may request of the other in conducting due diligence, filing any Tax Return, including any amended Tax Return or claim for refund, determining a liability for Taxes or a right to a refund of Taxes, participating in or conducting any Tax Proceeding or making representations to or furnishing information to parties subsequently desiring to purchase all or a part of the Business from Purchaser. BCBSMT shall make its employees available on a basis mutually convenient to both parties to provide explanations of any documents or information provided hereunder. Any information obtained under this Section 7.06 shall be kept confidential

except as may be otherwise necessary in connection with the preparation or filing of any Tax Return or any Tax Proceeding.

Section 7.07 Miscellaneous.

(a) BCBSMT and Purchaser agree to treat all payments made by either to or for the benefit of the other under the indemnity provisions of this Agreement, for any misrepresentations or breach of warranties or covenants, or to reimburse the other for an item for which it is responsible hereunder, as adjustments to the Purchase Price or as capital contributions for Tax purposes.

(b) Purchaser and BCBSMT each shall be entitled to recover professional fees and related costs that it may reasonably incur to enforce the provisions of this Article VII.

(c) BCBSMT shall cause any and all Tax sharing agreements to which Health-e-Web is a party to be terminated, and all amounts due under each of such agreements to be paid in full, prior to the Closing.

(d) Prior to the Closing Date, BCBSMT shall deliver to Purchaser a certificate that BCBSMT is not a "foreign person" as defined in Section 1445 of the Code.

ARTICLE VIII
CONDITIONS TO CLOSING

Section 8.01 Conditions to Each Party's Obligations. The respective obligations of each party to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) HSR Act. Any waiting period (and any extension thereof) under the HSR Act applicable to the transactions contemplated hereby shall have expired or shall have been terminated.

(b) No Proceeding or Litigation. No Action shall be pending by or before any Governmental Authority against either BCBSMT or Purchaser (i) seeking to restrain or materially and adversely alter the transactions contemplated by this Agreement, (ii) which is likely to render it impossible or unlawful to consummate the transactions contemplated by this Agreement or (iii) which is reasonably likely to have a Material Adverse Effect; provided, however, that the provisions of this Section 8.01(b) shall not apply to a party if such party has solicited or encouraged any such Action.

(c) Consents and Approvals. Each of Purchaser and BCBSMT shall have received all approvals, licenses and certificates from Governmental Authorities set forth on Exhibit 8.01(c) without the existence of a Burdensome Condition, which approvals, licenses and certificates shall be in full force and effect and in final, non-appealable form.

(d) Consents. Purchaser and BCBSMT shall have received (each in form and substance reasonably satisfactory to Purchaser and BCBSMT) those third party consents listed on Exhibit 8.01(d) hereto, without material conditions.

(e) Real Property Purchaser and BCBSMT shall have executed: (i) leases related to the Owned Real Property identified in Section 8.01(e) of the Disclosure Schedule, substantially in the form attached to this Agreement as Exhibit 8.01(e), and (ii) assignments of leases related to Leased Real Property identified in Section 8.01(e) of the Disclosure Schedule.

Section 8.02 Conditions to Obligations of BCBSMT. The obligations of BCBSMT to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) Purchase Price. Purchaser shall pay BCBSMT (or, if required, the Foundation), the Purchase Price as described in Section 2.03.

(b) Representations, Warranties and Covenants. The representations and warranties of Purchaser contained in this Agreement shall be (i) in the case of representations and warranties qualified by materiality or Material Adverse Effect or the like, true and correct as of the Closing, and (ii) in the case of representations and warranties not so qualified, true and correct in all material respects as of the Closing, with the same force and effect as if made as of the Closing Date, other than such representations and warranties as are made as of another date, and the covenants and agreements contained in this Agreement to be complied with by Purchaser on or before the Closing shall have been complied with in all material respects. BCBSMT shall have received a certificate from Purchaser to such effects signed by a duly authorized officer thereof.

(c) Resolutions. BCBSMT shall have received a true and complete copy certified by the Secretary or an Assistant Secretary of Purchaser, of the resolutions duly and validly adopted by the Board of Directors of Purchaser evidencing its authorization of the execution and delivery of this Agreement and the Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby.

(d) Incumbency Certificate. BCBSMT shall have received a certificate of the Secretary or an Assistant Secretary of Purchaser certifying the names and signatures of the officers of Purchaser authorized to sign this Agreement and the Transaction Documents and the other documents to be delivered hereunder and thereunder.

(e) Legal Opinion. BCBSMT shall have received from Purchaser's legal counsel an opinion, addressed to BCBSMT and dated the Closing Date, in a mutually acceptable form.

(f) Other Deliveries. BCBSMT shall have received from Purchaser copies (executed, where applicable) of the Transaction Documents, including the documents listed in Section 2.07(b) and Section 2.07(d).

Section 8.03 Conditions to Obligations of Purchaser. The obligations of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) Representations, Warranties and Covenants. The representations and warranties of BCBSMT contained in this Agreement shall be (i) in the case of representations and warranties qualified by materiality or Material Adverse Effect or the like, true and correct as of the Closing, and (ii) in the case of representations and warranties not so qualified, true and correct in all material respects as of the Closing, with the same force and effect as if made as of the Closing. The covenants and agreements contained in this Agreement to be complied with by BCBSMT on or before the Closing shall have been complied with in all material respects. Purchaser shall have received a certificate of BCBSMT to such effects signed by a duly authorized officer thereof.

(b) Resolutions of BCBSMT. Purchaser shall have received a true and complete copy, certified by the Secretary or an Assistant Secretary of BCBSMT, of the resolutions duly and validly adopted by the Board of Directors of BCBSMT evidencing its authorization of the execution and delivery of this Agreement and the Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby.

(c) Incumbency Certificate of BCBSMT. Purchaser shall have received a certificate of the Secretary or an Assistant Secretary of BCBSMT certifying the names and signatures of the officers of BCBSMT authorized to sign this Agreement and the Transaction Documents to which it is a party and the other documents to be delivered hereunder and thereunder.

(d) Legal Opinion. Purchaser shall have received from BCBSMT's legal counsel an opinion, addressed to Purchaser and dated the Closing Date, in a mutually acceptable form.

(e) No Material Adverse Change.

(i) BCBSMT's surplus, determined in accordance with STAT, on the Closing Date, shall be sufficient to meet the minimum Managed Care Organization Risk Based Capital requirements adopted by the BCBSA to maintain the Marks;

(ii) There shall not then be (i) any actual or threatened termination, revocation, or other loss or modification of any certificate of authority or other approval necessary to conduct business or sell any product in any state held by any of the Companies which termination, revocation, loss or modification is reasonably likely to be materially adverse to the business, assets or financial condition of the Companies or the Business taken as a whole, or (ii) any action initiated by BCBSA to terminate, revoke or limit any of the Companies' right to the Marks in Montana; and

(iii) BCBSMT shall have not less than 200,000 active members.

(f) BCBSA Licenses. BCBSA (i) shall have consented to the transfer of BCBSMT's rights to use the Blue Cross and Blue Shield names and marks to Purchaser and the transfer of the right to use Blue Cross and Blue Shield names and marks in

Montana to Purchaser shall be effective upon Closing, or (ii) shall have issued to Purchaser primary and exclusive Blue Cross and Blue Shield licenses for the State of Montana.

(g) Resolution of Charitable Claims, Etc. The approvals of Governmental Authorities (including the Montana Department of Insurance and the Montana Attorney General) shall (i) clearly discharge all charitable, cy pres or similar claims on BCBSMT (and HCSC as acquiror of the Business), including the Assets and Business, and (ii) otherwise be satisfactory in form and substance to the Purchaser acting in its sole discretion.

(h) Excluded Liabilities. The Purchaser shall be satisfied in its sole discretion that BCBSMT will be able to satisfy in full all Excluded Liabilities in the ordinary course of business following the Closing, taking into account the terms and conditions of the approvals of Governmental Authorities (including the Montana Department of Insurance and the Montana Attorney General), BCBSMT's planned future activities and funding levels and such other factors as the Purchaser believes may be relevant.

(i) Certificates of Existence and Good Standing. BCBSMT shall have delivered to Purchaser Certificates of Existence and Good Standing from the Secretary of State for the State of Montana, and the Department of Insurance, as applicable, regarding BCBSMT and Heath-e-Web, and from such applicable Governmental Authorities in other jurisdictions in which BCBSMT or Heath-e-Web are then conducting business.

(j) No Restrictive Agreements On the Closing Date, except as set forth on Section 3.13(b) of the Disclosure Schedule, neither BCBSMT nor any of its Subsidiaries or Affiliates shall be a party to any non-competition or other agreement which restricts or limits the right of Purchaser (as assignee or transferee of any Assets or Assumed Liabilities) to compete in any line of business or with any Person or in any geographic area or during any period of time or to contract with any Person, except for restrictions imposed by BCBSA in the ordinary course or the restrictions imposed by this Agreement.

(k) Labor Matters. BCBSMT shall have provided any notice to affected employees before the Closing as may be required by WARN, as amended.

(l) Asset/Contract Schedules. At Closing BCBSMT shall deliver to Purchaser a schedule setting forth all Material Contracts and all or substantially all other Assets sold and transferred to Purchaser.

(m) BCBSMT Corporate Approvals. Purchaser shall be satisfied, in its sole discretion, that BCBSMT's corporate approvals of the transactions contemplated by this Agreement comply with BCBSMT's organizational documents and the requirements of applicable law.

(n) Employee Roster. BCBSMT shall have delivered to Purchaser an updated Employee Roster setting forth the employees of BCBSMT as of the Closing Date ("Employee Roster").

(o) Other Deliveries. Purchaser shall have received from BCBSMT copies (executed, where applicable) of the Transaction Documents, including the documents listed in Section 2.07(b) and Section 2.07(c).

Section 8.04 Frustration of Closing Conditions. Neither party may rely on the failure of any condition set forth in Section 8.01 through Section 8.03, as the case may be, to be satisfied if such failure was caused by such party's failure to use commercially reasonable efforts to assist in the satisfaction of such condition; provided, however, that this Section 8.04 shall not be construed to require a party to waive all or part of any condition to its obligations hereunder or to consent to any Burdensome Condition.

ARTICLE IX
INDEMNIFICATION

Section 9.01 Indemnification by BCBSMT. Purchaser and its Affiliates, officers, directors, employees, agents, successors and assigns ("Purchaser Indemnitees") shall be indemnified and held harmless by BCBSMT for any and all Liabilities, losses, damages, claims, costs and expenses, interest, awards, judgments and penalties (including, without limitation, attorneys' and consultants' fees and expenses) (collectively, "Damages") actually suffered or incurred by them (including, without limitation, by reason of any Action brought or otherwise initiated by any of them), arising out of or resulting from:

(i) any breach by BCBSMT of any representation or warranty contained in this Agreement or in the Transaction Documents;

(ii) the Excluded Liabilities and any failure by BCBSMT to pay or perform the Excluded Liabilities;

(iii) (A) all Taxes (or the non-payment thereof) of Health-E-Web for any taxable period (or portion thereof, determined in accordance with Section 7.04) ending on or before the Closing Date (collectively, the "HeW Taxes"), (B) all Transaction Taxes for which BCBSMT is liable pursuant to Section 7.05, (C) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which Health-e-Web is or was a member on or prior to the Closing Date, including pursuant to Section 1.1502-6 of the Treasury Regulations or any analogous or similar Law and (D) any and all Taxes of any Person (other than Health-e-Web) imposed on Health-e-Web as a transferee or successor, by contract or pursuant to any Law which Taxes relate to an event or transaction occurring before the Closing; and

(iv) any breach by BCBSMT of any covenant or agreement contained in this Agreement or in the Transaction Documents.

To the extent that BCBSMT's undertakings set forth in this Section 9.01 may be unenforceable, BCBSMT shall contribute the maximum amount that it is permitted to contribute under applicable Law to the payment and satisfaction of all Damages incurred by Purchaser Indemnitees.

Notwithstanding the foregoing, however, BCBSMT shall not be obligated to indemnify Purchaser and its Affiliates, officers, directors, employees, agents, successors and assigns for any Damages arising out of or resulting from any of the Assumed Liabilities.

Section 9.02 Indemnification by Purchaser. BCBSMT and its Affiliates, officers, directors, employees, agents, successors· and assigns ("BCBSMT Indemnitees") shall be indemnified and held harmless by Purchaser for any and all Damages actually suffered or incurred by them (including, without limitation, by reason of any Action brought or otherwise initiated by any of them), arising out of or resulting from:

(i) the conduct of the Business after the Closing Date;

(ii) any breach by Purchaser of any representation, warranty, covenant or agreement contained in this Agreement or in the Transaction Documents; or

(iii) any failure by Purchaser to pay or perform any of the Assumed Liabilities after the Closing Date. To the extent that Purchaser's undertakings set forth in this Section 9.02 may be unenforceable, Purchaser shall contribute the maximum amount that it is permitted to contribute under applicable Law to the payment and satisfaction of all losses incurred by BCBSMT Indemnitees.

Section 9.03 Subrogation and Subordination. Upon making any indemnification payment, the Indemnifying Party will, to the extent of such payment, be subrogated to all rights of the Indemnified Party against any third party in respect of the Damages to which the payment relates. Without limiting the generality of any other provision hereof, each such Indemnified Party and Indemnifying Party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

Section 9.04 Insurance Proceeds and Other Recoveries and Benefits. The amount of any Damages sustained by an Indemnified Party shall be reduced by any amount received by such Indemnified Party with respect thereto under any insurance coverage or from any other Person alleged to be responsible therefor, and by the amount of any net reduction in Taxes from any deduction, amortization, exclusions from income, or other allowance (a "Tax Benefit") realized with respect to such Damages (determined by taking such Tax Benefit into account after all other Tax Benefits available to the Indemnified Party). The Indemnified Party shall use reasonable efforts to collect any amounts available under such insurance coverage and from such other Person alleged to have responsibility therefor and to realize any Tax Benefit with respect to such Damages. If the Indemnified Party realizes a Tax Benefit or receives an amount under insurance coverage or from another Person with respect to the Damages sustained at any time subsequent to any indemnification actually paid pursuant to Section 9.01 or Section 9.02, such Indemnified Party shall promptly reimburse the applicable Indemnifying Party for any such indemnification payment actually made by such Indemnifying Party up to the actual amount of such Tax Benefit or insurance or other payment actually received.

Section 9.05 Gross-up For Taxes. If the Indemnified Party incurs any Tax on account of the receipt of indemnification, the amount paid as indemnification shall be grossed-up for such Tax so that the Indemnified Party is made whole on an after-tax basis.

Section 9.06 Exclusions from Damages. No Indemnifying Party shall have any Liability for, and the definition of Damages explicitly excludes, any amounts that are claimed by any Indemnified Party arising from, relating to, or including, in whole or in part, any consequential, special, incidental, or punitive damages.

Section 9.07 Limitations on Amount/BCBSMT. BCBSMT shall not be obligated to pay for Damages with respect to the matters described in Section 9.01 (i) until the aggregate of such Damages exceeds $350,000.00. Further BCBSMT's obligation to pay for Damages with respect to matters described in Section 9.01(i) is in all events limited to $5,000,000. Nothing herein shall otherwise limit BCBSMT's obligation to pay or perform all Excluded Liabilities or limit any claim by Purchaser for any indemnity arising under Section 9.01(ii), Section 9.01(iii) or Section 9.01(iv).

Section 9.08 Sole and Exclusive Remedy. Except as expressly provided in this Agreement or any other Transaction Document and for injunctive and provisional relief, each Party's sole and exclusive remedy with respect to any Damages, Liabilities, claims, causes of action, or any other rights of any nature whatsoever directly or indirectly arising under or relating to this Agreement, whether in tort or contract, shall be the right of indemnification as set forth in this Article IX.

Section 9.09 Procedure for Indemnification/Third-Party Claims.

(a) Promptly after receipt by an Indemnified Party under Section 9.01 or Section 9.02 of notice of the commencement of any Action against it or any other Claim by any Person, such Indemnified Party will, if a claim is to be made against an Indemnifying Party under such Section, give notice to the Indemnifying Party of the commencement of such Action or other Claim, but the failure to notify the Indemnifying Party will not relieve the Indemnifying Party of any Liability that it may have to any Indemnified Party, except to the extent that the Indemnifying Party demonstrates that the defenses of such Action or other Claim are prejudiced by the Indemnified Party's failure to give such notice.

(b) If any Action or other Claim referred to in Section 9.09(a) is brought or asserted against an Indemnified Party and it gives notice to the Indemnifying Party of the commencement of such Action or assertion of such other Claim, the Indemnifying Party will be entitled to participate in such Action or other Claim and, to the extent that it wishes to assume the defense of such Action or other Claim with counsel reasonably satisfactory to the Indemnified Party and, after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such Action or other Claim, the Indemnifying Party will not, as long as it diligently conducts such defense, be liable to the Indemnified Party under Section 9.01 or Section 9.02, as applicable, for any fees of other counsel or any other expenses with respect to the defense of such Action or other Claim, in each case subsequently incurred by the Indemnified Party in connection with the defense of such Action or other Claim, other than reasonable costs of investigation. If and to the extent that the Indemnifying Party assumes the defense of an Action or other Claim, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Action or other Claim are within the scope of and subject to

indemnification; and (ii) no compromise or settlement or payment of such claims may be effected by the Indemnifying Party without the Indemnified Party's consent unless there is no finding or admission of any violation of Law or any violation of the rights of any Person and no effect on any other claims that may be made by or against the Indemnified Party. In any event, the Indemnifying Party will have no Liability with respect to any compromise or settlement or payment of such claims effected without its consent, except as provided in any determination made in such Action or other Claim by a court or arbitrator or arbitration panel in connection with such Action or other Claim.

Section 9.10 Mitigation of Damages; Cooperation. Each Indemnified Party shall, to the extent required by Law, use its commercially reasonable efforts to mitigate to the extent reasonably practicable the amount of any Damages for which it is entitled to seek indemnification hereunder. Each Indemnified Party shall reasonably cooperate with the Indemnifying Party in the defense of any Action or Claim for which indemnity is sought hereunder.

Section 9.11 Survival. The representations and warranties set forth in this Agreement shall survive the Closing for a period of two (2) years from the earlier of the termination of this Agreement or the Closing Date. The covenants set forth in this Agreement, including without limitation the covenants to indemnify Purchaser set forth in Section 9.01, Purchaser's covenants to indemnify BCBSMT set forth in Section 9.02, and the parties' respective obligations set forth in Article VII, shall survive according to their terms or until fully performed. The obligations to indemnify set forth in this Article IX are in addition to, and do not limit, all other indemnification obligation expressly imposed by other sections of this Agreement.

Section 9.12 Escrow.

At the Closing, BCBSMT shall, in accordance with the Escrow Agreement attached hereto as Exhibit 9.12 (the "Escrow Agreement"), deposit with Wells Fargo Bank, N.A. (the "Escrow Agent"), in a segregated interest-bearing account, a portion of the Retained Assets, equal to $20,000,000 in immediately available funds (the "Escrow Amount"). The Escrow Amount shall be held in escrow by the Escrow Agent and be available as a non-exclusive source of funding for (a) BCBSMT to satisfy obligations in respect of the Excluded Liabilities and (b) BSBSMT to satisfy obligations to the Purchaser Indemnitees in respect of claims against BCBSMT pursuant to Article IX hereof.

ARTICLE X
TERMINATION AND WAIVER

Section 10.01 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by Purchaser, if: (i) BCBSMT makes a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against BCBSMT seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up or reorganization, arrangement, adjustment, protection, relief or composition of its debts under any Law relating to bankruptcy, insolvency or reorganization, which proceeding

has not been dismissed within ninety (90) days; or (ii) BCBSMT shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, and such breach is not cured within 30 days after notice thereof (provided that Purchaser shall not have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement).

(b) by BCBSMT, if: (i) Purchaser makes a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against Purchaser seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up or reorganization, arrangement, adjustment, protection, relief or composition of its debts under any Law relating to bankruptcy, insolvency or reorganization, which proceeding has not been dismissed within ninety (90) days; or (ii) Purchaser shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement and such breach is not cured within 30 days after notice thereof (provided that BCBSMT shall not have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement);

(c) by BCBSMT by action of its Board of Directors in order to enter into an agreement with respect to or to consummate a transaction constituting a Superior Proposal, provided that: (i) BCBSMT shall have given Purchaser notice of the Superior Proposal (the "First Superior Proposal") at least twenty (20) Business Days prior to making a definitive determination to accept such First Superior Proposal, specifying in reasonable detail the comparison it undertook and the advisors and authorities with which it consulted to determine that the First Superior Proposal is superior (within the meaning of the term "Superior Proposal") to the transactions contemplated hereby, including specification in general terms of the ways in which it judged the First Superior Proposal superior (again within the meaning of the term "Superior Proposal") to the transactions contemplated hereby, (ii) Purchaser shall not have submitted within such twenty (20) Business Days after the giving of such notice, a proposal determined by BCBSMT's Board of Directors to match the First Superior Proposal or to be a Superior Proposal (as judged by BCBSMT's Board of Directors against the First Superior Proposal within the meaning of the term "Superior Proposal"; provided, that if Purchaser submits a timely responding proposal and BCBSMT's Board believes that it does not match the First Superior Proposal or is not a "Superior Proposal", BCBSMT will give Purchaser a reasonable opportunity to meet with BCBSMT's Board of Directors to discuss the First Superior Proposal and Purchaser's proposal), and (iii) contemporaneous with such termination, BCBSMT shall have paid Purchaser the termination fees set forth in Section 5.08;

(d) by means of a written statement of termination executed by an authorized officer of either Purchaser or BCBSMT if the Closing shall not have occurred by June 30, 2013; provided that (i) either party may extend such date to June 30, 2014 in its sole discretion by providing written notice to the other prior to such date and (ii) if either party intends to terminate pursuant to this Section 10.01(d), such party's Board of Directors must approve the written statement of termination following a meeting at which the other

party has been given a reasonable opportunity to make a presentation describing the benefits of the transactions contemplated by this Agreement;

(e) by either Purchaser or BCBSMT in the event that any Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement or imposing a Burdensome Condition on either party and such order, decree, ruling or other action shall have become final and nonappealable; or

(f) by the mutual written consent of BCBSMT and Purchaser.

Section 10.02 Effect of Termination.

(a) In the event of termination of this Agreement as provided in Section 10.01, this Agreement shall forthwith become void and there shall be no liability on the part of either party hereto except (i) as set forth in Section 5.03 (as to confidential information of the other party), Section 5.08, Section 5.13, Section 10.02 and Article XI, and any other Section of this Agreement which, by its express provisions, survives the termination of this Agreement, or the survival of which is necessary to the fulfill the intended effect of any other Section which, by its express provisions, survive the termination of this Agreement, and except (ii) that nothing herein shall relieve either party from liability for any breach of this Agreement prior to its termination.

(b) Notwithstanding the foregoing, (i) in the event that the transactions contemplated by this Agreement are not consummated, regardless of the reason therefor (other than as a result of the termination of this Agreement pursuant to Section 10.01(b), Section 10.01(d), Section 10.01(e) or Section 10.01(f)), BCBSMT shall pay Purchaser an amount equal to the aggregate reasonable fees and disbursements of outside counsel, brokers, financial advisors and accountants incurred by Purchaser in connection with this Agreement and the transactions contemplated hereby and (ii) in the event this Agreement is terminated pursuant to Section 10.01(b), Purchaser shall pay BCBSMT an amount equal to the aggregate reasonable fees and disbursements of outside counsel, brokers, financial advisors and accountants incurred by BCBSMT in connection with this Agreement and the transactions contemplated hereby.

Section 10.03 Waiver. Either party to this Agreement may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered by the other party pursuant hereto, or (c) waive compliance with any of the agreements or conditions of the other party contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

ARTICLE XI
GENERAL PROVISIONS

Section 11.01 Expenses.

(a) Except as otherwise specified in this Agreement, all costs and expenses, including, without limitation, fees and disbursements of counsel, brokers, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

(b) The parties shall bear equally the fees of any consultants, accountants, actuaries or attorneys retained by any Governmental Authority other than the States of Illinois and Texas in connection with the transactions contemplated by this Agreement. Purchaser shall bear any filing fee pursuant to the HSR Act.

Section 11.02 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 11.02):

if to BCBSMT:

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.
560 N. Park Avenue
Helena, Montana 59601
Attention: President and Chief Executive Officer

with a copy to:

GRAHAM & DUNN, PC
Pier 70
2801 Alaskan Way
Seattle, WA 98121-1128
Attention: V. Marc Droppert
Fax No.: (206) 340-9599

if to Purchaser to:

HEALTH CARE SERVICE CORPORATION
300 East Randolph Street
Chicago, Illinois 60601-5099
Attention: Chief Legal Officer
Fax No.: (312) 819-1943

with a copy to:

KIRKLAND & ELLIS LLP
300 North LaSalle
Chicago, IL 60654
Attention: Keith S. Crow, P.C. and Kevin L. Morris
Fax No.: (312) 862-2200

Section 11.03 Public Announcements. No party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party, and the parties shall cooperate as to the timing and contents of any such press release or public announcement.

Section 11.04 Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.05 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 11.06 Entire Agreement. The Transaction Documents constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, between BCBSMT and Purchaser with respect to the subject matter hereof.

Section 11.07 Assignment. This Agreement may not be assigned by operation of Law or otherwise without the express written consent of BCBSMT and Purchaser (which consent may be granted or withheld in the sole discretion of BCBSMT and Purchaser); provided, however, that Purchaser may assign this Agreement to an Affiliate of Purchaser without the consent of BCBSMT; provided, however, that no assignment of any rights, interests, or obligations set forth herein shall release Purchaser from its obligations hereunder.

Section 11.08 No Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto, and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, including, without limitation, any union or any employee or former employee of BCBSMT, any legal or equitable right, benefit or remedy of any nature whatsoever, including, without limitation, any rights of employment for any specified period, under or by reason of this Agreement; provided,

that the provisions of Article IX (Indemnification) shall also inure to the benefit of the Purchaser Indemnitees and the BCBSMT Indemnitees.

Section 11.09 Amendment. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, BCBSMT and Purchaser, or (b) by a waiver in accordance with Section 10.03.

Section 11.10 Governing Law. The transactions contemplated by this Agreement shall be subject to review and clearance approval by (i) the Montana Commissioner of Insurance and the Montana Attorney General in accordance with applicable Montana Law and (ii) federal regulators and regulators in other states in accordance with applicable federal and state Law. Issues regarding the interpretation and enforcement of this Agreement, and other issues that may arise between the parties to this Agreement, shall be governed by, and construed in accordance with, the Laws of the State of Illinois, applicable to contracts executed in and to be performed entirely within that state.

Section 11.11 Disputes; Arbitration.

(a) Disputes. Any conflicts or disputes regarding this Agreement, the Transaction Documents or any transaction contemplated hereby or thereby shall be resolved by arbitration as provided in this Section 11.11; provided that, any such conflict or dispute arising under the Administrative Services Agreement prior to the Closing shall be governed by the dispute resolution procedures set forth therein. Each party to this Agreement hereby consents and agrees that any conflict or dispute between the parties hereto with respect to the interpretation, performance, or breach of any of the terms of this Agreement shall be referred to arbitration conducted in accordance with the rules and procedures of this Section 11.11.

(b) Arbitration Procedure. Any arbitration under this Section 11.11 shall be conducted in accordance with the rules and procedures of the BCBSA and this Section 11.11, upon written request of any party given to the other. In such case, the following provisions shall apply:

(i) Arbitrator. Within thirty (30) days of the giving of such written notice, the parties shall request the BCBSA to designate a neutral and independent arbitrator if the amount at issue is equal to or less than $1,000,000 and three neutral and independent arbitrators if the amount at issue is more than $1,000,000, in each case reasonably knowledgeable in health care and insurance operations, to resolve such dispute.

(ii) Authority of Arbitrator(s). The arbitrator(s) shall be empowered to decide all issues submitted to arbitration using principles of law and equity and, if required, by application of any customary practices in the insurance and health care industries. The arbitrator(s) shall be relieved of all judicial formalities and shall not be required to follow any rules of evidence or civil procedure, including discovery, except as such rules may be imposed on arbitration proceedings conducted in accordance with the

laws of the State of Illinois, but the arbitrator(s) shall attempt to enforce the intents and purposes of this Agreement to the extent practicable and in accordance with Illinois law. The decision of the arbitrator(s) shall be final and binding on each party, unless such decision contains errors of law, which are judicially reviewable. The arbitrators shall be authorized to award compensatory damages only and shall not be authorized to order any relief that a court could not order under the laws of the State of Illinois. If there are 3 arbitrators, the decision shall be by majority vote. In an arbitration proceeding subject to these provisions, the arbitrator, or if there are 3 arbitrators, a majority of them, are specifically empowered to decide (by documents only, or with a hearing, at the arbitrators' sole discretion) pre-hearing motions which are substantially similar to pre-hearing motions to dismiss and motions for summary adjudication.

(iii) Expenses; Location. The parties to the arbitration shall in equal parts bear the expenses of the arbitrator(s) and all other expenses of the arbitration proceeding except their respective attorneys' fees and costs. The arbitration proceeding shall take place at a location determined by the arbitrator(s). The parties hereto hereby agree that any information respecting any matters submitted to arbitration in accordance with the foregoing or any aspect of the arbitration proceeding itself shall be treated as confidential and will not be disclosed to anyone not employed or acting on behalf of any party in connection with such arbitration or used at any time in any manner that is adverse to the interests of any party hereto but, in any such case, such information may be disclosed if such disclosure is made in connection with either party's prosecution or defense of any legal proceedings or if such disclosure is required pursuant to a subpoena or other legal order issued by any judicial or regulatory body or is otherwise required by law.

(iv) Other Arbitration Aspects. Depositions may be taken and other discovery obtained in any arbitration under this Agreement. All statutes of limitations which would otherwise be applicable shall apply to any arbitration proceeding hereunder.

(c) Nothing in this Section 11.11 shall be construed as preventing any Party from seeking equitable or interim relief (including injunctive relief) in any court of competent jurisdiction.

Section 11.12 Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

Section 11.13 Schedules. Inclusion of, or reference to, matters in a schedule to this Agreement does not constitute an admission of what is material or the materiality of such matter.

Section 11.14 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at Law or equity, without the necessity of demonstrating the inadequacy of money damages.

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IN WITNESS WHEREOF, the parties hereto have caused this Asset Purchase Agreement to be executed as of the date first above written.

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

By: _____
Its: President & CEO

HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company

By: _____
Its: President and CEO

Index of Schedules & Exhibits

Tab	Description
A	Schedules
B	Exhibit 2.07(b) – Assignment and Assumption Agreement
C	Exhibit 2.07(d) – Post-Closing Administrative Service Agreement
D	Exhibit 8.01(e) – Leases -Triple Net Lease Agreement – 404 Fuller Avenue, Helena, Montana -Triple Net Lease Agreement – 560 N. Park Avenue, Helena, Montana
E	Exhibit 9.12 – Escrow Agreement

ARTICLE I DEFINITIONS

Schedule 1.01 (a) Acquired Interests.

1. **Triwest Healthcare Alliance, Inc.** BCBSMT joined 08/14/1995 and has a 4.42% ownership
2. **WPMI, LLC**. BCBSMT joined in 02/02/0007 and has a 1.0% ownership
3. **PRIME Therapeutics, Inc.** BCBSMT joined 01/09/2009 and has a 1.92% ownership
4. **Regional Advantage Services, LLC**. Provides services to BCBSMT and other Blue plans to administer Medicare C (Region 19) and Medicare D (Region 25) products.

N/A.

Schedule 1.01

This schedule shows whether BCBSMT's balance sheet items will be transferred to HCSC, or retained by the existing entity, on the transaction closing date. Assets and Liabilities to be transferred to HCSC include an "X" in the "Transferred to HCSC" column. Assets and Liabilities that will not be transferred to HCSC include an "X" in the "Remain in Existing Entity" column.

All items listed below were valued as of June 30, 2012, with the exception of the following, due to fair market adjustments, transaction effects, or material accruals from the June 30, 2012 values: Aggregate Policy and Claim Reserves (SL2), All Other Miscellaneous Liabilities on Balance Sheet (SL9.4), All Other Pension and Related Obligations on Balance Sheet (SL10.2), Deferred Taxes (SA6), Land - Helena (SA9.1), All Other Land and Buildings on Balance Sheet (SA9.2), Software (SA10), Furniture, Equipment, and Autos (SA11), Projects in Progress (SA12), Prime Therapeutics (SA13.2), TriWest (SA13.3), Health-e-Web (SA13.4), WPMI (SA13.5), Clarkston Washington Residence (SA13.6), Lewiston Idaho Residence (SA13.7), All Other Investments in Subsidiaries on Balance Sheet (SA13.8), Bonds (CSTI3).

The value of each item may be found on Schedule 1.01A. The individual balance sheet accounts associated with each item, and the value of the assets or liabilities in that account, may be found on Schedule 1.01S.

(1) Listed items may include more than one balance sheet account. For a detailed list of balance sheet accounts associated with each item, refer to schedule 1.01S.

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
A. Scheduled Liabilities			
1. Pending and Unreported Claims	SL1	X	
2. Aggregate Policy and Claim Reserves	SL2	X	
3. Health Care and Other Claim Liabilities	SL3	X	
4. Trade Accounts Payable	SL4	X	
5. Compensation-Related Liabilities	SL5	X	
6. Other Accrued Liabilities			
6a. Commissions Payable	SL6.1	X	
6b. All other on balance sheet	SL6.2		X
7. Income Taxes Payable	SL7		X
8. Deferred Subscription Revenue	SL8	X	
9. Other Miscellaneous Liabilities			
9a. Due to/from BCBSMT Foundation	SL9.1		X
9b. Due to/from Caring Foundation	SL9.2		X
9c. Other Miscellaneous Liabilities - Impairment	SL9.3		X

9d. All other on balance sheet	SL9.4	X	
10. Pension and Related Obligations			
10a. DB Pension Obligations - WSIA & ICMI Employees	SL10.1		X
10b. All other on balance sheet	SL10.2	X	
11. Intangible Liabilities - Hospital Liabilities	SL11	X	
12. Contingent Liabilities - Litigation	SL12		X
Sub-Total A: Total Scheduled Liabilities		**X**	**X**
B. Scheduled Assets			
1. Health Receivables - Premium Related	SA1	X	
2. Health Receivables - Other Health	SA2	X	
3. Receivables from Affiliates			
3a. Due to/from Health-e-Web	SA3.1	X	
3b. Miscellaneous Receivables from Health-e-Web	SA3.2	X	
3c. All other on balance sheet	SA3.3		X
4. Other Miscellaneous Receivables	SA4	X	
5. Dividends and Interest Receivable	SA5		X
6. Deferred Taxes	SA6		X
7. Notes Receivable	SA7		X
8. Prepaid Expenses	SA8	X	
9. Land and Buildings			
9a. Land - Helena	SA9.1	X	
9b. All other on balance sheet	SA9.2		X
10. Software	SA10	X	
11. Furniture, Equipment, and Autos	SA11	X	
12. Projects in Progress	SA12		X
13. Subsidiaries and Closely-Held Investments			
13a. Regional Advantage	SA13.1	X	
13b. Prime Therapeutics	SA13.2	X	
13c. TriWest	SA13.3	X	
13d. Health-e-Web	SA13.4	X	
13e. WPMI	SA13.5	X	
13f. Clarkston Washington Residence	SA13.6	X	
13g. Lewiston Idaho Residence	SA13.7	X	

13h. All other Investments in Subsidiaries on balance sheet	SA13.8		X
13i. All other Closely Held Investments on balance sheet	SA13.9		X
14. Pension Assets			
14a. Annuities	SA14.1	X	
14b. Cash Surrender Value of Life Insurance	SA14.2	X	
14c. Fidelity Funds - Top Hat Plan	SA14.3	X	
15. Intangible Assets - Hospital Assets	SA15	X	
Sub-Total B: Total Scheduled Assets		**X**	**X**
C. Excess of A over B		**X**	
(to be paid to HCSC from available cash and investments)			
1. Cash and Short Term Investments			
1a. Wells Fargo - Merchant Account	CSTI1.1	X	
1b. Wells Fargo - FEP Investment Account	CSTI1.2	X	
1c. Wells Fargo - LRSP Controlled Disbursements	CSTI1.3	X	
1d. PNC - Medicare Advantage	CSTI1.4	X	
1e. Wells Fargo - Admin/VCD	CSTI1.5	X	
1f. First Interstate Bank - Lockbox	CSTI1.6	X	
1g. Wells Fargo - NSI Checking	CSTI1.7	X	
1h. Wells Fargo - QNXT Claims	CSTI1.8	X	
1i. Wells Fargo - QNXT Reissues	CSTI1.9	X	
1j. Payroll	CSTI1.10	X	
1k. Wells Fargo - Flex	CSTI1.11	X	
1l. BRP Cash & Cash Equivalents	CSTI1.12	X	
1m. All other on balance sheet	CSTI1.13		X
2. Common Stocks			
2a. WF Specialty Common Stock	CSTI2.1		X
2b. WF Premier Common Stock	CSTI2.2		X
2c. Other - BCSI	CSTI2.3		X
2d. Other - Plans Liability Insurance	CSTI2.4		X
2e. WF Specialty Allowance for FMV of Common Stocks	CSTI2.5		X
2f. WF Premier Allowance for FMV of Common Stocks	CSTI2.6		X
2g. Allowance for FMV of Common Stocks - Other	CSTI2.7		X

3. Bonds	CSTI3	X	X
Sub-Total C: Acquired Cash and Investments to be paid to HCSC at closing		**X**	
Sub-Total D: Net assets retained by existing entity			**X**

Schedule 1.01A

The amounts on this schedule are computed as of June 30, 2012, with the exception of the following, due to fair market adjustments, transaction effects, or material accruals from the June 30, 2012 values: Aggregate Policy and Claim Reserves (SL2), All Other Miscellaneous Liabilities on Balance Sheet (SL9.4), All Other Pension and Related Obligations on Balance Sheet (SL10.2), Deferred Taxes (SA6), Land - Helena (SA9.1), All Other Land and Buildings on Balance Sheet (SA9.2), Software (SA10), Furniture, Equipment, and Autos (SA11), Projects in Progress (SA12), Prime Therapeutics (SA13.2), TriWest (SA13.3), Health-e-Web (SA13.4), WPMI (SA13.5), Clarkston Washington Residence (SA13.6), Lewiston Idaho Residence (SA13.7), All Other Investments in Subsidiaries on Balance Sheet (SA13.8), Bonds (CSTI3).

These values will be recomputed as of the closing date. Any and all re-computation shall be effected on the same basis as the amounts in this schedule have been calculated. The individual balance sheet accounts associated with each item, and the values of the assets or liabilities in that account, may be found in Schedule 1.01S.

(1) Listed items may include more than one balance sheet account. For a detailed list of balance sheet accounts associated with each item, refer to schedule 1.01S.

	Account Key (1)	Transferred to HCSC	Remain in Existing Entity
A. Scheduled Liabilities			
1. Pending and Unreported Claims	SL1	$58,027,742.11	$0.00
2. Aggregate Policy and Claim Reserves	SL2	1,374,655.50	0.00
3. Health Care and Other Claim Liabilities	SL3	16,145,684.91	0.00
4. Trade Accounts Payable	SL4	726,964.80	0.00
5. Compensation-Related Liabilities	SL5	2,978,356.75	0.00
6. Other Accrued Liabilities			
6a. Commissions Payable	SL6.1	1,390,685.77	0.00
6b. All other on balance sheet	SL6.2	0.00	177,209.70
7. Income Taxes Payable	SL7	0.00	(2,185,470.78)
8. Deferred Subscription Revenue	SL8	18,755,103.45	0.00
9. Other Miscellaneous Liabilities			
9a. Due to/from BCBSMT Foundation	SL9.1	0.00	(15.00)
9b. Due to/from Caring Foundation	SL9.2	0.00	1,929.73
9c. Other Miscellaneous Liabilities - Impairment	SL9.3	0.00	1,512,335.86
9d. All other on balance sheet	SL9.4	7,069,447.55	0.00
10. Pension and Related Obligations			

10a. DB Pension Obligations - WSIA & ICMI Employees	SL10.1	0.00	383,031.00
10b. All other on balance sheet	SL10.2	53,360,250.41	0.00
11. Intangible Liabilities - Hospital Liabilities	SL11	20,032,579.98	0.00
12. Contingent Liabilities - Litigation	SL12	0.00	4,870,000.00
Sub-Total A: Total Scheduled Liabilities		**$179,861,471.23**	**$4,759,020.51**
B. Scheduled Assets			
1. Health Receivables - Premium Related	SA1	$4,294,960.70	$0.00
2. Health Receivables - Other Health	SA2	40,285,819.63	0.00
3. Receivables from Affiliates			
3a. Due to/from Health-e-Web	SA3.1	28,325.20	0.00
3b. Miscellaneous Receivables from Health-e-Web	SA3.2	221,970.08	0.00
3c. All other on balance sheet	SA3.3	0.00	3,519,565.22
4. Other Miscellaneous Receivables	SA4	498,669.00	0.00
5. Dividends and Interest Receivable	SA5	0.00	895,100.30
6. Deferred Taxes	SA6	0.00	(3,587,431.31)
7. Notes Receivable	SA7	0.00	22,141.17
8. Prepaid Expenses	SA8	3,512,167.22	0.00
9. Land and Buildings			
9a. Land - Helena	SA9.1	3,166,205.00	0.00
9b. All other on balance sheet	SA9.2	0.00	12,580,665.58
10. Software	SA10	0.00	0.00
11. Furniture, Equipment, and Autos	SA11	3,399,696.66	0.00
12. Projects in Progress	SA12	0.00	135,581.57
13. Subsidiaries and Closely-Held Investments			
13a. Regional Advantage	SA13.1	7,780.00	0.00
13b. Prime Therapeutics	SA13.2	2,919,000.00	0.00
13c. TriWest	SA13.3	22,117,000.00	0.00
13d. Health-e-Web	SA13.4	3,881,000.00	0.00
13e. WPMI	SA13.5	196,000.00	0.00
13f. Clarkston Washington Residence	SA13.6	197,000.00	0.00
13g. Lewiston Idaho Residence	SA13.7	267,000.00	0.00
13h. All other Investments in Subsidiaries on balance sheet	SA13.8	0.00	55,277,174.53
13i. All other Closely Held Investments on balance sheet	SA13.9	0.00	25,000.00

14. Pension Assets			
14a. Annuities	SA14.1	12,482,300.34	0.00
14b. Cash Surrender Value of Life Insurance	SA14.2	15,220,861.95	0.00
14c. Fidelity Funds - Top Hat Plan	SA14.3	578,402.61	0.00
15. Intangible Assets - Hospital Assets	SA15	23,003,051.14	0.00
Sub-Total B: Total Scheduled Assets		**$136,277,209.53**	**$68,867,797.06**
C. Excess of A over B		**$43,584,261.70**	
(to be paid to HCSC from available cash and investments)			
1. Cash and Short Term Investments			
1a. Wells Fargo - Merchant Account	CSTI1.1	0.00	0.00
1b. Wells Fargo - FEP Investment Account	CSTI1.2	1,584,870.69	0.00
1c. Wells Fargo - LRSP Controlled Disbursements	CSTI1.3	(3,747,495.30)	0.00
1d. PNC - Medicare Advantage	CSTI1.4	597,450.95	0.00
1e. Wells Fargo - Admin/VCD	CSTI1.5	3,244,069.26	0.00
1f. First Interstate Bank - Lockbox	CSTI1.6	5,564,192.29	0.00
1g. Wells Fargo - NSI Checking	CSTI1.7	648,092.56	0.00
1h. Wells Fargo - QNXT Claims	CSTI1.8	(13,655,760.74)	0.00
1i. Wells Fargo - QNXT Reissues	CSTI1.9	100.00	0.00
1j. Payroll	CSTI1.10	49,567.23	0.00
1k. Wells Fargo - Flex	CSTI1.11	4,237.56	0.00
1l. BRP Cash & Cash Equivalents	CSTI1.12	409,151.78	0.00
1m. All other on balance sheet	CSTI1.13	0.00	12,667,998.11
2. Common Stocks			
2a. WF Specialty Common Stock	CSTI2.1	0.00	8,521,380.96
2b. WF Premier Common Stock	CSTI2.2	0.00	23,832,174.61
2c. Other - BCSI	CSTI2.3	0.00	350.00
2d. Other - Plans Liability Insurance	CSTI2.4	0.00	136,500.00
2e. WF Specialty Allowance for FMV of Common Stocks	CSTI2.5	0.00	(79,222.25)
2f. WF Premier Allowance for FMV of Common Stocks	CSTI2.6	0.00	3,671,166.54
2g. Allowance for FMV of Common Stocks - Other	CSTI2.7	0.00	1,338,122.78
3. Bonds	CSTI3	48,885,785.42	32,360,214.58

Sub-Total C: Acquired Cash and Investments to be paid to HCSC at closing	**$43,584,261.70**	
Sub-Total D: Net assets retained by the existing entity		**$146,557,461.88**

Schedule 1.01S

The amounts on this schedule are computed as of June 30, 2012, with the exception of those items with a value other than zero in the "FMV Adjustment" column, which were adjusted from the June 30, 2012 value due to fair market adjustments, transaction effects, or material accruals from the June 30, 2012 values.

These values will be recomputed as of the closing date. Any and all re-computation shall be effected on the same basis as the amounts in this schedule have been calculated.

	Account Key	BCBSMT Account Number	June 2012 B/S Value	FMV Adjustment	Adjusted Value	Transferred to HCSC	Remain in Existing Entity
A. Scheduled Liabilities							
1 Pending and Unreported Claims							
Hospital & Medical IBNR	SL1	20005	$41,355,000 00	$0 00	$41,355,000 00	$41,355,000 00	$0 00
FEP IBNR	SL1	20020	13,200,000.00	0.00	13,200,000.00	13,200,000 00	0 00
FEP Bluevision IBNR	SL1	20021	11,462.31	0.00	11,462.31	11,462 31	0 00
Medicare Advantage IBNR	SL1	20041	2,067,243 26	0.00	2,067,243.26	2,067,243 26	0 00
Medicare Part D IBNR	SL1	20042	64,036 54	0.00	64,036 54	64,036.54	0 00
A/P ASC/ASO Stop Loss IBNR	SL1	20050	805,000.00	0.00	805,000.00	805,000.00	0 00
Western Region IBNR	SL1	20055	525,000.00	0.00	525,000.00	525,000 00	0 00
Pending and Unreported Claims, Total			$58,027,742 11	$0.00	$58,027,742.11	$58,027,742 11	$0 00
2 Aggregate Policy and Claim Reserves							
Rate Stabilization Reserves	SL2	20305	$1,374,655 50	$0.00	$1,374,655.50	$1,374,655 50	$0 00
Claim and Case Reserves	SL2	20400	7,700,000.00	(7,700,000.00)	0 00	0 00	0 00
Aggregate Policy and Claim Reserves, Total			$9,074,655 50	($7,700,000.00)	$1,374,655 50	$1,374,655.50	$0 00
3 Health Care and Other Claim Liabilities							
Wells Fargo - Flex	SL3	20150	$187,508 00	$0.00	$187,508 00	$187,508.00	$0.00
Delta Dental Settlement Estimate	SL3	20155	35,078 74	0.00	35,078.74	35,078.74	0.00
Provider Bonuses	SL3	20157	624,810.00	0 00	624,810.00	624,810 00	0 00
HMI Settlement	SL3	20165	445,237 89	0.00	445,237.89	445,237.89	0 00
Unpaid Claims Adjustment Expense	SL3	20200	1,728,800.00	0 00	1,728,800.00	1,728,800.00	0 00

RAS Interplan Reinsurance	SL3	20700	282,127 97	0.00	282,127 97	282,127.97	0 00
A/P Excess Reinsurance	SL3	20710	65,406.64	0 00	65,406.64	65,406.64	0 00
A/P MCHA Assessment	SL3	21165	6,405,044 95	0.00	6,405,044.95	6,405,044.95	0.00
A/P RAS - Medicare Advantage	SL3	21216	720,863.41	0.00	720,863.41	720,863.41	0 00
A/P Membership Refunds	SL3	21500	178,200.50	0.00	178,200.50	178,200.50	0 00
A/P QNXT Dues Refunds	SL3	21501	134,000.39	0 00	134,000.39	134,000 39	0 00
A/P COBRA Credits	SL3	21505	32,186.50	0.00	32,186 50	32,186.50	0 00
A/P Drug Rebates Canceled Groups	SL3	21515	158,236.24	0.00	158,236.24	158,236 24	0 00
A/P PBM Drug Utilization	SL3	21520	(5,201.45)	0 00	(5,201.45)	(5,201.45)	0 00
A/P Investment Agency Fees	SL3	21600	70,000.00	0.00	70,000.00	70,000 00	0 00
A/P FEP Investment Account Interest	SL3	21650	108 38	0.00	108.38	108.38	0.00
A/P FEP Working Capital Deposit	SL3	21652	1,548,844.70	0.00	1,548,844.70	1,548,844 70	0 00
A/P FEP Refunds	SL3	21654	29,487.74	0.00	29,487.74	29,487.74	0.00
A/P Blue Card Home Claim Expense Automated Balancing	SL3	21670	(200,408.10)	0 00	(200,408.10)	(200,408 10)	0 00
A/P Blue Card Home Plan Automated Balancing	SL3	21672	1,096,975.42	0.00	1,096,975.42	1,096,975.42	0 00
A/P Blue Card Home Unpaid Claim Liab Auto Bal	SL3	21673	(1,095,770.15)	0.00	(1,095,770.15)	(1,095,770.15)	0.00
A/P Blue Card Host Providers Automated Balancing	SL3	21674	3,629,396.20	0 00	3,629,396.20	3,629,396.20	0.00
A/P ASC ASL	SL3	21752	23,365.76	0.00	23,365.76	23,365.76	0.00
A/P Performance Guarantees	SL3	21755	7,272.74	0.00	7,272.74	7,272.74	0 00
A/P BCBS WY	SL3	21760	44,112.44	0.00	44,112 44	44,112 44	0 00
Health Care and Other Claim Liabilities, Total			$16,145,684.91	$0.00	$16,145,684 91	$16,145,684.91	$0.00
4 Trade Accounts Payable							
A/P Blue Card CFA Fees	SL4	21200	$12,882.43	$0.00	$12,882.43	$12,882.43	$0.00
A/P Association Fees	SL4	21202	3,309 55	0.00	3,309 55	3,309 55	0 00
A/P (NEBA) Benefit Administration Fees	SL4	21204	(16,405 78)	0.00	(16,405 78)	(16,405 78)	0.00
A/P COBRA Commissions	SL4	21215	90.00	0 00	90 00	90 00	0 00
A/P Trade Account	SL4	21224	727,088 60	0.00	727,088.60	727,088 60	0 00
Trade Accounts Payable, Total			$726,964.80	$0.00	$726,964.80	$726,964.80	$0 00
5 Compensation-Related Liabilities							
A/P Accrued Payroll Net	SL5	21000	$0.00	$0.00	$0.00	$0.00	$0 00
A/P Accrued Earned Time	SL5	21002	2,281,939.38	0.00	2,281,939.38	2,281,939.38	0.00

A/P Bonus Accrual	SL5	21006	442,590 00	0.00	442,590.00	442,590 00	0.00
A/P Underwriting Bonus Accrual	SL5	21008	144,824.00	0.00	144,824.00	144,824 00	0 00
A/P BCBSA LTD	SL5	21016	2,903.66	0.00	2,903.66	2,903.66	0 00
A/P BCBSA Life Insurance	SL5	21022	1,590 66	0.00	1,590.66	1,590 66	0 00
A/P Workmans Comp - Carrier	SL5	21024	13,681.58	0 00	13,681.58	13,681 58	0.00
A/P Group Universal Life Plan	SL5	21030	2.00	0.00	2.00	2.00	0 00
A/P Unum Group Term Life	SL5	21031	45.24	0 00	45.24	45.24	0 00
A/P AD&D	SL5	21032	122 13	0.00	122 13	122 13	0 00
A/P Travelers Insurance	SL5	21036	5,542 98	0.00	5,542.98	5,542.98	0.00
A/P USAble	SL5	21038	1,666 24	0 00	1,666.24	1,666 24	0 00
A/P Employee Charitable Contributions	SL5	21042	7 50	0 00	7.50	7 50	0 00
A/P 401(k) Plan	SL5	21048	477.97	0 00	477.97	477 97	0 00
A/P Flex	SL5	21050	(94 39)	0 00	(94 39)	(94.39)	0 00
A/P H S A	SL5	21054	159.86	0 00	159 86	159.86	0 00
A/P Long Term Care	SL5	21060	0.00	0.00	0 00	0 00	0 00
A/P FUTA	SL5	21062	1,176.28	0.00	1,176.28	1,176 28	0 00
A/P SUTA	SL5	21064	77,012.45	0.00	77,012 45	77,012 45	0 00
Lawson Payroll Clearing	SL5	21068	0 00	0.00	0 00	0.00	0 00
A/P Miscellaneous Payroll	SL5	21069	375 03	0.00	375.03	375.03	0 00
A/P Federal Income Tax Withholding	SL5	22800	887 25	0 00	887.25	887 25	0 00
A/P FICA	SL5	22802	520 98	0.00	520.98	520.98	0.00
A/P Medicare	SL5	22804	179.86	0.00	179 86	179.86	0 00
A/P State Income Tax Withholding	SL5	22805	0 00	0 00	0 00	0.00	0.00
A/P 401(k) Loans	SL5	22807	18.21	0.00	18.21	18 21	0 00
A/P Flex Funds Held	SL5	22810	4,237.56	0.00	4,237.56	4,237.56	0.00
A/P Child Support	SL5	22811	328 61	0.00	328 61	328.61	0 00
A/P Garnishments	SL5	22813	(144.20)	0.00	(144 20)	(144 20)	0 00
A/P Life Retirees	SL5	22822	(1,694.09)	0.00	(1,694.09)	(1,694 09)	0 00
Compensation-Related Liabilities, Total			$2,978,356.75	$0.00	$2,978,356.75	$2,978,356.75	$0.00
6 Other Accrued Liabilities							
6a Commissions Payable							
A/P Commissions	SL6 1	21125	$1,390,685.77	$0 00	$1,390,685.77	$1,390,685.77	$0 00

6b All other on balance sheet							
Accrued Property Taxes Great Falls	SL6 2	21000	$22,552.74	$0.00	$22,552.74	$0.00	$22,552 74
Accrued Property Taxes Park Ave	SL6 2	21105	43,979 28	0 00	43,979 28	0 00	43,979 28
Accrued Property Taxes Fuller	SL6 2	21110	86,980.80	0 00	86,980.80	0.00	86,980.80
Accrued Property Taxes Donovan	SL6 2	21115	23,273.88	0 00	23,273.88	0.00	23,273.88
Abandoned Property Uncashed Checks	SL6 2	22702	423.00	0.00	423 00	0.00	423.00
Total, All other on balance sheet			$177,209 70	$0.00	$177,209.70	$0 00	$177,209 70
7 Income Taxes Payable							
Federal Income Taxes Payable (Non-Current)	SL7	26500	($2,185,470.78)	$0.00	($2,185,470 78)	$0.00	($2,185,470.78)
Income Taxes Payable, Total			($2,185,470 78)	$0.00	($2,185,470 78)	$0.00	($2,185,470.78)
8 Deferred Subscription Revenue							
LRSP Short/Over	SL8	20500	($31,948.58)	$0 00	($31,948.58)	($31,948.58)	$0 00
A/P Employee Health Dues	SL8	20505	(11,638 13)	0 00	(11,638.13)	(11,638 13)	0.00
N S I Montana Premiums	SL8	20515	111,484 38	0.00	111,484.38	111,484 38	0.00
N S 1 Idaho Premiums	SL8	20520	6,474.46	0.00	6,474 46	6,474.46	0.00
Deferred Income	SL8	20525	2,694,250 31	0.00	2,694,250.31	2,694,250.31	0.00
QNXT Advanced Premiums	SL8	20526	13,987,501.52	0.00	13,987,501.52	13,987,501.52	0 00
QNXT Unearned Premium	SL8	20527	243,110.79	0.00	243,110.79	243,110 79	0 00
QNXT Advanced Admin Services Income	SL8	20528	27,600 01	0.00	27,600.01	27,600.01	0 00
Student Plan Athletic Dues	SL8	20530	9,827.71	0.00	9,827.71	9,827 71	0 00
Suspense LRSP	SL8	21832	(49 12)	0.00	(49.12)	(49.12)	0.00
Suspense LRSP Unallocated Cash	SL8	21842	8,432.05	0 00	8,432.05	8,432 05	0.00
Suspense QNXT Unapplied Cash	SL8	21844	1,737,218 10	0.00	1,737,218.10	1,737,218 10	0 00
Suspense ITS Admin Access Interface	SL8	21857	(27,160.05)	0.00	(27,160 05)	(27,160 05)	0 00
Deferred Subscription Revenue, Total			$18,755,103.45	$0.00	$18,755,103 45	$18,755,103.45	$0 00
9 Other Miscellaneous Liabilities							
9a Due to/from BCBSMT Foundation							
Due to/from BCBSMT Foundation	SL9 1	12220	($15.00)	$0.00	($15 00)	$0.00	($15 00)
9b Due to/from Caring Foundation							
Due to/from Caring Foundation	SL9.2	12330	$1,929.73	$0.00	$1,929.73	$0 00	$1,929.73

9c Other Miscellaneous Liabilities - Impairment							
Other Non-Current Liabilities	SL9 3	29999	$1,512,335.86	$0.00	$1,512,335.86	$0.00	$1,512,335.86
9d All other on balance sheet							
Due to/from MACP	SL9 4	12250	($279,571.13)	$0.00	($279,571.13)	($279,571.13)	$0.00
Due to/from Caring Program for Children	SL9 4	12332	0.00	0 00	0 00	0 00	0.00
Due to/from MCHA Traditional	SL9 4	12350	(438,167 16)	0.00	(438,167.16)	(438,167.16)	0 00
Due to/from Portability	SL9 4	12352	(649,093 80)	0.00	(649,093.80)	(649,093.80)	0 00
Due to/from MCHA Premium Assistance Program	SL9.4	12354	(141,359.94)	0.00	(141,359.94)	(141,359.94)	0 00
A/P Commissions WSIC	SL9 4	21135	616,464.36	0.00	616,464.36	616,464.36	0 00
Received not Invoiced	SL9 4	21232	334.97	0.00	334.97	334 97	0 00
A/P Miscellaneous	SL9 4	21259	21,504.54	3,000,385.00	3,021,889.54	3,021,889 54	0 00
Suspense Managed Care Clearing	SL9 4	21800	35,216 69	0.00	35,216 69	35,216 69	0 00
Suspense Credit Card Payments	SL9 4	21802	144 47	0.00	144.47	144.47	0 00
Suspense QNXT Daily Cash	SL9.4	21803	0 00	0.00	0 00	0.00	0 00
Suspense Blue Card Auto Balance Implement	SL9.4	21804	211,988.04	0.00	211,988.04	211,988.04	0 00
Suspense Misc Accounts Payable	SL9 4	21806	174,598 95	0 00	174,598 95	174,598.95	0.00
Suspense Student Revenue Adjustment Clearing	SL9 4	21807	(92 29)	0 00	(92 29)	(92 29)	0 00
Suspense Refund Checks (Ties)	SL9 4	21812	46,446.58	0.00	46,446.58	46,446 58	0.00
Suspense Fraud Recoveries	SL9 4	21813	2,396 04	0.00	2,396.04	2,396.04	0 00
Suspense VCD LRSP Clearing	SL9 4	21814	(1,640.94)	0.00	(1,640 94)	(1,640 94)	0.00
Suspense QNXT Clearing	SL9 4	21815	(353.35)	0.00	(353.35)	(353.35)	0.00
Suspense Misc Cash Receipts	SL9 4	21816	0 00	0.00	0.00	0 00	0 00
Suspense ASC Drug Overpayments	SL9 4	21819	24,807.18	0.00	24,807.18	24,807.18	0 00
Suspense Northwestern Scholastic INSU	SL9.4	21820	3,908.25	0.00	3,908.25	3,908.25	0 00
Suspense Drug Rebate	SL9 4	21822	1,165,651.76	0 00	1,165,651.76	1,165,651.76	0 00
Suspense QNXT Pay cycle Variance	SL9 4	21825	(688 51)	0.00	(688.51)	(688.51)	0 00
Suspense Lawson Commission Interface	SL9 4	21830	(4,041.75)	0.00	(4,041.75)	(4,041.75)	0 00
Suspense LRSP Manuals Account	SL9 4	21834	(39,343.79)	0 00	(39,343.79)	(39,343.79)	0 00
Suspense Lawson Utilization Interface	SL9 4	21837	(677.23)	0 00	(677.23)	(677 23)	0 00
Suspense Delta Dental	SL9 4	21847	36,746 08	0.00	36,746.08	36,746.08	0.00
Suspense QNXT Utilization Interface	SL9 4	21846	0.00	0.00	0.00	0 00	0 00
Suspense QNXT Income Interface	SL9 4	21847	(224,019.87)	0.00	(224,019.87)	(224,019.87)	0.00
Suspense Lawson Drug Interface	SL9 4	21851	2,723,946.41	0 00	2,723,946 41	2,723,946 41	0 00

A/P - HeW Misc Intercompany	SL9 4	22410	47,000.00	0.00	47,000 00	47,000 00	0 00
A/P MSHWP Fund Held	SL9.4	22815	3.10	0.00	3.10	3.10	0.00
A/P Misc Subscriber Collections	SL9 4	22817	736,954 89	0.00	736,954.89	736,954 89	0.00
All other on balance sheet, Total			$4,069,062.55	$3,000,385.00	$7,069,447.55	$7,069,447.55	$0 00
10 Pension and Related Obligations							
10a DB Pension Obligations - WSIA & ICMI Employees							
DB Pension Liability - WSIA, ICMI Employees	SL10 1	0	$383,031 00	$0 00	$383,031.00	$0.00	$383,031 00
10b All other on balance sheet							
Defined Benefit Pension Liability - BCBSMT, HeW Employees	SL10 2	0	$19,639,276.25	$6,077,692 75	$25,716,969.00	$25,716,969.00	$0 00
Defined Contribution Plan Liability (ARC)	SL10.2	25508	223,123.34	0.00	223,123.34	223,123 34	0 00
BRP Retirement Liability	SL10 2	25510	23,586,948.94	2,610,355 06	26,197,304.00	26,197,304 00	0.00
A/P Deferred Compensation	SL10 2	25515	659,716 31	0 00	659,716.31	659,716 31	0.00
Post Retirement Life	SL10 2	25520	15,171.74	0 00	15,171 74	15,171.74	0 00
Post Retirement Medical	SL10 2	25530	547,966 02	0 00	547,966 02	547,966 02	0 00
All other on balance sheet, Total			$44,672,202 60	$8,688,047.81	$53,360,250.41	$53,360,250.41	$0 00
11. Intangible Liabilities - Hospital Liabilities							
Interest Payable - Intangible	SL11	23320	$198,342.36	$0.00	$198,342.36	$198,342.36	$0 00
Intangible Liability	SL11	29090	19,834,237.62	0.00	19,834,237.62	19,834,237.62	0 00
Intangible Liabilities - Hospital Liabilities, Total			$20,032,579 98	$0 00	$20,032,579 98	$20,032,579 98	$0.00
12 Contingent Liabilities - Litigation							
Loss Contingent Liabilities	SL12	29010	$4,870,000 00	$0.00	$4,870,000.00	$0 00	$4,870,000.00
Contingent Liabilities - Litigation, Total			$4,870,000.00	$0.00	$4,870,000 00	$0.00	$4,870,000.00
Sub-Total A: Total Scheduled Liabilities			**$180,632,058.93**	**$3,988,432.81**	**$184,620,491.74**	**$179,861,471.23**	**$4,759,020.51**
B. Scheduled Assets							
1 Health Receivables - Premium Related							
A/R Member Dues - New	SA1	11005	$1,845 70	$0.00	$1,845.70	$1,845 70	$0.00
A/R QNXT Member Dues	SA1	11006	2,102,379 96	0.00	2,102,379 96	2,102,379.96	0 00
A/R Medicare Risk Dues	SA1	11009	2,190,473 82	0.00	2,190,473.82	2,190,473.82	0 00

A/R QNXT Bank Returns	SA1	11021	261 22	0.00	261.22	261.22	0 00
Health Receivables - Premium Related, Total			$4,294,960 70	$0.00	$4,294,960.70	$4,294,960 70	$0 00
2 Health Receivables - Other Health							
A/R FEP IBNR	SA2	11010	$13,200,000 00	$0.00	$13,200,000.00	$13,200,000.00	$0 00
A/R QNXT Provider Advances	SA2	11101	32,594 09	0.00	32,594.09	32,594 09	0 00
A/R Provider Negative Balance Maintenance	SA2	11102	(272.16)	0.00	(272.16)	(272 16)	0 00
A/R QNXT Refunds Requested	SA2	11105	210,637 37	0.00	210,637.37	210,637.37	0 00
A/R LRSP Claim Reversals	SA2	11106	148,977 30	0.00	148,977 30	148,977.30	0.00
A/R Drug Overpayment	SA2	11108	79,210.73	0.00	79,210.73	79,210 73	0 00
A/R Drug Rebate	SA2	11110	3,836,570.17	0.00	3,836,570.17	3,836,570.17	0 00
A/R FEP Service Charge Income	SA2	11125	392,656.04	0.00	392,656.04	392,656.04	0 00
A/R FRP Remittance Accrual	SA2	11127	1,828,899.41	0.00	1,828,899.41	1,828,899 41	0 00
A/R FEP Miscellaneous	SA2	11130	67,648.98	0 00	67,648.98	67,648 98	0 00
A/R FEP Bluevision	SA2	11132	120,613 67	0 00	120,613 67	120,613 67	0 00
A/R FEP Standard Option	SA2	11140	811,852.98	0.00	811,852 98	811,852.98	0 00
A/R FEP Basic Option	SA2	11145	1,698,408 17	0 00	1,698,408.17	1,698,408 17	0 00
A/R FEP Monthly Expense	SA2	11147	476,260 00	0 00	476,260.00	476,260 00	0 00
Allowance for Write-offs Against Drug O/P Receivable	SA2	11150	(28,259.48)	0.00	(28,259.48)	(28,259 48)	0 00
Allowance for Write-offs Against Health Care Receivables	SA2	11155	(279,711 46)	0 00	(279,711.46)	(279,711.46)	0 00
A/R from Reinsurer	SA2	11215	104,029.70	0 00	104,029 70	104,029.70	0 00
A/R Medicare Risk Reinsurance from Plans	SA2	11224	1,026,095.94	0 00	1,026,095.94	1,026,095.94	0 00
A/R Signal Peak Energy	SA2	11686	76,074 49	0.00	76,074.49	76,074.49	0 00
A/R Benefis	SA2	11687	154,339 69	0.00	154,339.69	154,339 69	0.00
A/R Stillwater Mining	SA2	11688	363,341.53	0.00	363,341.53	363,341.53	0.00
A/R MCA	SA2	11689	(12,541.12)	0.00	(12,541.12)	(12,541.12)	0.00
A/R BCBSMT ASO	SA2	11690	232,729.75	0.00	232,729.75	232,729.75	0.00
A/R Gibson Guitar	SA2	11691	7,199.08	0.00	7,199.08	7,199.08	0 00
A/R Great Falls Clinic	SA2	11692	9,201 09	0.00	9,201 09	9,201.09	0 00
A/R Watkins Shepard	SA2	11693	183,817.25	0.00	183,817.25	183,817 25	0.00
A/R Bozeman School District #7	SA2	11694	143,317.13	0.00	143,317.13	143,317 13	0 00
A/R Billings Clinic	SA2	11695	188,167 51	0.00	188,167.51	188,167.51	0 00
A/R St John's Lutheran Hospital	SA2	11696	40,688 28	0 00	40,688.28	40,688 28	0 00

A/R Western States ASC	SA2	11697	62,458.47	0.00	62,458.47	62,458 47	0 00
A/R Glacier Bancorp	SA2	11698	259,978 78	0.00	259,978.78	259,978.78	0 00
A/R State Bar Association	SA2	11699	125,837.36	0.00	125,837 36	125,837.36	0 00
A/R State of Montana	SA2	11700	1,691,953 10	0.00	1,691,953.10	1,691,953.10	0 00
A/R Yellowstone Boys and Girls Ranch	SA2	11701	49,787.49	0.00	49,787.49	49,787.49	0 00
A/R State Bankers	SA2	11702	131,703.18	0.00	131,703.18	131,703.18	0 00
A/R Decker Coal	SA2	11703	105,635 64	0.00	105,635.64	105,635.64	0 00
A/R Northwestern Energy	SA2	11704	33,054 25	0.00	33,054.25	33,054.25	0 00
A/R Pipe Trades Trust	SA2	11705	381,769 44	0.00	381,769.44	381,769.44	0.00
A/R ASC/ASO	SA2	11706	1,137,686 61	0.00	1,137,686 61	1,137,686.61	0 00
A/R Morrison Maierle	SA2	11707	71,285 69	0.00	71,285.69	71,285 69	0 00
A/R CMC	SA2	11708	133,116 93	0.00	133,116.93	133,116.93	0 00
A/R Western MT Mental Health	SA2	11709	121,329 67	0.00	121,329.67	121,329 67	0 00
A/R MT University Systems	SA2	11710	815,360 64	0.00	815,360 64	815,360.64	0 00
A/R North Valley Hospital	SA2	11711	242,022 17	0.00	242,022.17	242,022.17	0 00
A/R S&K Technologies Inc	SA2	11712	22,386 75	0.00	22,386.75	22,386 75	0 00
A/R MSE Inc	SA2	11713	(3,306 81)	0 00	(3,306.81)	(3,306.81)	0 00
A/R Minimum Premium	SA2	11714	859,547.70	0.00	859,547.70	859,547.70	0 00
A/R Contingent Premium	SA2	11716	55,000 00	0 00	55,000 00	55,000.00	0.00
A/R Healthy MT Kids	SA2	11717	1,307,421.96	0.00	1,307,421.96	1,307,421.96	0.00
A/R Blue Card Central Financial Agency	SA2	11720	2,841,433.01	0.00	2,841,433 01	2,841,433.01	0 00
A/R Blue Card Host Automatic Balancing	SA2	11722	2,665,156.60	0.00	2,665,156.60	2,665,156.60	0 00
A/P CMS	SA2	22830	2,062,654.87	0.00	2,062,654.87	2,062,654 87	0 00
Health Receivables - Other Health, Total			$40,285,819.63	$0.00	$40,285,819.63	$40,285,819.63	$0 00
3 Receivables from Affiliates							
3a Due to/from Health-e-Web							
Due to/from Health-e-Web	SA3.1	11840	$28,325.20	$0 00	$28,325.20	$28,325.20	$0 00
3b Miscellaneous Receivables from Health-e-Web							
A/R Health-e-Web Misc	SA3 2	11846	$221,970.08	$0.00	$221,970.08	$221,970.08	$0 00
3c All other on balance sheet							
A/R ICMI Misc	SA3 3	11806	$4,296 24	$0.00	$4,296.24	$0.00	$4,296 24
Due to/from CBMI	SA3.3	11820	116,341.48	0.00	116,341.48	0.00	116,341 48

A/R CBMI Federal Taxes	SA3 3	11822	3,398,927.50	0.00	3,398,927.50	0.00	3,398,927 50
All other on balance sheet, Total			$3,519,565.22	$0.00	$3,519,565.22	$0.00	$3,519,565.22
4 Other Miscellaneous Receivables							
A/R Commission Chargeback	SA4	12518	$29,427.62	$0 00	$29,427.62	$29,427.62	$0 00
A/R Travel Reimbursement Outside Entity	SA4	12520	1,505.37	0 00	1,505.37	1,505.37	0 00
A/R Advance Deposits	SA4	12524	157,278 74	0.00	157,278.74	157,278.74	0 00
A/R Deferred Charges	SA4	12525	105,000 00	0.00	105,000 00	105,000 00	0 00
A/R Triwest Network Fees	SA4	12536	76,432 00	0 00	76,432.00	76,432 00	0 00
A/R Pharmacy Benefit Manager	SA4	12554	98,734.54	0 00	98,734 54	98,734.54	0 00
A/R IHM Programs	SA4	12565	500.00	0 00	500.00	500 00	0 00
A/R Miscellaneous	SA4	12700	89,119 38	0.00	89,119.38	89,119 38	0 00
A/R Employee Travel Advances	SA4	12914	8,304.44	0.00	8,304.44	8,304.44	0 00
A/R Employee Computer Purchase	SA4	12918	23,001 29	0.00	23,001 29	23,001.29	0 00
A/R Terminated Employees Computer Purchase	SA4	12920	0.00	0.00	0.00	0 00	0 00
Allowance for Doubtful Accounts	SA4	12990	(90,634 38)	0.00	(90,634 38)	(90,634.38)	0.00
Other Miscellaneous Receivables, Total			$498,669.00	$0 00	$498,669.00	$498,669.00	$0 00
5 Dividends and Interest Receivable							
Accrued Interest Short Term Investment	SA5	13100	$577 68	$0.00	$577.68	$0.00	$577 68
WF Premier Accrued Stock Dividends	SA5	13322	37,431 23	0.00	37,431 23	0 00	37,431 23
WF Subscriber Protection Accrued Interest	SA5	13404	857,091 39	0.00	857,091 39	0.00	857,091 39
Dividends and Interest Receivable, Total			$895,100.30	$0.00	$895,100.30	$0 00	$895,100 30
6 Deferred Taxes							
Deferred Tax Benefit	SA6	17150	$8,659,189 69	($12,246,621.00)	($3,587,431.31)	$0 00	($3,587,431.31)
Deferred Taxes, Total			$8,659,189 69	($12,246,621 00)	($3,587,431.31)	$0.00	($3,587,431.31)
7 Notes Receivable							
Notes Receivable	SA7	17000	$22,141.17	$0.00	$22,141 17	$0 00	$22,141 17
Notes Receivable, Total			$22,141.17	$0.00	$22,141 17	$0.00	$22,141 17
8 Prepaid Expenses							

State Genetics Tax	SA8	14005	$72,444 15	$0.00	$72,444.15	$72,444 15	$0 00
Equipment Repairs & Maintenance	SA8	14010	81,434 03	0.00	81,434.03	81,434.03	0.00
Office Supplies	SA8	14015	3,027 69	0.00	3,027 69	3,027.69	0 00
Insurance & Bonding	SA8	14025	261,934.39	0.00	261,934.39	261,934.39	0.00
Professional Fees	SA8	14030	248,133.63	0 00	248,133.63	248,133.63	0 00
Software Maintenance/Licenses	SA8	14035	2,032,065.57	0.00	2,032,065.57	2,032,065 57	0 00
Miscellaneous Travel	SA8	14040	27,626.13	0.00	27,626.13	27,626 13	0 00
Subscriptions, Dues & Licenses	SA8	14045	240,570 89	0.00	240,570.89	240,570 89	0.00
Prepaid Life Insurance	SA8	14050	39,000.05	0 00	39,000.05	39,000.05	0 00
Postage - Helena	SA8	14065	(39,925.83)	0.00	(39,925.83)	(39,925.83)	0.00
Postage - Great Falls	SA8	14066	(13,351.96)	0 00	(13,351 96)	(13,351.96)	0.00
Prepaid MT Care Covenant	SA8	14075	0 00	0.00	0 00	0.00	0 00
Prepaid Advertising	SA8	14080	12,700.46	0.00	12,700.46	12,700 46	0 00
Prepaid Expenses	SA8	14099	546,508 02	0 00	546,508.02	546,508.02	0 00
Prepaid Expenses, Total			$3,512,167 22	$0.00	$3,512,167 22	$3,512,167.22	$0 00
9 Land and Buildings							
9a Land - Helena							
Land - Helena	SA9 1	0	$0.00	$3,166,205.00	$3,166,205 00	$3,166,205.00	$0.00
9b All other on balance sheet							
Fixed Asset Clearing	SA9 2	17200	$1,529 80	$0.00	$1,529.80	$0 00	$1,529 80
Land & Improvements Great Falls	SA9 2	17205	222,015.75	0.00	222,015.75	0 00	222,015 75
Land & Improvements Fuller	SA9.2	17210	815,324.38	0.00	815,324.38	0.00	815,324 38
Land & Improvements Park Ave	SA9.2	17215	483,259.00	0 00	483,259.00	0 00	483,259.00
Land & Improvements Donovan	SA9 2	17225	36,200.00	0	36,200.00	0.00	36,200 00
Buildings Great Falls	SA9.2	17250	1,839,567.76	1,575,176 96	3,414,744.72	0.00	3,414,744 72
Buildings Fuller	SA9 2	17252	4,591,081 97	1,159,214 17	5,750,296.14	0.00	5,750,296 14
Buildings Park Ave	SA9 2	17256	5,420,574 20	(557,181.42)	4,863,392.78	0 00	4,863,392 78
Leasehold Improvements	SA9.2	17258	30,714.42	0.00	30,714 42	0.00	30,714 42
Buildings Donovan	SA9 2	17260	3,740,736.14	1,359,263 86	5,100,000.00	0 00	5,100,000 00
Building Improvements	SA9 2	17262	301,882.69	0.00	301,882.69	0.00	301,882.69
Accum Depreciation Bldgs Great Falls	SA9 2	17750	(1,636,760 47)	0.00	(1,636,760.47)	0 00	(1,636,760.47)
Accum Depreciation Bldgs Fuller	SA9.2	17754	(3,565,620.52)	0 00	(3,565,620.52)	0 00	(3,565,620 52)

Accum Depreciation Bldgs Park Ave	SA9 2	17756	(2,046,651 78)	0.00	(2,046,651.78)	0 00	(2,046,651 78)
Accum Amortization Leasehold	SA9 2	17758	(30,714 42)	0.00	(30,714.42)	0.00	(30,714.42)
Accum Depreciation Bldgs Donovan	SA9.2	17760	(1,059,295 59)	0.00	(1,059,295.59)	0 00	(1,059,295 59)
Accum Depreciation Building Improvements	SA9 2	17762	(122,746 91)	0.00	(122,746.91)	0 00	(122,746 91)
All other on balance sheet, Total			$9,021,096.42	$3,559,569.16	$12,580,665 58	$0.00	$12,580,665 58
10 Software							
Software Purchased	SA10	17420	$44,637,237 75	$0.00	$44,637,237.75	$44,637,237 75	$0.00
Operating System Software	SA10	17422	33,869.80	0 00	33,869 80	33,869.80	0 00
Accum Amortization Purchased Software	SA10	17912	(38,126,532 01)	(6,510,705.74)	(44,637,237.75)	(44,637,237.75)	0 00
Accum Amortization Operating System Software	SA10	17914	(33,869 80)	0 00	(33,869.80)	(33,869 80)	0 00
Software, Total			$6,510,705 74	($6,510,705 74)	$0.00	$0 00	$0 00
11 Furniture, Equipment, and Autos							
Office Furniture	SA11	17305	$4,303,703.53	$0 00	$4,303,703.53	$4,303,703 53	$0 00
Office Equipment	SA11	17315	1,446,969.46	0.00	1,446,969.46	1,446,969.46	0 00
Telephone Equipment	SA11	17325	2,937,057.86	0 00	2,937,057 86	2,937,057.86	0 00
Automobiles	SA11	17355	335,985 83	0.00	335,985 83	335,985.83	0.00
Computer Equipment	SA11	17405	3,720,099 90	420,184.97	4,140,284.87	4,140,284.87	0 00
Artwork	SA11	17500	1,250.00	0.00	1,250.00	1,250 00	0 00
Accum Depreciation Office Furniture	SA11	17805	(3,625,207.54)	0.00	(3,625,207.54)	(3,625,207 54)	0 00
Accum Depreciation Office Equipment	SA11	17815	(1,408,966.46)	0.00	(1,408,966.46)	(1,408,966 46)	0.00
Accum Depreciation Telephone Equipment	SA11	17825	(1,432,915 35)	0.00	(1,432,915 35)	(1,432,915.35)	0.00
Accum Depreciation Automobiles	SA11	17855	(274,180.67)	0.00	(274,180.67)	(274,180.67)	0 00
Accum Depreciation Computer Equipment	SA11	17905	(3,024,284.87)	0.00	(3,024,284.87)	(3,024,284.87)	0.00
Furniture, Equipment, and Autos, Total			$2,979,511 69	$420,184.97	$3,399,696.66	$3,399,696.66	$0 00
12 Projects in Progress							
Projects in Progress	SA12	17450	$3,748,605.57	($3,613,024.00)	$135,581 57	$0 00	$135,581.57
Projects in Progress, Total			$3,748,605.57	($3,613,024.00)	$135,581 57	$0 00	$135,581 57
13 Subsidiaries and Closely-Held Investments							
13a Regional Advantage							

Investment in Regional Advantage	SA13 1	15830	$7,780.00	$0.00	$7,780 00	$7,780.00	$0 00
13b Prime Therapeutics							
Prime Therapeutics	SA13 2	0	$2,546,000 00	$373,000 00	$2,919,000 00	$2,919,000 00	$0 00
13c TriWest							
Other - Triwest	SA13 3	0	$1,131,754 00	$20,985,246.00	$22,117,000 00	$22,117,000.00	$0 00
13d Health-e-Web							
Investment in Health-e-Web	SA13 4	0	$2,688,474 57	$1,192,525.43	$3,881,000.00	$3,881,000.00	$0.00
13e WPMI							
Investment in CBMI - WPMI Portion	SA13 5	0	$1,188,756.00	($992,756.00)	$196,000.00	$196,000.00	$0.00
13f Clarkston Washington Residence							
Clarkston Washington Residence	SA13 6	0	$288,359.72	($91,359.72)	$197,000 00	$197,000 00	$0.00
13g Lewiston Idaho Residence							
Lewiston Idaho Residence	SA13 7	0	$395,000 00	($128,000.00)	$267,000.00	$267,000 00	$0.00
13h All other Investments in Subsidiaries on balance sheet							
Investment in CBMI - Remainder	SA13.8	0	$2,874,629 86	$0.00	$2,874,629.86	$0 00	$2,874,629 86
Investment in ICMI - Peak1 Administration	SA13 8	0	960,784 00	0 00	960,784 00	0.00	960,784.00
Investment in ICMI - Remainder	SA13 8	0	349,765 67	0.00	349,765.67	0 00	349,765.67
Investment in WSIA	SA13 8	0	40,153,025.09	10,938,969.91	51,091,995.00	0 00	51,091,995 00
All other Investments in Subsidiaries on balance sheet, Total			$44,338,204.62	$10,938,969.91	$55,277,174.53	$0.00	$55,277,174.53
13i All other Closely Held Investments on balance sheet							
Chatham Feasibility Plan	SA13 9	0	$25,000 00	$0.00	$25,000.00	$0.00	$25,000.00
Accum Depreciation - Other Investments	SA13 9	0	(64,065.15)	64,065.15	0.00	0 00	0.00
All other Closely Held Investments on balance sheet, Total			($39,065.15)	$64,065.15	$25,000.00	$0.00	$25,000 00
14 Pension Assets							
14a Annuities							
Benefit Restoration Annuity	SA14 1	15605	$12,482,300.34	$0 00	$12,482,300.34	$12,482,300.34	$0 00
14b Cash Surrender Value of Life Insurance							
Cash Surrender Value Life Insurance	SA14 2	15805	$15,220,861.95	$0.00	$15,220,861.95	$15,220,861.95	$0 00
14c Fidelity Funds - Top Hat Plan							
Fidelity Funds - Top Hat Plan	SA14 3	10360	$578,402.61	$0.00	$578,402.61	$578,402 61	$0 00

15 Intangible Assets - Hospital Assets							
Intangible Assets	SA15	17600	$25,094,237.62	$0.00	$25,094,237.62	$25,094,237.62	$0 00
Accum Depreciation - Intangible Assets	SA15	18000	(2,091,186.48)	0.00	(2,091,186.48)	(2,091,186.48)	0.00
Intangible Assets - Hospital Assets, Total			$23,003,051 14	$0.00	$23,003,051 14	$23,003,051 14	$0.00
Sub-Total B: Total Scheduled Assets			**$188,027,707.43**	**$17,117,299.16**	**$205,145,006.59**	**$136,277,209.53**	**$68,867,797.06**
C. Excess of A over B						**$43,584,261.70**	
(to be paid to HCSC from available cash and investments)							
1 Cash and Short Term Investments							
1a Wells Fargo - Merchant Account							
Wells Fargo - Merchant Account	CSTI1.1	10015	$0 00	$0 00	$0.00	$0.00	$0 00
1b Wells Fargo - FEP Investment Account							
Wells Fargo - FEP Investment Account	CSTI1 2	10020	$1,584,870 69	$0 00	$1,584,870 69	$1,584,870.69	$0 00
1c Wells Fargo - LRSP Controlled Disbursements							
Wells Fargo - LRSP Controlled Disbursements	CSTI1 3	10030	($3,747,495.30)	$0.00	($3,747,495.30)	($3,747,495 30)	$0 00
1d PNC - Medicare Advantage							
PNC - Medicare Advantage	CSTI1 4	10033	$597,450 95	$0.00	$597,450.95	$597,450.95	$0 00
1e Wells Fargo - Admin/VCD							
Wells Fargo - Admin/VCD	CSTI1 5	10035	$3,244,069 26	$0.00	$3,244,069.26	$3,244,069 26	$0 00
1f. First Interstate Bank - Lockbox							
First Interstate Bank - Lockbox	CSTI1 6	10037	$5,564,192 29	$0 00	$5,564,192.29	$5,564,192.29	$0 00
1g Wells Fargo - NSI Checking							
Wells Fargo - NSI Checking	CSTI1 7	10040	$648,092.56	$0.00	$648,092.56	$648,092.56	$0.00
1h Wells Fargo - QNXT Claims							
Wells Fargo - QNXT Claims	CSTI1 8	10045	($13,655,760 74)	$0.00	($13,655,760.74)	($13,655,760.74)	$0 00
1i Wells Fargo - QNXT Reissues							
Wells Fargo - QNXT Reissues	CSTI1.9	10047	$100.00	$0.00	$100.00	$100.00	$0.00
1j Payroll							
Payroll	CSTI1.10	10050	$49,567.23	$0.00	$49,567.23	$49,567.23	$0.00
1k Wells Fargo - Flex							
Wells Fargo - Flex	CSTI1 11	10052	$4,237 56	$0.00	$4,237.56	$4,237.56	$0 00
1l BRP Cash & Cash Equivalents							

BRP Cash & Cash Equivalents	CSTI1 12	10354	$409,151 78	$0.00	$409,151 78	$409,151.78	$0 00
1m All other on balance sheet							
Cash on Hand	CSTI1 13	10005	$250.00	$0 00	$250.00	$0 00	$250 00
Certificates of Deposit	CSTI1 13	10350	740,345.33	0.00	740,345 33	0.00	740,345 33
Investment Pending Cash	CSTI1 13	10352	252,794.29	0.00	252,794.29	0.00	252,794 29
Specialty Money Market Mutual Fund	CSTI1 13	10602	18,641 08	0.00	18,641.08	0 00	18,641 08
Premier Money Market Mutual Fund	CSTI1 13	10604	94,097 76	0.00	94,097.76	0 00	94,097 76
Sub Protect Money Market Mutual Fund	CSTI1 13	10608	5,096,427 59	0.00	5,096,427.59	0.00	5,096,427 59
Heritage Money Market Fund	CSTI1.13	10610	6,465,442.06	0.00	6,465,442.06	0 00	6,465,442 06
All other Cash and Short Term Investments on Balance Sheet, Total			$12,667,998.11	$0.00	$12,667,998.11	$0 00	$12,667,998.11
2 Common Stocks							
2a WF Specialty Common Stock							
WF Specialty Common Stock	CSTI2.1	15101	$8,521,380 96	$0 00	$8,521,380.96	$0.00	$8,521,380 96
2b WF Premier Common Stock							
WF Premier Common Stock	CSTI2 2	15102	$23,832,174.61	$0.00	$23,832,174.61	$0 00	$23,832,174 61
2c Other - BCS1							
Other - BCS1	CSTI2.3	0	$350 00	$0 00	$350.00	$0.00	$350 00
2d Other - Plans Liability Insurance							
Other - Plans Liability Insurance	CSTI2 4	0	$136,500.00	$0 00	$136,500 00	$0 00	$136,500 00
2e WF Specialty Allowance for FMV of Common Stocks							
WF Specialty Allowance for FMV of Common Stocks	CSTI2 5	15112	($79,222.25)	$0.00	($79,222.25)	$0.00	($79,222.25)
2f WF Premier Allowance for FMV of Common Stocks							
WF Premier Allowance for FMV of Common Stocks	CSTI2 6	15114	$3,671,166.54	$0.00	$3,671,166.54	$0.00	$3,671,166.54
2g Allowance for FMV of Common Stocks - Other							
Allowance for FMV of Common Stocks - Other	CSTI2.7	15115	$1,338,122.78	$0.00	$1,338,122.78	$0.00	$1,338,122 78
3 Bonds							
WF Subscriber Protection Corporate Bonds	CSTI3	15302	$75,415,431.00	$5,830,569.00	$81,246,000.00	$48,885,785 42	$32,360,214 58
Bonds, Total			$75,415,431.00	$5,830,569.00	$81,244,000 00	$48,885,785.42	$32,360,214.58
Sub-Total C: Acquired Cash and Investments to be paid to HCSC at closing						**$43,584,261.70**	
Sub-Total D: Net assets retained by the existing entity							**$146,557,461.88**

Section 2.01 PURCHASE OF BCBSMT ASSETS

Section 2.01 (b)(ii) Excluded Contracts – List of Excluded Contracts.

1. Leases and contracts for real property not acquired by or subleased by HCSC;
2. Contract with Payne Financial for the sale of the assets of WSIA, which includes the Note;
3. Contracts with the following Retained Subsidiaries:
    a) Western States Insurance Agency, Inc.
    b) Peak 1
    c) CBMI [Holding Company];
4. Transaction Documents;
5. Any non-competition or other agreement which restricts or limits the right of Purchaser (as assignee or transferee of any Assets or Assumed Liabilities) to compete in any line of business or with any Person or in any geographic area or during any period of time or to contract with any Person, except for restrictions imposed by the BCBSA in the ordinary course or the restrictions imposed by this Agreement.

Section 2.01 PURCHASE OF BCBSMT ASSETS

Section 2.01 (b)(iii) Retained Administrative Assets – Describe Assets.

All assets not transferred under Section 2.01, including but not limited to:

- Retained Subsidiary receivables
- Caring Foundation of Montana, Inc.
- Blue Cross Blue Shield Foundation for Healthy Montanans, Inc.
- Corporate records related to the organizational structure of, legal affairs of, and on-going operations of BCBSMT unrelated to the business being acquired by HCSC.

N/A.

Section 2.01 PURCHASE OF BCBSMT ASSETS

Section 2.01 (b)(viii) Excluded Real Property – Describe Real Property.

BlueCross BlueShield of Montana

An Independent Licensee of the Blue Cross and Blue Shield Association

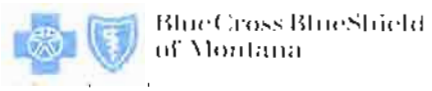
1. BCBSMT Helena Corporate Headquarters – located at 560 North Park Avenue, Helena, Montana.
2. BCBSMT Helena Fuller Avenue Office– located at 404 Fuller Avenue, Helena, Montana .
3. BCBSMT Helena Donovan building – located at 340 North Last Chance Gulch, Helena, Montana .
4. BCBSMT Great Falls Office- located at 3360 10th Avenue South, Great Falls, Montana.
5. House – located at 2355 Valley View Ct, Clarkston, Washington.

HeW

None.

Section 2.02 ASSUMPTIONS OF LIABILITIES – EXCLUDED LIABILITIES

Section 2.02 (b)(v) Actions pending as of the Closing Date.



On-going Litigation

1. Neary and Smith et. al. v. BCBSMT (consolidated), DV-08-553, DA-10-0191, DA 11-0431
   - Smith v. BCBSMT, Cause No. DV-09-401
   - Neary v. BCBSMT, Cause No. DV-08-553
2. Budd and Pallister et. al. v. BCBSMT (consolidated), Cause Nos. CV-09-25-BU-SHE, DA 11-0431
   - Budd v. BCBSMT, Cause Nos. DV-09-181-C, CV-09-25-BU-SHE
   - Pallister v. BCBSMT, Cause Nos. CV-09-62-H-SEH, ADV 2008-157
3. Diaz et. al. v. BCBSMT, Cause Nos. BDV 2008-956, DA09-0682
4. Fossen et. al. v. BCBSMT, Cause Nos. BDV 09-747, CV 09-61-H-CCL, 10-36001, 11-1155
5. Richards v. BCBSMT, Cause No. DV 06-0677
6. Fuss v. BCBSMT, Cause Nos. DV-07-485, CV 12-83-M-DLC-JCL, DA 12-0262
7. Sangwin v. BCBSMT, Cause Nos. BDV 10-0566c, CV-10-28-H-CCL, 11-0508
8. Hueths v. BCBSMT, Cause Nos. ADV-10-0535, DV-08-553
9. Marsden v. BCBSMT, Cause Nos. DDV 2012-260, DA 12-0341
10. Beatty v. BCBSMT, Cause No. BDV 2012-302
11. Siedlitz v. BCBS, Cause No. DDV-12-0748 (not served as of Nov 12, 2012)

Threatened Litigation/Potential Claims

1. Babin, Peter
2. BCBSMT Association Matter: including six (6) Associations: State Bar of Montana; Montana Dental Association Group Benefits Trust; Montana Auto Dealers Association Insurance Trust; Montana Nonprofit Association Group Benefits Trust; Montana Schools Health and Welfare Plan and Montana Building Industry Association Benefit Trust; alleged un-lawful trade practices and cease and desist notice.
3. State Bar of Montana: Group Benefits Trust and Montana Dental Association Group Benefits Trust; alleged unpermitted disclosure of PHI.

None.

Schedule 4.05

Consents and Approvals

See approvals listed in Schedule 8.01(c)

Section 5 ADDITIONAL AGREEMENTS

Section 5.16 Intercompany Agreements – Disclose if there are any intercompany agreements which Purchaser has not requested to be terminated.

1. **BCBSMT – HEW Intercorporate Management Services Agreement,** effective 1- 1-2009
2. **ET&T – HEW Intercorporate Services Agreement,** effective 8-1-2010
3. **BCBSMT – HeW Payer Clearinghouse Agreement,** effective 1-1-2011

Note that copies have been previously made available to HCSC.

Schedule 8.01(c)

Regulatory Approvals

1. Montana Department of Insurance (as to the matters described in Section 3.05 and 4.05), including:
    a. HMO License
    b. A final order determining that the Transaction is not subject to the Bulk Reinsurance statute, 33-2-1212
    c. Approval under the Montana conversion statute, 50-4-701 et seq.
    d. Approvals to allow Purchaser to use the same product forms, the same Med supp filings, the same rate structure, and the same agents/brokers currently used of available BCBSMT
    e. All other approvals required for the transactions contemplated under this Agreement to take effect

2. Montana Attorney General (as to the matters described in Section 3.05 and 4.05), including:
    a. Approval under the Montana conversion statutes, 50-4-701 et seq.

3. U.S. Department of Justice and/or Federal Trade Commission (in respect to the HSR filing described in Section 5.04(b))

4. U.S. Department of Justice (to clarify that Section V of the March 15, 2012 order applies to BCBSMT (and successors and assigns) only as to business in Montana)

5. Other approvals - TBD

EXHIBIT 8.01(d)

Consents

1. Each of the following five hospitals, consenting to the assignment of their Employee Benefit Plan Commitment Agreements (and to the application of Section 6.06 in such Employee Benefit Plan Commitment Agreements only to the HCSC Montana Affiliate board), Administrative Service Agreements or insurance contracts, as applicable, and provider contracts to HCSC:
    a. Billings Clinic
    b. Northern Montana Hospital
    c. Community Medical Center, Inc.
    d. St. Peters Community Hospital
    e. Bozeman Deaconess Health Services

2. Contracts with the following additional providers:
    a. St. Vincent Healthcare
    b. Benefits Healthcare
    c. Provena St. Patrick
    d. Kalispell Regional Hospital
    e. St. James

3. Insurance or ASO contracts, as applicable, with the following groups[1]:
    a. Healthy Montana Kids
    b. Montana Chamber Choices - Community
    c. Montana University System
    d. Montana Schools Health and Welfare Plan
    e. Students
    f. Stillwater Mining Company
    g. Employers Assoc of Montana
    h. Benefis Healthcare
    i. Insure Montana
    j. Pipe Trades Trust
    k. Dept of Corrections
    l. Glacier Banc/1st Bank of Wyoming
    m. MCHA
    n. Montana Operating Engineers

4. Contracts with the following vendors:
    a. Trizetto
    b. IBM
    c. Connecture
    d. Delta Dental
    e. American Health Value
    f. Xerox
    g. Truven Health Analytics

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[1] Represents groups with more than 2500 members

h. Alere
i. Benefitfocus.com Inc.
j. Horizon Behavioral Services
k. Flexconnect
l. GHI-Medicare/COBC
m. Qwest
n. Ingenix
o. Successfactors
p. Callidus Software Inc.
q. Milliman
r. Clarity Software Solutions
s. Lawson Software Americas Inc.
t. Discovery Health Partners
u. Rightnow Technologies
v. Centurylink

5. Blue Cross and Blue Shield Association (as to the transfer of the Marks to HCSC)

6. CMS and members of Regional Advantage Services, LLC (as to the transfer of the Medicare Advantage and Part D contracts to HCSC)

7. U.S. Office of Personnel Management and the Blue Cross and Blue Shield Association (as to the transfer of the FEP contracts to HCSC)

8. Landlords of the spaces at the following premises (as described in more detail in Schedule 8.01(g):

    a. Billings District Office
    b. Birch Street Warehouse
    c. Great Falls District Office
    d. Missoula District Office
    e. Kalispell District Office
    f. Bozeman District Office
    g. Butte District Office

9. The following entities involved in the following Acquired Interests

Entity	Acquired Interest
	Prime
	TriWest
	WPMI
	RAS

Exhibit 8.01 (e) Owned Real Property and Leased Real Property

Owned Real Property to be leased to HCSC:

Location
BCBSMT Helena Corporate Headquarters 560 North Park Avenue, Helena, Montana 59601
BCBSMT Helena Fuller Avenue Office 404 Fuller Avenue, Helena, Montana 59601.

Leased Real Property:

Location
BCBSMT Billings District Office 2180 Overland Ave., Suite 103, Billings, MT 59102
BCBSMT Great Falls District Office 600 Smelter Ave. NE, Great Falls, MT 59403
BCBSMT Missoula District Office 3819 Stephens Ave., Missoula, MT 59801
BCBSMT Kalispell District Office 125 Commons Way, Suite 2, Kalispell, MT 59901
BCBSMT Bozeman District Office 1283 N. 14th Ave., Suite 101, Bozeman, MT 59771
BCBSMT Butte District Office 49 N. Main Street, Butte, MT 59703
Birch Street Warehouse I 1406 Birch St., Helena, MT 59601
Birch Street Warehouse II 1410 Birch St., Helena, MT 59601
Finstad's Parking Lot, Helena, MT 59601
First Montana Title Parking Lot, Helena, MT 59601

HeW has no Owned Real Property.

Leased Real Property:

Location
HeW Helena Office 2525 Colonial Drive, Suite A, Helena, MT 59601
HeW (ET&T) Mesa Office 4838 E. Baseline Road, Suites 118 and 119, Mesa, AZ 85206

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Assignment"), is made by and between BLUE CROSS AND BLUE SHIELD OF MONTANA, INC. ("Assignor" or "BCBSMT"), and HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company ("Assignee" or "HCSC"), as of **[_____, 201_]**.

W I T N E S S E T H:

WHEREAS, Assignor and Assignee have entered into an Asset Purchase Agreement, dated as of [_____], 2012 (the "Asset Purchase Agreement"), providing, among other things, for the transfer and conveyance by Assignor, and the acceptance by Assignee, of the Assets, and the assumption by Assignee of the Assumed Liabilities of Assignor described therein on the terms and subject to the conditions set forth therein. All capitalized terms used herein without definition shall have the meanings assigned to them in the Asset Purchase Agreement; and

WHEREAS, in order to effectuate the transfer and conveyance of the Assets as aforesaid and the assumption of the Assumed Liabilities, Assignor and Assignee are executing and delivering this Assignment.

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements contained herein and in the Asset Purchase Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby agree as follows:

Section 1. Conveyance of Assets.

(a) Assignor hereby sells, assigns, transfers, conveys and delivers unto Assignee and its successors and assigns, forever, the Assets (excluding, for the avoidance of doubt, the Excluded Assets) wherever located, free and clear of all Encumbrances other than Permitted Encumbrances. Notwithstanding the foregoing, BCBSMT shall not assign, and does not hereby assign, to HCSC, and the Assets shall not include, the Excluded Assets.

(b) Title, Authority.

(i) Assignor represents and warrants to Assignee that Assignor has good title to each of the Assets, and that none of the Assets is subject to any Encumbrance other than Permitted Encumbrances. Assignor hereby covenants with Assignee that Assignor will warrant and defend the same against the lawful claims and demands of all persons. Assignor further represents

and warrants to Assignee that it has full right, power and authority to sell and convey its respective Assets and to make this Assignment.

(ii) Assignor hereby covenants and agrees that it will duly execute and deliver all such other and further instruments of transfer, assignment and conveyance to Assignee, its successors or assigns as may be requested by Assignee and as may be reasonably necessary to assure complete, and evidence the full and effective, conveyance of the Assets hereby sold and conveyed.

Section 2. Assumption of Liabilities.

(a) HCSC hereby assumes only the Assumed Liabilities on the terms and subject to the conditions set forth in the Asset Purchase Agreement. Notwithstanding anything herein (or in any other Transaction Document) to the contrary, HCSC does not and shall not assume, any Liabilities other than the Assumed Liabilities. BCBSMT shall pay, satisfy and discharge all Excluded Liabilities.

(b) HCSC accepts and assumes the Assumed Liabilities subject to any and all rights, defenses, setoffs and counterclaims to which BCBSMT would be entitled with respect to the Assumed Liabilities. It is expressly understood and agreed by the parties that no rights, defenses, setoffs or counterclaims are waived by the execution of the Asset Purchase Agreement or this Agreement or the consummation of the transactions contemplated by the Asset Purchase Agreement or this Agreement and that, as of the Closing, HCSC shall be fully entitled to and subrogated to all such rights, defenses, setoffs and counterclaims and the benefits thereof as if it were BCBSMT. HCSC (and not BCBSMT) shall be entitled to defend, compromise and settle each and every Assumed Liability.

(c) Actions Following Closing.

(i) After the Closing, HCSC shall be (A) solely responsible for the administration, processing and servicing of all aspects of the Assumed Liabilities, (B) solely entitled to defend, compromise and settle each and every Assumed Liability.

(ii) BCBSMT shall, after the Closing, cause copies of all information, claims, notices and other written communications received by it relating to Assumed Liabilities (including, but not limited to, all inquiries or complaints from owners, state insurance regulators, agents, brokers, producers, third party administrators and insureds under the Contracts) to be reported and forwarded promptly to HCSC or its designated representative. BCBSMT

shall also undertake any further arrangements reasonably requested by HCSC from time to time to ensure that all such information, claims and notices are immediately delivered to HCSC.

(iii) HCSC shall, after the Closing, to the extent required by applicable Law, provide notice to each holder of an Insurance Contract issued by BCBSMT (other than any Insurance Contracts which may be Excluded Liabilities), notifying such holder of the transfer of such Insurance Contract to HCSC.

(iv) After the Closing, all Assumed Liabilities which are payable shall be paid directly by HCSC.

Section 3. Controlling Agreement.

(a) It is contemplated that Assignor may, at any time or from time to time, execute, acknowledge and deliver one or more separate instruments of assignment and conveyance relating to certain of the Assets. No such separate instrument of assignment or conveyance shall limit the scope and effect of this Assignment. In the event that any conflict or ambiguity exists as between this Assignment and any such separate instrument of assignment, the terms and provisions of this Assignment shall govern and be controlling.

(b) Assignor and Assignee agree that this Assignment is subject to the terms and conditions of the Asset Purchase Agreement and that, notwithstanding anything contained herein to the contrary, this Assignment shall not be deemed to limit, enlarge or extinguish any right or obligation of HCSC or BCBSMT under the Asset Purchase Agreement, all of which rights and obligations shall survive the delivery of this Assignment in accordance with the terms of the Asset Purchase Agreement.

Section 4. Miscellaneous. The provisions of Article XI of the Asset Purchase Agreement are hereby incorporated into this Assignment by reference.

Section 5. Authority. Each party represents to the other that the execution of this Assignment has been duly authorized and that those officers signing this Assignment are duly authorized.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Assumption Agreement to be executed as of the date first above written.

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

By: _____
Its: _____

HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company

By: _____
Its: _____

APA EXECUTION COPY
EXHIBIT 2.07(d)

POST-CLOSING ADMINISTRATIVE SERVICE AGREEMENT

This Post-Closing Administrative Service Agreement by and between Health Care Service Corporation, a Mutual Legal Reserve Company ("HCSC"), and _____ formerly known as Blue Cross and Blue Shield of Montana, Inc., a Montana non-profit mutual benefit health service corporation ("OLDCO"), is effective as of _____ ____, 2013 ("Effective Date") and is dated as of _____, ____, _____.

RECITALS

A. HCSC and OLDCO have entered into and closed an Asset Purchase Agreement dated November ___, 2012 ("APA").

B. Such APA requires HCSC to provide to OLDCO certain ministerial services after the Closing of the APA.

C. The parties intend that this Agreement will provide for the performance of the services by HCSC to OLDCO in an efficient and economic manner and that 1) each of the parties is to remain a separate and independent entity responsible for its own decisions and actions, 2) all assets (including investments, cash, and other assets) of each party to this Agreement shall be maintained separate and apart from the assets of the other party, 3) each party is to remain solely responsible for its own liabilities and obligations to policyholders, employees, subscribers and other creditors, and 4) the books and records of each party to this Agreement are to be separately maintained and independently audited.

D. In order to ensure that each party remains separate and independent, 1) each party's Board of Directors is to remain separate and independent and responsible for the business and affairs of such party and 2) each party's management personnel are to remain separate and independent and will have complete control and supervision over the activities of such party.

E. All income or other monies received by OLDCO together with all accounts and other receivables and all other assets or property generated, created, or which shall accrue to OLDCO after the closing of the APA, shall belong to OLDCO and shall be its property absolutely. All liabilities of OLDCO (including any liabilities for operating costs and fees incurred or sustained in the operation of OLDCO after the closing of the APA) are solely the obligation of OLDCO.

F. All income or other monies received from the operation of HCSC (including operations of its Montana division after the closing of the APA) together with all accounts and other receivables and all other assets or property generated, created, or which shall accrue from the operation of HCSC shall belong to HCSC and shall be its property absolutely. The liability

for all operating costs and fees incurred or sustained in the operation of HCSC is solely the obligation of HCSC.

AGREEMENT

In consideration of the foregoing, and of the mutual covenants set forth below and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Definitions.** Unless otherwise defined herein, the following terms shall have the following meanings in this Agreement:

(a) "Governmental Authority" means any United States federal, state or local or any foreign government, governmental, legislative, executive, regulatory, or administrative branch, authority, agency, department, or commission, including the Internal Revenue Service of the United States, and any court, tribunal, or judicial or arbitral body.

(b) "Intellectual Property" means all copyrights and copyrightable materials (including but not limited to software and its associated documentation), patents, trademarks, service marks, trade dress, logos and trade names, Confidential Information (as defined in Section 13(b)) and other like intangible property rights of either party or third parties that are associated with or necessary for the provision of the Services.

(c) "Person" shall mean any individual, corporation, partnership, limited liability company, limited liability partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority, or other entity.

(d) "Service Contact" means a representative of each of HCSC and OLDCO designated by the Administrative Service Executives of each party and described in Section 2(b).

(e) "Services" means the services to be provided by HCSC to OLDCO under this Agreement, and as identified in any Exhibit or amendment hereto.

2. **Personnel.**

(a) Administrative Service Executives. HCSC and OLDCO shall each select an individual or individuals as its respective Administrative Service Executive(s). The Administrative Service Executives shall act as the primary contacts and decision-makers for each party with respect to all matters relating to this Agreement. At their sole discretion, HCSC and OLDCO shall each be authorized to designate a replacement Administrative Service Executive by written notice to the other.

(b) Service Contact. The Administrative Service Executives each shall designate an individual or individuals as the Service Contact(s) for the Services provided under each Exhibit. The Service Contacts will be the primary contact person for operational matters associated with the Services provided under each such Exhibit.

(c) HCSC Employees. HCSC shall be responsible for the payment of all salary, wages and fringe benefits to its employees (subject to reimbursement therefor, if any, as expressly provided in this Agreement). HCSC acknowledges and agrees that its employees shall not be eligible to participate in any employee benefit plan or program that OLDCO sponsors or participates in, including but not limited to, any employee welfare benefit plans and employee pension benefit plans, as defined in the Employee Retirement Income Security Act of 1974, as amended (29 U.S.C. § 1002) ("ERISA") or any fringe benefit programs.

(d) OLDCO Employees. OLDCO shall be responsible for the payment of all salary, wages and fringe benefits to its employees (subject to reimbursement therefor, if any, as expressly provided in this Agreement). OLDCO acknowledges and agrees that its employees shall not be eligible to participate in any employee benefit plan or program that HCSC sponsors or participates in, including but not limited to, any employee welfare benefit plans and employee pension benefit plans, as defined in ERISA, or any fringe benefit programs.

(e) Non-Recruitment; Non-Solicitation of Employees. HCSC and OLDCO recognize and acknowledge that their employees possess special, unique and extraordinary technical talents that are in great demand in the present economy and further recognize and acknowledge that each party has incurred substantial expense in recruiting and training such employees and would incur even greater expense if required to replace any such employee. Therefore, both parties agree not to recruit or employ, either directly or indirectly, any present employee of the other party during the term of this Agreement and one (1) year after the termination of this Agreement without the other party's prior written consent. For the purposes of this Agreement, "present employee" means an employee who is employed by a party on or after the Effective Date of this Agreement and prior to the termination of this Agreement. The public placement or posting of want ads or job listings shall not constitute recruitment or solicitation for purposes of this Agreement. The parties shall not post job listings on the premises of either HCSC or OLDCO without specific prior written approval from the other party.

3. **Administrative Services.**

(a) Services by HCSC. Commencing on the Effective Date, HCSC shall perform the Services set forth on Exhibit A attached thereto, for and on behalf of OLDCO, upon the terms and subject to the conditions set forth in such Exhibit. The parties acknowledge and agree that the parties may from time to time agree on different or separate Services to be performed by HCSC for and on behalf of OLDCO, and such Services may be set forth on separate exhibits (which for purposes of identification shall be labeled Exhibit A-1, Exhibit A-2, Exhibit A-3, etc. but shall collectively be referred to in this Agreement and all Exhibits as "Exhibit A"). The Services to be performed pursuant to this Section 3 shall, in addition to the terms and conditions set forth in Exhibit A which apply to such Services, be performed in accordance with, and subject to the limitations set forth in, this Agreement; provided that, in the event that any provision of Exhibit A modifies any provision of this Agreement, the provisions of Exhibit A shall govern with respect to the Services covered by such Exhibit.

(b) Standard of Performance. HCSC shall perform the Services to be performed by it in accordance with generally accepted good business practices, and the performance standards (if any) set forth in the applicable Exhibit. Notwithstanding the foregoing, however, except as

otherwise expressly provided in Exhibit A, HCSC shall not be responsible or be liable for any consequences (including damages) arising because (i) OLDCO's systems and software (including third party software) do not perform in accordance with their specifications, including a reasonable expectation as to reliability; (ii) OLDCO's systems do not accurately process data, for whatever reason, that is necessary for the Services; or (iii) HCSC is unable to deliver any Services due to the actions of OLDCO or third parties that adversely affect HCSC's ability to perform or deliver any such Services. Subject to the foregoing and the other requirements of this Agreement, HCSC shall be entitled to exercise its professional judgment in making decisions with respect to the Services.

(c) Restriction on HCSC's Authority and Responsibility.

(1) Without limiting the generality of the provisions of paragraphs C and D of the Recitals:

(i) HCSC shall not enter into legal or regulatory proceedings or respond to legal or regulatory processes in the name of OLDCO.

(ii) In the performance of Services under this Agreement, HCSC will be subject to and will observe and comply with all applicable laws, regulations and rulings of any Governmental Authority, agency, bureau or commission applicable to its provision of the Services.

(iii) HCSC shall not incur any indebtedness on behalf of OLDCO, without prior approval of OLDCO.

(iv) Any limitations imposed on HCSC in Exhibit A or B, as applicable, shall apply to HCSC even if such limitations limit the authority otherwise provided to HCSC under this Agreement.

(v) HCSC shall perform the Services to be performed by it subject to the control of OLDCO's management and Board of Directors. The parties acknowledge and agree that the Services to be performed by HCSC shall be of a ministerial nature, and that all decisions of a business, regulatory or legal nature shall be made by OLDCO's management and Board of Directors (and not by HCSC).

(2) Without limiting the generality of the provisions of Paragraphs C and D of the recitals and any other provision herein, in no event shall HCSC have any authority or responsibility to manage, supervise, evaluate, direct, consult on or otherwise advise or guide with respect to:

(i) Any aspect of any litigation, arbitrations, subpoenae or other similar litigation proceedings against or involving OLDCO or any investigations or inquiries about OLDCO conduct, whether prior to or after the closing of the APA.

(ii) Any aspect of any activity involving (a) any Retained Subsidiary (as defined in the APA) of OLDCO, (b) any proceeds or securities or notes (and security therefor) resulting from the sale of any Retained Subsidiary (regardless whether such sale

occurred prior to or after the closing of the APA), (c) the filing of any federal, state, local or other tax returns or filings, or any tax obligations, of OLDCO, (d) the management or sale of the real property retained by OLDCO following the Closing of the APA or (e) the amount and form of any compensation or benefits owing to employees of OLDCO after the Closing of the APA or any benefits plans maintained by OLDCO.

(iii) Any activities of OLDCO that may be in conflict or competition with the business activities of HCSC or its affiliates.

(d) Responsibilities of OLDCO.

(1) OLDCO shall promptly give HCSC all information, documents and instructions as are reasonably required for or reasonably requested by HCSC in connection with the performance of the Services including, but not limited to, (A) providing reasonable physical and electronic access to any OLDCO facilities, equipment, books and records; (B) providing such data and information as is reasonably necessary for performance of the Services; and (C) providing such other cooperation as reasonably may be requested by HCSC; it being understood, however, that certain books and records relating to OLDCO's insurance business were transferred to, and are already in the possession of, HCSC.

(2) HCSC shall not be liable to OLDCO for any consequences of any failure on OLDCO's part to promptly give proper authorizations, instructions, approvals, information or documents required by HCSC or any other authorized party to carry out its obligations herein.

(3) OLDCO shall be responsible for (A) retaining such external accounting and actuarial consultants as it determines necessary from time to time, (B) retaining independent auditors to review and prepare OLDCO's annual financial statements, (C) the preparation of all reports and other information required to be submitted on behalf of OLDCO to state authorities, including but not limited to premium tax reports; (D) if applicable, the establishment and maintenance of required capital and surplus and loss and loss expense adjustment reserves, and (E) the payment of all liabilities and obligations of OLDCO (except to the extent that HCSC is acting as a paying agent for OLDCO if provided for in an applicable Exhibit A).

(e) Performance by HCSC; Employees and Contractors.

(1) HCSC (acting by or through its officers and subject to such reasonable limitations as may be imposed by OLDCO) shall be authorized to utilize employees of OLDCO and such employees shall have such authority to act on behalf of HCSC as may be authorized and granted to them by HCSC (or its officers) from time to time, subject to each employee acting within the course and scope of his or her employment with OLDCO. In the absence of a specific grant of authority, such employees shall have such authority customarily granted by the utilizing entity to its employees of like position or stature. Without limiting the generality of the foregoing, the authority of such employees shall (if so specifically authorized or customarily granted) include but not be limited to authority (A) to perform assigned functions or responsibilities, (B) to delegate to other persons the responsibility for such functions or responsibilities and to supervise such persons' performance of such functions and responsibilities, and (C) to provide input into the review of such other persons' performance.

(2) HCSC may perform the Services required hereunder either through subcontractors selected by HCSC ("Contractors") or through officers and employees of HCSC, provided that HCSC has provided OLDCO with prior written notice of its intention to utilize a Contractor. OLDCO shall have the right to advise HCSC on the performance of all Persons performing Services for HCSC, and to request investigation and disciplinary action, and to require reassignment and removal, of such Persons. HCSC shall have the exclusive right, however, to direct all Contractors and employees of such Manager as to the manner in which Services are to be rendered and performance goals are to be achieved, except that the services shall be performed in accordance with generally accepted good insurance and business practices and the performance standards (if any) in the applicable Exhibit. HCSC shall be, and shall have all the privileges, rights and responsibilities of, the common law employer of all employees of HCSC, including, but not limited to, establishing work and disciplinary rules, setting compensation levels, and directing each employee of HCSC as to the manner in which daily duties are completed.

(3) If any Contractors are engaged by HCSC to provide any Services directly to OLDCO, such Contractors shall be solely responsible for their acts, omissions and performance except for HCSC's indemnification obligations provided in Section 9(a); and so long as HCSC acted in good faith and without negligence in engaging such Contractors, OLDCO agrees that HCSC shall not be responsible or liable for any non-performance, breach or damage by such Contractors, except for such Manager's indemnification obligations provided in Section 9(a). HCSC shall make a good faith effort to have OLDCO designated as a third party beneficiary in contracts between HCSC and Contractors for Services. This subsection shall not apply to contractors that are subsidiaries of HCSC.

(4) Fees and expenses payable to Contractors with respect to the Services shall be paid by HCSC and reimbursed pursuant to the terms of the applicable Exhibit, unless otherwise expressly provided in the applicable Exhibit.

(f) Non-discrimination. The Services shall be rendered without regard to race, age, sex, religion, creed, color, national origin or ancestry of any subscriber. During the term of this Agreement and in providing the Services, neither HCSC nor OLDCO, nor any of their respective Contractors or subcontractors shall discriminate against any employee or applicant for employment because of race, religion, color, national origin, ancestry, disability, medical condition, mental status, age or sex.

(g) Handling of Funds.

(1) In the event that HCSC is to handle funds of OLDCO pursuant to an Exhibit A, HCSC shall promptly deposit all funds received by it from OLDCO (other than amounts due HCSC hereunder) in the Restricted Account described in subsection (2) below. Such account shall be in an interest-bearing account, in a bank which is a member of the Federal Reserve System. In order to affect such deposits, HCSC is authorized to endorse all checks or other commercial paper drawn to the order of OLDCO and received by HCSC.

(2) In order to allow HCSC to pay expenses of OLDCO (including amounts due HCSC hereunder), OLDCO shall establish an account upon which HCSC shall be authorized

by OLDCO to issue drafts or checks in order to pay the claims under OLDCO's policies and ASO contracts (the "Restricted Account"). The Restricted Account shall be in the name of OLDCO and all checks on such account shall be in the name of OLDCO. Notwithstanding any other provision hereof, HCSC shall have no responsibility to pay on behalf of OLDCO any expenses exceed the amounts deposited in OLDCO's Restricted Account.

4. **Reimbursement.** Charges for the Services will be specified or set forth in the applicable Exhibit (which may be based on variable or fixed amounts, etc.). Unless otherwise provided in the applicable Exhibit, HCSC shall provide OLDCO a monthly statement setting forth the amounts due with a description of the services rendered. OLDCO shall pay any amounts due within thirty (30) days of its receipt of such statement, unless it in good faith provides HCSC written notice identifying and detailing its basis for dispute of any claimed amount. If OLDCO fails to make any payment due within ten (10) days after the due date (which shall be the original due date regardless of any dispute to the extent the position of OLDCO is upheld), the unpaid balance of such payment shall accrue interest at the rate published by Citibank, N.A. (New York City office) as its prime rate.

5. **Term and Termination.**

(a) Term. This Agreement shall be effective on the Effective Date. Thereafter this Agreement shall continue in effect until the last day of the sixtieth calendar month following the Effective Date, unless earlier terminated by the mutual consent of the parties or pursuant to subsection (b) below. The term of each Exhibit shall be as specified in such Exhibit.

(b) Termination upon Breach or Insolvency. A party may terminate this Agreement (or all or any portion of an Exhibit) upon a breach by the other party of any material term of this Agreement (or the terms of the applicable Exhibit) upon written notice to the breaching party if such party has not cured that breach within thirty (30) days of the receipt of such notice. In addition, either party may terminate this Agreement immediately if: (1) a receiver is appointed for the other party or its property; (2) the other party becomes insolvent or unable to pay its debts as they mature or ceases to pay its debts as they mature in the ordinary course of business, or makes an assignment for the benefit of creditors; (3) any proceedings are commenced by or for the other party under any bankruptcy, insolvency or debtors' relief law; (4) any proceedings are commenced against the other party under any bankruptcy insolvency or debtor's relief law, and such proceedings have not been vacated or set aside within sixty (60) days from the date of commencement thereof; or (5) the other party commences to dissolve or liquidate under applicable law. Lastly, either party may terminate this Agreement immediately if the other party loses any material license, which loss is necessary for HCSC to perform services under this Agreement or for OLDCO to generally conduct its on-going business, as applicable. Any termination pursuant to this sub section (c) shall be effected by a notice from the terminating party to the other party, specifying in reasonable detail the cause for termination and the termination date (which shall take into account the time periods set forth herein).

(c) Termination of Exhibit. OLDCO may terminate any Exhibit upon ninety (90) days written notice.

(d) Effect of Termination.

(1) Termination of this Agreement or any Exhibit shall not relieve any party hereto of its liability for the performance (or breach) of obligations which accrued during the effective period of this Agreement (or Exhibit).

(2) In the event of a termination of this Agreement (or Exhibits), the parties shall negotiate in good faith for up to thirty (30) days to formulate a plan (a "Termination Transition Plan") to provide for a transition period during which Services being provided hereunder by HCSC to OLDCO may be continued in whole or in part, and it being the express intention of the parties that the termination of this Agreement be followed by a period of transition (a "Termination Transition Period"). Such transition period shall commence on the termination date and shall continue for 90 days after commencement of the transition period unless a longer or shorter period is specified in a Termination Transition Plan or an Exhibit hereto with respect to any particular Service or Services.

(e) Termination Transition Period Charges. HCSC and OLDCO shall provide all reasonably necessary staff, services and assistance required for an orderly transfer in accordance with the Termination Transition Plan and any applicable Exhibit. OLDCO shall pay HCSC's charges incurred in providing the transition assistance and services pursuant to the Termination Transition Plan as such charges are specified in such Termination Transition Plan. Charges for staff and consultants needed to remove OLDCO's business and functionality from HCSC's systems will also be included in the Transition Period charges. In addition, the parties agree that on an Exhibit-by-Exhibit basis, they may establish the charges of the Services during the Termination Transition Period for a particular Exhibit. In the event the parties are not able to agree on the charges during the Termination Transition Period, the provisions of Section 7(a) shall apply. In a monthly invoice, HCSC shall bill for the cost of the Services provided during any Termination Transition Period.

(f) Advance Payment. HCSC reserves the right, in its sole discretion, to require that OLDCO make a lump sum payment each month in advance for the Services to be provided during each such month during the Termination Transition Period, including the charges for such period. The monthly amount of the advance payment shall be estimated on the basis of the average actual monthly charges for such Service calculated over the most recent four (4) month period for which such information is available, or for such shorter period as may be available. HCSC shall issue an invoice for such Services, which invoice shall be paid by the later of the first business day of the month in which such Services are to be rendered or the tenth business day after receipt of the invoice therefor. Within sixty (60) days after the end of the Termination Transition Period, HCSC shall issue a final invoice that reconciles any difference between the actual Termination Transition Period charges and those estimated in connection with the advance payment previously described. OLDCO agrees that HCSC may suspend its provision of Services during any such Termination Transition Period if a monthly payment is not timely paid until such payment is received by HCSC; and any resulting suspension of the Services, shall not cause HCSC to incur any liability, nor shall it be construed as a breach of this Agreement or any affected Exhibit.

6. **Taxes.** The total receipts collected under this Agreement will be attributable to both nontaxable services performed outside of OLDCO's applicable state taxing jurisdiction(s) and taxable services performed within such jurisdiction(s). The basis of allocating receipts of

services performed under this Agreement between those performed in an applicable state and those performed outside of such state will be in accordance with such state's law and regulation. To the extent that OLDCO pays any costs for the Services performed under this Agreement, OLDCO shall be liable for any tax thereon and HCSC will collect the amount of the gross receipts tax from OLDCO.

7. **Disputes; Arbitration.**

(a) Disputes. Any conflicts or disputes regarding the scope or performances of any Services under this Agreement, the payment for such Services, or any other matter arising under the provisions of this Agreement, shall be resolved by arbitration as provided in this Section 7 (a-c). Each party to this Agreement hereby consents and agrees that any conflict or dispute between the parties hereto with respect to the interpretation, performance, or breach of any of the terms of this Agreement shall be referred to arbitration conducted in accordance with the rules and procedures of this Section 7.

(b) Arbitration Procedure. Any arbitration under this Section 7 shall be conducted in accordance with the rules and procedures of the American Arbitration Association ("AAA") and this Section 7(b), upon written request of any party given to the other. In such case, the following provisions shall apply:

(i) Arbitrator. Within thirty (30) days of the giving of such written notice, the parties shall request the BCBSA to designate a neutral and independent arbitrator if the amount at issue is equal to or less than $1,000,000 and three neutral and independent arbitrators if the amount at issue is more than $1,000,000, in each case reasonably knowledgeable in health care and insurance operations, to resolve such dispute.

(ii) Authority of Arbitrator(s). The arbitrator(s) shall be empowered to decide all issues submitted to arbitration using principles of law and equity and, if required, by application of any customary practices in the insurance and health care industries. The arbitrator(s) shall be relieved of all judicial formalities and shall not be required to follow any rules of evidence or civil procedure, including discovery, except as such rules may be imposed on arbitration proceedings conducted in accordance with the laws of the State of Montana, but the arbitrator(s) shall attempt to enforce the intents and purposes of this Agreement to the extent practicable and in accordance with Montana law. The decision of the arbitrator(s) shall be final and binding on each party, unless such decision contains errors of law, which are judicially reviewable. The arbitrators shall be authorized to award compensatory damages only (except as otherwise provided herein) and shall not be authorized to order any relief that a court could not order under the laws of the State of Montana. If there are 3 arbitrators, the decision shall be by majority vote. In an arbitration proceeding subject to these provisions, the arbitrator, or if there are 3 arbitrators, a majority of them, are specifically empowered to decide (by documents only, or with a hearing, at the arbitrators' sole discretion) pre-hearing motions which are substantially similar to pre-hearing motions to dismiss and motions for summary adjudication.

(iii) Expenses; Location. The parties to the arbitration shall in equal parts bear the expenses of the arbitrator(s) and all other expenses of the arbitration proceeding except their respective attorneys' fees and costs. The arbitration proceeding shall take place in Helena,

Montana at a location determined by the arbitrator(s). The parties hereto hereby agree that any information respecting any matters submitted to arbitration in accordance with the foregoing or any aspect of the arbitration proceeding itself shall be treated as confidential and will not be disclosed to anyone not employed or acting on behalf of any party in connection with such arbitration or used at any time in any manner that is adverse to the interests of any party hereto but, in any such case, such information may be disclosed if such disclosure is made in connection with either party's prosecution or defense of any legal proceedings or if such disclosure is required pursuant to a subpoena or other legal order issued by any judicial or regulatory body or is otherwise required by law.

(iv) Other Arbitration Aspects. Depositions may be taken and other discovery obtained in any arbitration under this Agreement. All statutes of limitations which would otherwise be applicable shall apply to any arbitration proceeding hereunder.

(c) Equitable Relief. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to the arbitrator(s) for specific performance or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

8. **Indemnification and Limitation of Liabilities; Disclaimer of Warranties.**

(a) Indemnification. Each party (the "Indemnifying Party") shall indemnify, defend and hold harmless the other party and its officers, directors, employees, agents, Contractors, successors and assigns (the "Indemnified Parties") from and against all losses, liabilities, obligations, damages, claims, judgments, liens, costs, expenses (including without limitation attorneys' fees and expenses), interest and penalties arising from, in connection with or relating to any of the following:

(1) the Indemnifying Party's failure to perform any obligations required to be performed by it under contracts with third parties;

(2) the Indemnifying Party's breach of its obligations in respect of the Indemnified Party's Confidential Information;

(3) the death of or injury to any agent, employee, customer, invitee, visitor or other person on premises owned or under the control of the Indemnifying Party or otherwise to the extent caused by the conduct of the Indemnifying Party;

(4) any violation of law by the Indemnifying Party in connection with the Services, whether before, during or after the term of this Agreement;

(5) any breach by the Indemnifying Party of any provisions of this Agreement applicable to it;

(6) any claim by a third party that HCSC is or was responsible for the debts, obligations, license fees or other liabilities (including breach of contract) of OLDCO, excluding claims arising from the gross negligence or intentional misconduct of HCSC; and

(7) in HCSC's capacity as an administrator, any claims made against OLDCO by any employee of HCSC arising out of or relating to such employee's service to or on behalf of OLDCO pursuant to this Agreement, excluding claims arising from the negligent acts or omissions of OLDCO.

(b) Participation in Defense. In case any claim shall be asserted against an indemnified party, the indemnifying party will be entitled to participate in the defense thereof and, to the extent that it may wish, to assume the defense, conduct, or settlement thereof, with counsel reasonably satisfactory to the indemnified party, and after notice from the indemnifying party to the indemnified party of its election to so assume the defense, conduct, or settlement thereof, the indemnifying party will not be liable to the indemnified party under this Section for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense, conduct, or settlement thereof. Notwithstanding an election by the indemnifying party to assume the defense, conduct, or settlement of any claim subject to indemnification hereunder, if the indemnified party reasonably determines that its interests may be adverse to, or in conflict with, those of the indemnifying party, it may elect, at its own expense, to retain or continue to retain its own counsel to participate in the defense, conduct, or settlement of such claim. The indemnified party will cooperate with the indemnifying party without charge in connection with any such claim, make personnel, books and records relevant to the claim available to the indemnifying party and grant such authorizations to the agents, representatives, and counsel of the indemnifying party as such indemnifying party may reasonably consider desirable in connection with the defense of any such claim.

(c) Limitation. The provisions of this Section 8 are subject to the limitations in Section 9.

9. **Limitations on Liability.**

(a) Exclusive Remedy and Limitation of Liability. EXCEPT FOR THE PARTIES' CONFIDENTIALITY OBLIGATIONS STATED IN SECTION 12(b),UNLESS FURTHER LIMITED EXPRESSLY ELSEWHERE IN THIS AGREEMENT, THE ENTIRE LIABILITY OF HCSC, AND OLDCO'S EXCLUSIVE REMEDY AGAINST HCSC FROM ANY CAUSE RELATED TO OR ARISING OUT OF THIS AGREEMENT (INCLUDING BREACH OF WARRANTY, NEGLIGENCE AND STRICT LIABILITY IN TORT), SHALL BE REPERFORMANCE OF THE APPLICABLE SERVICES AT NO ADDITIONAL COST TO OLDCO AND, IF APPLICABLE: (I) PAYMENT OF ANY REGULATORY FINES OR PENALTIES; AND (II) PAYMENT OF ANY CONTRACTUAL PENALTIES FOR FAILURE OF OLDCO TO MEET PERFORMANCE STANDARDS UNDER OLDCO'S CLIENT CONTRACTS. UNDER NO CIRCUMSTANCES SHALL HCSC'S AGGREGATE LIABILITY FOR ANY MONETARY DAMAGES RESULTING FROM BREACH, DAMAGE OR INDEMNIFICATION UNDER THIS AGREEMENT OR IN RESPECT OF THE SERVICES EXCEED AN AMOUNT EQUAL TO THE AGGREGATE AMOUNT OF THE CHARGES ACTUALLY PAID TO HCSC HEREUNDER.

(b) Disclaimer Of Damages. EXCEPT FOR PARTIES' CONFIDENTIALITY OBLIGATIONS STATED IN SECTION 12(b), IN NO EVENT SHALL HCSC BE LIABLE FOR INCIDENTAL AND CONSEQUENTIAL, EXEMPLARY, PUNITIVE, OR SPECIAL

DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOSS OF USE, REVENUES, PROFITS OR SAVINGS, OR LOSS OF OR DAMAGE TO OLDCO'S OR ITS CUSTOMERS' DATA FROM ANY CAUSE OR SERVICE (INCLUDING GOODS PROVIDED IN CONJUNCTION WITH THE SERVICES RENDERED HEREUNDER), EVEN IF HCSC HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

(c) Limited Warranty. EXCEPT FOR THE PARTIES' CONFIDENTIALITY OBLIGATIONS STATED IN SECTION 12(b), ALL CONDITIONS AND WARRANTIES, EXPRESS OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE REGARDING THE SERVICES (INCLUDING GOODS PROVIDED IN CONJUNCTION WITH THE SERVICES) ARE HEREBY DISCLAIMED AND EXCLUDED. MANAGER NEITHER WARRANTS THAT THE SERVICES PROVIDED BY SUCH MANAGER HEREUNDER (INCLUDING ANY OF HCSC'S INTELLECTUAL PROPERTY OR GOODS PROVIDED IN CONJUNCTION WITH THE SERVICES) WILL MEET OLDCO'S REQUIREMENTS OR WILL BE PERFORMED WITHOUT ERROR OR INTERRUPTION, AND HCSC EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

10. **Insurance.**

(a) Coverage for OLDCO and HCSC. During the term of this Agreement, OLDCO and HCSC each shall maintain property and casualty insurance, general liability insurance and such other kinds of insurance in such amounts customarily maintained by the parties immediately prior to execution of this Agreement from financially responsible insurance companies. One or both parties may self-insure certain or all of the above risks. Each party shall be responsible for all costs related to the procurement of its own insurance.

(b) Workers' Compensation Insurance. Each party shall obtain and maintain, throughout the term of this Agreement, workers' compensation insurance coverage for each party's respective employees who are utilized to perform that party's obligations hereunder. Said policy shall include employer's liability insurance which is in full compliance with all applicable state and federal laws regarding workers' compensation, covering any liability arising out of claims of employees, agents and consultants of the insuring party as may be provided for under such laws. Each party shall be responsible for all costs related to the procurement of its own workers' compensation insurance.

(c) Waiver. To the fullest extent allowed by law, and subject to any limitations on or exclusions of liability elsewhere stated in this Agreement, HCSC and OLDCO each hereby waive any and all rights of recovery against the other party to this Agreement or against the officers, employees, agents, affiliates and representatives of any such party, on account of loss or damage to property caused by any of the risks for which insurance is described above, to the extent that such loss is insured against and is collectable under any insurance policy in force at the time of such loss or damage. Upon obtaining the policies of insurance required by this Agreement, the parties shall give notice to the insurer or insurers that the foregoing mutual waivers of subrogation are contained in this Agreement. If the insurer(s) refuse to abide by the waivers of subrogation, this Section 10(c) shall become null, void and of no effect.

11. **Records Maintenance / Right of Audit.**

(a) Record Retention and Access. HCSC shall abide by all applicable state, local and federal laws governing insurance, business, medical and other records. HCSC shall maintain accurate and complete records of Services performed. Each party shall fully and promptly cooperate with the other party to assure compliance with federal and state requirements regarding maintenance and confidentiality of such records and with applicable reporting requirements. HCSC shall make available to OLDCO for examination, copying, audit and inspection all records related to OLDCO to the extent and in the manner required by applicable laws and/or regulations and in accordance with Section 11(b).

(b) Audit Rights. During the term of this Agreement and for a one (1) year period thereafter, and not more than once each calendar quarter, OLDCO shall have access to and a right to audit at its expense only the books, records and documents of HCSC that (i) are relevant to a validation of the charges hereunder, and (ii) directly relate to the Services provided by HCSC or Contractors under this Agreement. In no event shall any books, records or documents of HCSC be removed from any reviewing location by the reviewing party. Notwithstanding the foregoing, any such audit initiated after termination of the Transaction Agreement shall be undertaken only by an auditor reasonably acceptable to HCSC (the "Auditor"), on OLDCO's behalf and expense, and shall be limited to the books, records and documents of HCSC that are relevant to a validation of the charges hereunder that directly relate to Services provided by HCSC or Contractors during the term of this Agreement; provided that such Auditor delivers to HCSC a written acknowledgement that the books, records and other documents accessed and reviewed by it during any such audit are to be regarded by Auditor as, and treated as, Confidential Information; and, furthermore, the right to audit shall be limited to one audit after the termination of the Transaction Agreement or this Agreement. The Auditor shall deliver a report regarding the results of its audit to HCSC and OLDCO (the "Audit Report"). Within ten business days of the receipt of the Audit Report, HCSC may notify OLDCO and the Auditor in writing of its dispute with the results of the Audit Report. Any dispute regarding the Audit Report which is not resolved by the parties hereto within fifteen business days after HCSC notifies OLDCO and the Auditor of its dispute, shall be submitted for resolution to an accounting firm mutually acceptable to the parties (or, if the parties cannot mutually agree, each shall select an accounting firm, and the two accounting firms shall mutually agree on a third firm) (in each case, the "Second Auditor"). If the parties succeed in resolving any dispute by negotiation, or if the Second Auditor renders a decision, then the revised Audit Report as agreed to by the parties or as determined by the Second Auditor shall be binding on the parties. Any overcharge by HCSC revealed by the final Audit Report promptly shall be paid to, or credited to, as applicable, OLDCO, and any undercharge promptly shall be paid to, or credited to, HCSC. The fees and expenses of the Second Auditor shall be shared equally by HCSC and OLDCO.

(c) Inspection by Governmental Authorities. All records and documents of any party relating to the Services provided under this Agreement or other matters handled pursuant to this Agreement shall be subject at all reasonable times to inspection, duplication and/or audit by representatives of Governmental Authorities.

12. **Affirmative Covenants.**

(a) Cooperation. Each party will fully cooperate with the other and its respective counsel, if any, and accountants and actuaries in connection with any action to be taken in the performance of their obligations under this Agreement. Each party shall use its best efforts to take or cause to be taken any and all actions necessary or required to obtain each of the regulatory consents or approvals and any third-party consents, unless the receipt thereof has been waived in writing by the parties to this Agreement.

(b) Confidences and Trade Secrets.

(1) Each party to this Agreement shall, and shall use its reasonable best efforts to cause its officers, directors, agents, attorneys, actuaries, accountants and representatives to, keep confidential, except as the other party may otherwise consent in writing, and not disclose at any time and for any purpose whatsoever, any trade secrets, confidential information, computer software and systems, confidential knowledge, confidential data, trademarks or trade names, or other confidential information of the other party relating to its products, know-how, designs, customer lists, business plans, marketing plans and strategies, pricing strategies, or other subject matter pertaining to any business of the other party or any of its clients, customers, consultants, licensees, or affiliates, which it has obtained or may obtain, or otherwise acquire during the course of contacts, discussions, negotiation, or agreement with the other party (hereafter, collectively, "Confidential Information"), except as herein provided. Except in connection with the performance of duties hereunder or as provided in subsection (iii) below, no party shall (A) make any use of Confidential Information of the other party, or (B) deliver or in any way allow any Confidential Information of the other party or any documentation relating thereto, to be delivered to or used by any third parties, or allow its officers, directors, agents, attorneys, actuaries, accountants or representatives to do so, in any case without specific written direction or consent of a duly authorized officer of the other party.

(2) Upon termination of this Agreement (including any Termination Transition Period) for any reason whatsoever, each party shall promptly surrender and deliver to the other party all records, computer software and systems, materials, equipment, drawings, documents, data, and all Confidential Information of the other party and shall not retain any document containing or pertaining to any Confidential Information of the other party, except for computer records created pursuant to automatic archival or back-up systems (which records shall remain subject to the confidentiality provisions of this Agreement), or materials required by law to be retained or unless otherwise consented to in writing by a duly authorized officer of the other party.

(3) Notwithstanding the foregoing provisions of this Section 12(b), (A) any Confidential Information may be used in connection with any arbitration relating to this Agreement, (B) Confidential Information may be disclosed if such disclosure is made in connection with the parties' prosecution or defense of any legal proceedings or if such disclosure is required pursuant to a subpoena or other legal order issued by any judicial or regulatory body or is otherwise required by law and (C) Confidential Information does not include information which (i) is in the public domain (other than as a result of a breach of this Agreement), or (ii) is known by the other party as of the Effective Date or becomes known to the other party on a non-

confidential basis from another source provided that such source is not known to be bound by a confidentiality agreement or other obligation or (iii) is independently developed by the other party.

(4) If a party is requested pursuant to, or required by, applicable law or regulation or by legal process to disclose Confidential Information, such party will provide to the other party prompt notice of such request or disclosure, to enable such other party to seek an appropriate protective order or otherwise to attempt to prevent such disclosure.

(5) Neither party shall, by virtue of this Agreement, acquire any right or interest in any license, franchise, contract, agreement, subscriber or member policy, software, systems, formulas, patterns, awards, inventions, products, copyrights, patents, Intellectual Property or similar items of property (collectively "Property") which are owned, leased or licensed by the other party. Each party agrees that disclosure to it or use by it of such Property shall not entitle such party to continued use after the expiration or termination of this Agreement (including any Termination Transition Period) and shall not divest the other party of its rights and interests in such Property.

(c) Offset and Waiver. Each party may offset or waive, against any amounts due the other party under this Agreement, any debt or debts owing at any time to such party by the other party under this Agreement. Any party affecting such offset or waiver shall, at the time of affecting such offset or waiver, notify the other party of the amount of such offset and the reasons therefor.

(d) Separate Assets, Liabilities and Books. All assets (including investments, cash, and other assets) of each party to this Agreement shall be maintained separate and apart from the assets of the other party. Each party is to remain solely responsible for its own liabilities and obligations to policyholders, subscribers, employees, and other creditors. The books and records of each party to this Agreement are to be separately maintained and independently audited.

13. **Regulatory and Other Approvals; Conditions.**

(a) Filings with Governmental Authorities. Each party shall promptly undertake such actions as may be necessary to file, amend, or apply for any documents, certificates, or reports now filed or to be filed with any Governmental Authorities having jurisdiction over the subject matter of this Agreement or the parties to this Agreement.

(b) Conditions. The obligations of each party under this Agreement (and under any Exhibit) are subject to the satisfaction of the following conditions (or waiver by such party of such conditions):

(1) All necessary approvals of Governmental Authorities, if any, shall have been obtained.

(2) All consents or approvals by any third party which are required to be obtained by either party in connection with the execution, delivery, or performance of this Agreement where the failure to obtain such consents or approvals would have a material adverse effect on

such party, shall have been obtained, or the receipt thereof shall have been waived by the other party.

14. **Miscellaneous.**

(a) Assignment. Neither this Agreement nor any rights hereunder may be assigned by any of the parties hereto without the written consent of the parties, but this Agreement is binding on, and inures to the benefit of, the successors of each party hereto.

(b) Waiver; Remedies. No delay or omission of any party to this Agreement to exercise any right or power hereunder shall impair such right or power or be a waiver of any default or an acquiescence therein; and any single or partial exercise of any such right or power shall not preclude other or further exercise thereof or the exercise of any other right. In addition to any rights granted herein, the parties hereto shall have and may exercise any and all rights and remedies now or hereafter provided by law.

(c) Notices. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given (i) if delivered personally, (ii) if mailed by certified or registered mail (return receipt requested) or (iii) if delivered by facsimile (with receipt verified):

If to HCSC:

Jim Kadela
Divisional Senior Vice President, Financial Services and Internal Operations
300 East Randolph
Chicago, Illinois 60601

With a
Copy to:

Senior Vice President and Chief Legal Officer
Health Care Service Corporation
300 East Randolph
Chicago, Illinois 60601

If to OLDCO:

Executive Director
560 N. Park Avenue
Helena, Montana 59604_____

With a
Copy to: Graham & Dunn, PC
2801 Alaskan Way – Suite 300
Seattle, WA 98121
Attention: V. Marc Droppert

Any notice given as provided in this Section 14(c), if given personally, shall be effective (1) upon delivery if given by personal delivery, (2) three days after deposit in the mail if given by certified or registered mail, or (3) upon verification of receipt if given by facsimile. Any party hereto may change the address at which it is to be given notice by giving notice to the other party as provided in this Section 14(c).

(d) Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of Montana and shall be construed and interpreted under the laws of Montana applicable to contracts made and to be performed entirely within such state.

(e) Enforceability. If any one or more of the covenants, agreements, provisions, or other terms of this Agreement shall be for any reason whatsoever determined to be invalid, then such terms shall be deemed severable from the remaining terms of this Agreement and shall in no way affect the validity or enforceability of the other terms of this Agreement and such invalid terms shall be replaced by valid terms bearing the closest possible similarity in substance so that the intentions and purposes being the basis of this Agreement could be enforced to the greatest extent permitted by law.

(f) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(g) Headings. The headings in the sections and subsections of this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

(h) Entire Agreement. This Agreement, together with the Exhibits and exhibits referred to herein and any documents executed by the parties simultaneously herewith, constitute the entire understanding and agreement of the parties hereto and supersede all other prior agreements and understandings, written or oral, between the parties with respect to this Agreement.

(i) Amendment. This Agreement may be amended, modified, or altered only by a writing signed by each of the parties hereto.

(j) Force Majeure. Neither party shall be held responsible for any failure or delay in the performance of its obligations under the Agreement, if any, to the extent that such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or Acts of God, acts of war, terrorism, riots, civil disorder, rebellion or revolution, quarantines, embargoes and other similar government actions, or any other similar cause beyond such party's reasonable control.

(k) Survival of Certain Obligations. All provisions contained in this Section 15, all provisions regarding payment, indemnification, warranty, limitations of liability, Intellectual Property, arbitration, termination, records maintenance, audit and confidentiality shall survive during any Termination Transition Period and until fully performed or otherwise inapplicable.

(l) Severability. In the event any provision of this Agreement is held illegal, void or unenforceable, to any extent, in whole or in part, as to any situation or person, the balance shall remain in effect and the provision in question shall remain in effect as to all other persons or situations, as the case may be.

(m) Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer rights, benefits, remedies, obligations or liabilities on any person (including, without limitation, any employee of the parties) other than the parties thereto or their respective successors or permitted assigns and the express indemnitees under Sections 4 and 9.

(n) Compliance with Laws. Each party shall be in substantial compliance with the material requirements of all applicable federal, state, municipal and other governmental laws and regulations in connection with the Services during the term of this Agreement.

(o) Independent Contractor. Nothing in this Agreement shall be construed to create the relationship of employment, partnership or joint venture between OLDCO and HCSC and, in performing the Services specified herein, HCSC shall be acting as an independent contractor.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.
SIGNATURE PAGE FOLLOWS.]

IN WITNESS WHEREOF, the parties hereto have caused this Administrative Service Agreement to be executed as of the date and year above first written.

HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company

By:_____

Name:
Title:

_____, (formerly known as BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.), a non-profit mutual benefit health service corporation

By: _____
Name: _____
Title: _____

EXHIBIT 8.01(e)

TRIPLE NET LEASE AGREEMENT

by and between

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

as "*LANDLORD*"

and

HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY

as "*TENANT*"

404 Fuller Avenue, Helena, Montana 59601

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EXHIBITS:

Exhibit A - Legal Description

TRIPLE NET LEASE AGREEMENT

THIS TRIPLE NET LEASE AGREEMENT ("*Lease*") is made as of [_____, 2012], by and between BLUE CROSS AND BLUE SHIELD OF MONTANA, INC., a Montana corporation ("*Landlord*"), and HEALTHCARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY, an Illinois corporation ("*Tenant*"). For and in consideration of the mutual promises, covenants and conditions set forth in this Lease, Landlord and Tenant agree as follows:

SECTION 1 - LEASE DATA AND EXHIBITS

The following definitions shall apply for purposes of this Lease, except as otherwise specifically modified herein:

1.1 Building. The building in which the Premises are situated (collectively the "*Building*") is situated on the real property described and depicted on attached Exhibit A (the "*Land*"). The Building address is 404 Fuller Avenue, Helena, Montana 59601.

1.2 Premises. All of the Building and the Land (the "*Premises*"). The rentable area of the Premises is 66,892 square feet.

1.3 Term. Thirty-six (36) months. See Section 3.

1.4 Minimum Rent. Minimum Rent during the Term shall be as set forth in the table below. See Section 4.1.

Lease Month:	**Monthly Minimum Rent**
1 – 12	$33,446.00
13-24	$34,282.15
25-36	$35,118.30

1.5 Use. Any lawful use, including, without limitation, general office, billing, collection, mail operations, customer payment processing, warehousing and storage. See Section 5.1.

1.6 Tenant's Share. Tenant's Share shall equal a fraction whose numerator is the rentable area of the Premises as set forth in Section 1.2 (subject to adjustment pursuant to Section 2 below) and whose denominator is the rentable area of the Building as set forth in Section 1.2. Initially, based on the respective rentable areas of the Premises and the Building set forth in Section 1.2, Tenant's Share is 100%. See Section 4.3.

1.7 Deposit. $0.00.

1 8 Parking. All parking stalls located at the Building or on the Land. See Section 10.2.

1.9 Notice Addresses.

Landlord: Blue Cross and Blue Shield of Montana, Inc.
560 N. Park Avenue
Helena, MT 59601
Attn: Jerry Lusk

With a copy to: Graham & Dunn PC
2801 Alaskan Way, Suite 300
Seattle, WA 98121
Attn: V. Marc Droppert

Tenant: Health Care Service Corporation, A Mutual Legal Reserve Company
300 East Randolph Street
Chicago, IL 60601-5099
Attn: Jason Kaye, Senior Director, Corporate Real Estate & Development

With a copy to: Bell Nunnally & Martin LLP
3232 McKinney Avenue, Suite 1400
Dallas, TX 75204
Attn: Larry L. Shosid

1.10 Exhibits. The following exhibits are made a part of this Lease:

Exhibit A - Legal Description

SECTION 2 - PREMISES

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises.

SECTION 3 - TERM

3.1 Initial Term. The term of this Lease (the "*Term*") shall be approximately thirty-six (36) months, commencing on the date that Landlord delivers possession of the Premises to Tenant (the "*Commencement Date*"); and terminating at midnight on the last day of the thirty-sixth (36th) Lease Month (the "*Expiration Date*"). For purposes of this Lease, a "*Lease Month*" shall mean, in the case of the first Lease Month, the first full calendar month plus any partial month following the Commencement Date. Thereafter, a "*Lease Month*" shall be each successive calendar month following the expiration of the first Lease Month.

3.2 Extension Option. Tenant shall have the option to extend the Term of this Lease (each an "*Extension Option*") for up to two (2) successive one (1) year renewal periods (each an "*Option Period*") commencing on the original Expiration Date (or on the expiration date of the first Option Period, as applicable) upon the following terms and conditions:

(a) Tenant shall not be in default under this Lease beyond any applicable notice and cure period either at the time Tenant exercises the applicable Extension Option or on the Expiration Date (or the expiration date of the first Option Period, as applicable).

(b) Tenant shall have notified Landlord of Tenant's election to exercise such Extension Option (the "*Option Notice*") not later than six (6) months prior to the Expiration Date (or the expiration date of the first Option Period, as applicable).

Unless each of the foregoing conditions precedent have been satisfied, Tenant's exercise of the Extension Option shall be of no force or effect and the Extension Option shall lapse. If each of the above conditions precedent are satisfied, then the Lease Term shall be extended for the applicable Option Period and all of the terms, conditions and provisions of this Lease shall continue in full force and effect throughout the applicable Option Period, except that Minimum Rent for the applicable Option Period shall be at fair market rent as determined pursuant to Section 4.1(b) below.

SECTION 4 - RENT

4.1 Minimum Rent.

(a) Initial Term. Tenant shall pay to Landlord at the address specified in Section 1.10, or at such other address as may be specified by Landlord from time to time, without (except as expressly stated in this Lease) notice, setoff or deduction whatsoever, as fixed monthly minimum rent during the Term,

the amounts set forth in Section 1.4 ("*Minimum Rent*"). Monthly installments of Minimum Rent are due in advance on or before the first day of each month of the Lease term. Minimum Rent for partial months shall be prorated. The Minimum Rent does not include the Additional Rent payable by Tenant pursuant to this Lease.

(b) Option Period. Minimum Rent for an Option Period shall equal the current fair market rental for comparable space in the Building and in other similar buildings in the same rental market as of the date the Option Period is to commence, taking to account the specific provisions of the Lease which will remain constant ("*Market Rental*"). Landlord shall advise Tenant of the new Minimum Rent for the Premises no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than six (6) months prior to the first date on which Tenant may exercise its Extension Option under Section 3.2 above. The Market Rental shall take into account, without limitation, the fact that Tenant shall be responsible for all costs and operating expenses as set forth in this Lease. If Tenant should disagree with Landlord's assessment of Market Rental, and if Landlord and Tenant are unable to resolve such dispute within thirty (30) days after Landlord's delivery to Tenant of such determination, then either Landlord or Tenant shall have the right to require that Market Rental be determined by arbitration as set forth below, in which event such determination shall be final and binding. If either party elects that "*Market Rental*" be determined by arbitration, then the same shall be determined by a single arbitrator appointed in accordance with the American Arbitration Association Real Estate Valuation Arbitration Proceeding Rules ("*AAA Rules*"). The arbitrator shall be impartial and shall have not less than ten (10) years' experience in a calling related to the leasing of office real estate in buildings comparable to the Premises. Within fifteen (15) days following the appointment of the arbitrator, Landlord and Tenant shall attend a hearing before the arbitrator at which each party shall submit a report setting forth its determination of the Market Rental for the term in question, together with such information on comparable rentals and such other evidence as such party shall deem relevant. The arbitrator shall, within thirty (30) days following such hearing and submission of evidence, render his or her decision by selecting the determination of Market Rental submitted by either Landlord or Tenant which, in the judgment of the arbitrator, most nearly reflects the Market Rental for the space and term in question. The arbitrator shall have no power or authority to select any Market Rental other than a Market Rental submitted by Landlord or Tenant, and the decision of the arbitrator shall be final and binding upon Landlord and Tenant. Judgment upon the dispute or any award rendered may be entered in any court of competent jurisdiction. Each party shall pay the fees and expenses of its counsel and witnesses and shall share equally the fees of the arbitrator.

4.2 Additional Rent. In addition to Minimum Rent, all other sums to be paid or reimbursed by Tenant to Landlord, whether or not so designated, are "*Additional Rent*" for the purposes of this Lease. If Tenant defaults in the performance of any of its obligations hereunder, Landlord may, but shall not be obligated to, perform such obligations, and the cost thereof to Landlord shall also be Additional Rent. Unless otherwise specifically provided in this Lease, Tenant shall pay Landlord all Additional Rent within thirty (30) days after Tenant's receipt of written demand for payment. As used herein the term "*Rent*" refers to both Minimum and Additional Rent.

4.3 Triple Net. This Lease is a "triple net" lease and Tenant, and not Landlord (except as provided in Section 9.3), shall have the exclusive right and obligation to operate and maintain the Building and Premises as expressly and specifically provided elsewhere in this Lease and pay all costs and expenses incurred by Tenant in connection therewith.

4.4 Real Property Taxes. Tenant shall pay and discharge as Additional Rent, on and after the Commencement Date, punctually as and when the same shall become due and payable without penalty, all Real Property Taxes (hereinafter defined), which are assessed with respect to any portion of the Term and which shall be levied, assessed or imposed upon or with respect to, or shall be or become liens upon, the Premises, the Land or the Building or any portion thereof or any interest of Landlord or Tenant therein or under this Lease. Landlord shall use commercially reasonable efforts to cause Tenant to be billed directly for such Real Property Taxes, in which event Tenant agrees to deliver to Landlord from time to time upon Landlord's written request, reasonable evidence of Tenant's timely payment of such Real Property Taxes. In the event Tenant is not billed directly for such Taxes, Tenant shall pay such Taxes

directly to the appropriate taxing authority on behalf of Landlord within thirty (30) days following written request therefor from Landlord (but not earlier than fourteen (14) days prior to the due date) accompanied by reasonable evidence of such charges. Tenant shall have the right, at its sole cost and expense, to contest Real Property Taxes in accordance with applicable laws, but in no event shall any Real Property Taxes be permitted to become delinquent nor shall the Premises be subject to any tax foreclosure sale by reason of any such contest undertaken by Tenant. Landlord agrees to reasonably cooperate with Tenant's contest of Real Property Taxes; provided, however, that Landlord shall not be obligated to incur any cost or expense in connection therewith and Landlord shall incur no liability as the result of such cooperation. Nothing contained herein shall either limit Landlord's right to itself contest such Real Property Taxes, or obligate Landlord to do so; provided, further, that Landlord will obtain Tenant's prior written consent prior to contesting any Real Property Taxes and shall be responsible for any increased Real Property Taxes resulting from any such protest undertaken by Landlord. Landlord and Tenant shall use reasonable efforts to coordinate any tax contests undertaken by Landlord. If Real Property Taxes paid with respect to any portion of the Lease Term shall be refunded to Landlord in whole or in part for any reason whatsoever, then Landlord shall refund to Tenant the amount of such refund (allocated to the applicable portion of the Lease Term) within thirty (30) days after Landlord receives such refund. For purposes of this Lease, "*Real Property Taxes*" means all taxes on the Building (including common areas and facilities), and on personal property used in conjunction therewith, and taxes on property of Tenant that has not been paid by Tenant directly to the taxing authority; surcharges; all local improvement and other assessments of every kind and nature levied with respect to the Building and/or the personal property used in connection with the operation of the Building; any taxes levied or assessed in addition to or in lieu of, in whole or in part, such taxes or assessments and any other tax or assessment upon leasing of the Building or rents collected therefrom, other than any federal, state or local net income tax or franchise tax; and all costs incurred by Landlord in contesting taxes or assessments or attempting to reduce such or assessed values.

4.5 Late Charge; Interest. If Tenant fails to pay any amount due hereunder within five (5) business days after Landlord notifies Tenant in writing that the same is past due, Tenant shall pay Landlord a late charge equal to five percent (5%) of the unpaid amount shall be assessed and be due and payable, after ten (10) days written notice from Landlord (a "*Late Fee*"), plus interest at the rate of ten percent (10%) per annum (the "*Default Rate*"). If the foregoing rate exceeds the maximum rate permitted by applicable law, interest shall accrue at the maximum rate so permitted by law, from the date due until paid on any amount not paid when due.

SECTION 5 - CONDUCT OF BUSINESS

5.1 Use of Premises. Tenant shall use the Premises only for the purposes stated in Section 1.5 above. Tenant shall not use or permit the use of the Premises for any other business or purpose without Landlord's express prior written consent, which consent shall not be unreasonably withheld.

5.2 Prohibited Uses. Tenant shall not use or permit the Premises or any part thereof to be used for any purpose in violation of any municipal, county, state or federal law, ordinance, rule or regulation, or for any purpose offensive to the standards of the community of which the Premises is a part.

5.3 Liens and Encumbrances. Tenant shall keep the Premises free and clear of all liens and encumbrances arising or growing out of its use and occupancy of the Premises. If any lien is filed against the Premises as a result of the action or inaction of Tenant or its employees, agents or contractors, Tenant shall within sixty (60) days of Landlord's written demand therefor discharge such lien by payment or post a bond sufficient in amount to cause the lien to be removed of record or insured over.

5.4 Signs. Tenant shall have the exclusive right to i) continue to use any existing signage on the Building or the Land or inside the Premises and to replace such existing signage, and ii) to place, construct or maintain any additional sign, advertisement, awning, banner or other exterior decoration on the Building, the Land and the Premises, including, without limitation, the exclusive right, to place its name and corporate logo on the Building and to construct monument signs outside the Building, all with Landlord's prior written consent, which shall not be unreasonably withheld. Any sign that Tenant has Landlord's consent to place, construct and maintain shall comply with all laws, and Tenant shall obtain any approval

required by such laws. Landlord makes no representation with respect to Tenant's ability to obtain such approval. Tenant's signage may be illuminated and shall consist of such design and size as Tenant shall determine, it its sole discretion, subject to receipt of applicable governmental approval and compliance with applicable Legal Requirements. All installation and upkeep costs shall be at Tenant's expense. Tenant's signage rights shall be transferable to an assignee or sublessee of this Lease. Tenant may also install, in its sole and absolute discretion: (a) any directional and safety signage at the Premises or on the Land or the Building; and/or (b) signs, including its logo, on the walls of the elevator lobbies and on entrance doors to all floors in the Building. Such signage may be installed without Landlord's approval, so long as the same comply with applicable legal requirements and the terms of this Section 5.4. Landlord agrees to reasonably cooperate with Tenant, to the extent reasonably required to obtain approval of such signage.

5.5 Hazardous Materials.

(a) As used in this Lease the term "*Hazardous Material*" shall mean any matter (whether gaseous, liquid or solid) which is or may be harmful to persons or property, including, but not limited to, materials now or hereafter designated as a hazardous or toxic waste or substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC 9601, *et seq.*, all as now or hereafter amended, or which may now or hereafter be regulated under any other federal, state, or local law, statute, ordinance or regulation pertaining to health, industrial hygiene or the environment, including, without limitation, (i) any asbestos and/or asbestos containing materials (collectively "*ACMs*") regardless of whether such ACMs are in a friable or non-friable state, or (ii) any matter designated as a hazardous substance pursuant to Section 311 of the Federal Water Pollution Control Act (33 USC 1317), or (iii) any matter defined as a hazardous waste pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, (42 USC 6901 *et seq.*) pertaining to health or the environment ("*Environmental Laws*"). "*Hazardous Material*" shall not include (A) ordinary cleaning and maintenance products which are used with due care and in accordance with applicable law and the instructions of the manufacturer of such products in the reasonable and prudent conduct of Tenant's business on the Premises; (B) printing and photographic supplies, including inks and cleaning solvents, photographic chemicals, other supplies necessary to operate Tenant's print and photographic shop at the Premises; and (C) batteries and other fuels, lubricants and fluids necessary to operate its equipment and vehicles used in the conduct of its business at the Premises; provided that (in each case) Tenant complies with all Environmental Laws at all times in connection with such Hazardous Materials.

(b) Tenant shall not store, use, sell, release, generate or dispose of any Hazardous Materials in, on or about the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. With respect to any Hazardous Materials stored, used, generated or disposed of from the Premises, Tenant shall promptly, timely and completely comply with all governmental requirements for recording and recordkeeping; submit to Landlord true and correct copies of all reports, manifests and identification numbers at the same time as they are required to be and/or are submitted to the appropriate governmental authority; within five (5) days of Landlord's written request, provide evidence satisfactory to Landlord of Tenant's compliance with all applicable governmental rules, regulations and requirements; and comply with all governmental rules, regulations and requirements regarding the use, sale, transportation, generation, treatment and disposal of Hazardous Materials. Prior to the expiration and surrender of the Premises by Tenant, Tenant shall remove any and all Hazardous Materials (including, without limitation, ACMs) which Tenant, its employees, agents, contractors and/or sublessees have brought onto the Premises, or built into or otherwise utilized, stored or disposed of in the Premises, including, without limitation, leasehold improvements, wall, flooring and ceiling materials. Tenant shall be solely responsible for and shall defend (with counsel acceptable to Landlord), indemnify and hold Landlord, its agents affiliates and employees harmless from and against all claims, costs, damages, judgments, penalties, fines, losses, liabilities and expenses, including attorneys' fees and costs, arising out of or in connection with Tenant's breach of its obligations contained in this Section 5.5 (including, without limitation, diminution in value of the Premises and sums paid as settlement of claims, attorneys' fees, consultant fees, and expert fees, whether or not used at trial or in a proceeding) which arise during or after the Term as a result of such contamination. Tenant shall be solely responsible for and shall defend (with counsel acceptable to Landlord), indemnify and hold Landlord, its agents, affiliates and employees harmless from and against any and all claims, costs, damages, lawsuits, penalties, liens, losses and/or liabilities, including attorneys' fees and costs (collectively,

"*Losses*"), arising out of or in connection with removal, cleanup and restoration work and materials necessary to return the Premises and any other property of whatever nature to their condition existing prior to the appearance of Hazardous Material on or about the Premises that was brought onto the Premises by Tenant, its employees, agents, contractors and/or its permitted assignees and sublessees; provided that Landlord's written approval of such actions and that of any Lender shall first be obtained, which approval shall not be unreasonably withheld so long as the actions would not potentially have any material adverse, long-term or short-term effect on the Premises, Common Areas, or the Building. Notwithstanding anything else set forth herein, Tenant's obligations under this Section 5.5 shall survive the expiration of this Lease.

(c) Landlord hereby agrees to protect, indemnify, save and defend Tenant, its employees, directors, officers, shareholders, members, partners, successors and assigns (collectively, the "*Tenant Indemnitees*") harmless from any and all Losses that Tenant or any other Tenant Indemnitee may suffer as a result of or with respect to: (i) any violation of Environmental Laws relating to the Premises existing on the Commencement Date; (ii) any act or omission by Landlord after the Commencement Date which results in the violation of any Environmental Law; and (iii) any other spill or release of or the presence of any Hazardous Materials brought upon the Premises by any person, other than Tenant or any of its employees, agents or contractors prior to the Commencement Date.

5.6 Building Access. Nothing herein shall prohibit Tenant from having unlimited access to the Premises, the Land and the Building twenty-four (24) hours per day, seven (7) days per week during the Term. Since Tenant will be responsible for all operating expenses (including Real Property Taxes and insurance) and utility costs incurred after the Commencement Date, Tenant shall have the sole and exclusive right to determine and implement the operating procedures for the Building.

5.7 Roof Rights. During the Term, Tenant may use the roof of the Building to install communications equipment, and the roof and easements located within the Premises to connect cabling under the Buildings for supplemental HVAC and telecommunication equipment (including satellite disk, antenna, microwave dish and fiber optics), at Tenant's expense, provided such complies with Laws, and subject to Landlord's prior written approval, which approval shall not be unreasonably withheld. Upon receipt of Tenant's request to place communications equipment on the roof of the Buildings, in the event Landlord fails to respond within thirty (30) days thereafter, such request of Tenant shall be deemed approved. Tenant shall be solely responsible for any damage caused by the placement of communications equipment on the roof. Any penetrations of the roof membrane necessitated by the installation of such equipment shall be made by the roofing contractor (including related maintenance, repair and replacement) who installed the roof system, or such other roofing contractor authorized by the manufacturer to perform warranty work on the roof system installed at the Premises, and any damage or loss of warranty resulting therefrom shall be Tenant's responsibility.

SECTION 6 - UTILITIES AND OTHER CHARGES

6.1 Utilities. Upon delivery of the Premises to Tenant, Tenant covenants to promptly, and as the bills therefor become due and payable, pay for any and all heat, air conditioning, water, light, power and/or other utility service, including garbage, trash removal and sewage disposal, used by Tenant in or about the Premises during the Lease Term or any extension thereof, whether such bills be presented before or after the termination of the occupancy of said Premises by the Tenant.

6.2 Interruption. Landlord shall not be liable for any Losses to person or property caused by or resulting from any variation, interruption or failure of services due to any cause whatsoever, including, but not limited to, electrical surges, or from failure to make any repairs or perform any maintenance, unless such Losses are caused by Landlord's gross negligence or willful misconduct. No temporary interruption or failure of such services incident to the making of repairs, alterations or improvements or due to accident, strike or conditions or events shall be deemed an eviction of Tenant or to relieve Tenant from any of Tenant's obligations hereunder or to give Tenant a right of action against Landlord for damages, unless such Losses are caused by Landlord's gross negligence or willful misconduct.

6.3 Licenses and Taxes. Tenant shall be liable for, and shall pay throughout the term of this Lease, all license and excise fees and occupation taxes covering the business conducted on the Premises and all personal property taxes levied with respect to all personal property located at the Premises. If any governmental authority levies a tax or license fee on rents payable under this Lease or rents accruing from use of the Premises or a tax or license fee in any form against Landlord or Tenant because of or measured by or based upon income derived from the leasing or rental thereof (other than a net income tax on Landlord's income and as otherwise provided in Section 4.4), or a transaction privilege tax, such tax or license fee shall be paid by Tenant, either directly if required by law, or by reimbursing Landlord for the amount thereof upon demand. Notwithstanding the foregoing, in no event will Tenant be responsible for any income or similar tax owed by Landlord.

SECTION 7 - DEPOSIT

Intentionally Omitted

SECTION 8 - ALTERATIONS

8.1 "AS IS" Condition. Except as expressly provided herein, Tenant accepts the Premises in their "AS IS" condition without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements or to provide any allowances. Notwithstanding anything contained herein to the contrary, Landlord hereby represents and warrants to Tenant that all of the Building's systems, including, without limitation, the heating, ventilation and air conditioning, fire safety, mechanical, elevator, electrical, plumbing and gas systems, and the roof, foundation, exterior walls of the Building, the structure of the Building, parking lots, sidewalks and windows, are (and will be as of the Commencement Date) in good working order and condition, in compliance with all applicable laws.

8.2 Alterations by Tenant. Tenant shall have the right to perform any alterations, additions or improvements ("*Alterations*") to the Premises, subject to Landlord's prior written consent, not to be unreasonably withheld or delayed. Notwithstanding the immediately preceding sentence, Tenant shall have the right to perform Alterations without the written consent of Landlord, but with prior notice thereof to Landlord; provided: (a) such Alterations do not: (i) require modifications or work to be done with respect to any structural elements of the Premises; (ii) modify in a manner to permanently damage or adversely affect the functionality of any of the mechanical, electrical, plumbing, HVAC, life safety or other basic systems of the Premises; (iii) require the penetration or excavation below the surface of the Land; or (iv) limit or void any warranty in effect with respect to the Premises; and (b) such Alterations cost (in the aggregate) less than $100,000 with respect to any project (it being agreed that Tenant shall not stage or divide one project or work into smaller projects so as to avoid the requirement to obtain Landlord's consent therefor). Before commencing any Alterations, Tenant shall obtain any building permits or other permits or licenses required under applicable Laws. Once the Alterations begin, Tenant shall diligently and continuously pursue their completion in accordance with all applicable Laws. In connection with any Alterations performed by or on behalf of Tenant, Tenant shall provide Landlord with certificates of insurance by Tenant's contractor for commercial general liability insurance with limits not less than $20,000,000 General Aggregate, $1,000,000 Products/Complete Operations Aggregate, $1,000,000 Personal & Advertising Injury, $1,000,000 Each Occurrence, $100,000 Fire Damage, $100,000 Medical Expense, $500,000 Auto Liability (Combined Single Limit, including Hired/Non-Owned Auto Liability), Workers Compensation, including Employer's Liability, as required by state statute (or such other limits and policies as Landlord and Tenant shall agree upon in writing), with such commercial general liability policy endorsed to show Landlord as an additional insured.

SECTION 9 - MAINTENANCE OF PREMISES

9.1 Maintenance and Repair by Tenant Except for matters which are Landlord's responsibility under Section 9.3, Tenant shall at all times keep the entire Premises and all furniture, trade fixtures and equipment (including fire extinguishers) located therein, in good order, condition and repair, reasonable wear and tear and damage caused by casualty excepted.

9.2 Failure to Maintain. If Tenant fails to keep and maintain the Premises in the condition set forth in Section 9.1, Landlord may, at its option and following ten (10) days' prior written notice to Tenant, except in an emergency, put or cause the same to be put in the condition required thereunder, and Tenant on demand shall pay Landlord the entire cost thereof within ten (10) days after its receipt of an invoice therefor.

9.3 Repairs by Landlord. Landlord shall maintain and repair the roof structure, exterior walls, foundation and building structure of the Building in good order, condition and repair. Landlord shall perform any repair or maintenance work called to its attention by Tenant within a reasonable period of time after receipt of such notice from Tenant. All costs incurred by Landlord in performing services under this Section 9.3 shall be paid by Landlord.

9.4 Landscaping. Tenant shall maintain and keep all landscaping at the Premises in good and attractive condition, and in compliance with all legal requirements.

9.5 Snow Removal. Tenant shall have responsibility for removal of snow and ice from the Premises.

SECTION 10 - COMMON AREAS

10.1 Control of Common Areas by Landlord. During the term of this Lease, Tenant and its employees, customers and invitees, shall have the exclusive right to use all entrances and other public areas of the Building (the "*Common Areas*"). Tenant at all times shall have the exclusive control and management of the Common Areas. Landlord shall not have the right from time to time to establish, modify and enforce rules and regulations regarding the use of the Common Areas or the right to change the area, level, location and arrangement of the Common Areas.

10.2 Parking. Tenant shall be entitled to use all of the parking stalls at the Building or on the Land at no additional cost to Tenant. Tenant, but not Landlord, shall have the right to promulgate rules, regulations and procedures with respect to use of the parking areas, and Tenant shall have the exclusive sole right to enforce such rules, regulations and procedures.

10.3 Rules and Regulations. Tenant shall comply with any rules and regulations contained in this Lease.

SECTION 11 - INSURANCE AND INDEMNITY

11.1 Indemnification.

(a) Tenant Indemnity. Except as otherwise expressly provided in this Lease, Landlord shall not be liable to Tenant (a) for any injury to any person, or for any loss of or damage to any property (including property of Tenant) occurring in or about the Premises from any cause whatsoever, other than the gross negligence or intentional misconduct of Landlord or its employees or agents, (b) for interference with light, air or view, or (c) for any latent defect in the Premises or Building. Tenant shall indemnify, defend and hold Landlord, its lender(s) ("*Lender*"), its and their officers, agents, employees and contractors, and other tenants and occupants of the Building, harmless from all Losses resulting from any actual or alleged injury to any person or from any actual or alleged loss of or damage to any property alleged to be attributable to Tenant's operation or occupation of the Premises or caused by or resulting from any act or omission of Tenant or any licensee, assignee, or concessionaire, or of any officer, agent, employee, guest or invitee of any such person in, on or about the Premises, unless such Losses are caused by Landlord's gross negligence or willful misconduct. Tenant agrees that the foregoing indemnity specifically covers actions brought by its own employees. Notwithstanding any of the foregoing, if losses, liabilities, damages, liens, costs and expenses so arising are caused by the concurrent negligence of both Landlord and Tenant, their employees, agents, invitees and licensees, Tenant shall indemnify Landlord only to the extent of Tenant's own negligence or that of its officers, agents, employees, guests or invitees. As between Landlord and Tenant, the foregoing indemnity is specifically and expressly intended to constitute a waiver of Tenant's

immunity under Montana's workmen's compensation statutes and regulations, for the sole purpose of and only to the extent necessary to provide Landlord with a full and complete indemnity from claims made against Landlord by Tenant's employees. The indemnification provided for in this Section 11.1(a) with respect to acts or omissions during the term of this Lease shall survive termination or expiration of this Lease.

(b) Landlord Indemnity. Landlord shall defend, indemnify and hold Tenant and the other Tenant Indemnitees harmless from and against any and all Losses arising out of, connected with, or resulting from: (a) the gross negligence or willful misconduct of Landlord; (b) any accident, injury or damage whatsoever caused to any person or to the property of any person and occurring prior to the Commencement Date in or about the Premises, the Land or the Building; and (c) any breach, violation or nonperformance of any covenant, condition or agreement in this Lease set forth and contained on the part of Landlord to be fulfilled, kept, observed and performed. The terms of this Section 11.1(b) shall survive the expiration or earlier termination of this Lease.

11.2 Insurance. During the term of this Lease, Tenant shall, at its own expense, maintain the following:

(a) Liability. Commercial general liability insurance with broad form and stop gap (employer's liability) endorsements in minimum limits of $5,000,000 per occurrence and annual aggregate for property damage or loss and minimum limits of $5,000,000 per occurrence and annual aggregate for personal injuries and death, to indemnify Landlord, Tenant and Lender against claims, demands, losses, damages, liabilities, fines, penalties and expenses. Landlord shall have the right to periodically review the appropriateness of such limits in view of changing industry conditions and court decisions and to require a reasonable increase in such limits upon ninety (90) days prior written notice to Tenant. Landlord and Lender shall be named as additional insureds and shall be furnished with a certificate of such policy or policies of insurance which shall bear an endorsement that the same shall not be canceled nor materially reduced in coverage or limits without thirty (30) days prior written notice to Landlord and Lender.

(b) Tenant's Property Insurance. Tenant, at all times during Term and at Tenant's sole expense, shall maintain a policy of standard fire and extended coverage insurance with "all risk" "special form" (or its or their then current equivalent) coverage on the Premises (including any Alterations constructed by Landlord on behalf of Tenant pursuant to separate agreement) and on all personal property and equipment owned by Tenant, at one hundred percent (100%) of their full replacement value. The proceeds from this policy shall (unless this Lease shall be terminated pursuant to the terms hereof) be made available to and used by Tenant for the repair and replacement of the Premises and replacement of personal property and equipment and the restoration of Tenant's Alterations. Tenant shall use commercially reasonable efforts to have this policy contain an express waiver, in favor of Landlord, of any right of subrogation by the insurer.

11.3 Insurance Requirements. All insurance required under this Lease shall: (a) be issued by insurance companies authorized to do business in the State of Montana and having a financial rating reasonably acceptable to Landlord; (b) be issued as a primary policy, or under the blanket policy, not contributing with and not in excess of coverage which Landlord may carry; and (c) in the case of the liability policy, contain a contractual liability coverage endorsement.

11.4 Waiver of Subrogation. Neither Landlord nor Tenant shall be liable to the other party or to any insurance company (by way of subrogation or otherwise) insuring the property of the other party for any loss or damage to any building, structure or tangible personal property of the other occurring in or about the Premises, the Land or the Building, even though such loss or damage might have been occasioned by the negligence of such party, its agents or employees, if such loss or damage is covered by property insurance benefiting the party suffering such loss or damage or was required to be covered by property insurance under terms of this Lease. Each party shall cause each insurance policy obtained by it insuring its property to contain such a waiver of subrogation clause.

11.5 Failure to Provide. If Tenant fails to provide any of the insurance or subsequently fails to maintain the insurance in accordance with the requirements of this Lease, Landlord may, but is not

required to, after five (5) days prior written notice to Tenant, procure or renew such insurance to protect its own interests only, and any amounts paid by Landlord for such insurance will be Additional Rent due and payable on or before the due date of the next installment of Rent. Landlord and Tenant agree that any insurance acquired by Landlord shall not cover any interest or liability of Tenant.

SECTION 12 - ASSIGNMENT AND SUBLETTING

12.1 Assignment or Sublease. Tenant shall not sublet the whole or any part of the Premises, nor shall this Lease or any interest thereunder be transferred, assigned, encumbered or transferred, whether by operation of law or by any process or proceeding of any court or otherwise (each, a "*Transfer*") without the express prior written consent of Landlord, which shall not be unreasonably withheld. Any transfer of this Lease by merger, consolidation or liquidation, or any change in the ownership of, or power to vote the majority of Tenant's outstanding stock or membership or partnership interests, shall constitute an assignment for the purposes of Section 12. Before requesting such consent Tenant shall provide Landlord with the identity, operating history, financial information and proposed use of the prospective subtenant or assignee. Landlord shall not unreasonably withhold its consent (to the extent such consent is required) to a Transfer of this Lease or the Premises, provided that, in any such case: (a) the assignee or sublessee shall use the Premises only for Tenant's Permitted Use and the same shall comply with all applicable laws; (b) if such transfer is in the form of an assignment, such assignee shall assume in writing for Landlord's benefit the performance of all of the terms, conditions and covenants of this Lease; and (c) such assignee or sublessee shall comply with all the terms of this Lease. Any assignment or sublease without Landlord's prior written consent shall, at Landlord's option, be void. Each assignment shall be by an instrument in writing in form satisfactory to Landlord. Failure to first obtain in writing Landlord's written consent or to comply with the provisions of this section shall operate to prevent any such assignment or sublease from becoming effective. If Tenant assigns its interest in this Lease or sublets the Premises, Tenant shall pay to Landlord any and all consideration received by Tenant for such assignment or sublease. Tenant shall also pay all reasonable attorneys' fees and other costs incurred by Landlord in connection with Landlord's consideration of Tenant's request for approval of assignments or subleases, including assignments for security purposes. No assignment shall release Tenant from primary liability on this Lease. Notwithstanding the foregoing, Tenant shall have the right to Transfer this Lease, in whole or in part (each, a "*Transaction*"), without consent of (but with prior notice to) Landlord, to (a) an affiliated entity which Tenant controls, is controlled by or is under common control with Tenant ("*Affiliate*"), or (b) any entity resulting from the merger, consolidation or restructuring of Tenant, or in connection with a sale of all or substantially all of Tenant's capital stock or the assets used in connection with the business operated by Tenant at the Premises ("*Permitted Transferee*"); provided that such Permitted Transferee (i) does not change in any material respects the nature of the business conducted in the Premises, and (ii) has a net worth immediately after the completion of such transaction of at least $100 million. For purposes hereof, "*control*" shall mean that the one entity owns (directly or indirectly) at least 51% of the equity interests in such other entity, and has the power to direct the day-to-day operations and long term decisions of such other entity. Notwithstanding the foregoing provisions of this Section 12.1, no "*assignment*" for which consent of Landlord is required under this Section shall be deemed to have occurred which results from a change in Tenant's policyholders, for so long as Tenant is a mutual company owned by its policyholders. Tenant shall also have the right to sublease or license portions of the Premises to third party providers of services to Tenant of Tenant's Affiliates (e.g. landscaping, security and food services) without Landlord's consent.

12.2 Procedures. If Tenant desires to assign this Lease, or any interest therein, or sublet all or part of the Premises and Landlord's consent is required pursuant to Section 12.1 above, then Tenant shall give Landlord written notice thereof designating the space proposed to be sublet and the terms proposed. Landlord shall have the prior right and option (to be exercised by written notice to Tenant given within thirty (30) days after receipt of Tenant's notice) (a) to terminate this Lease as it pertains to the portion of the Premises so proposed by Tenant to be sublet, or (b) to approve Tenant's proposal to sublet conditional upon Landlord's subsequent written approval of the specific sublease obtained by Tenant and the specific subtenant named therein. With Tenant's notice to Landlord Tenant shall submit to Landlord for Landlord's consideration Tenant's proposed sublease agreement (in which the proposed subtenant shall be named). If Landlord fails to exercise its option to terminate this Lease, this shall not be

construed as or constitute a waiver of any of the provisions of this Section 12. If Landlord exercises its option to terminate this Lease, Landlord shall not have any liability for any real estate brokerage commission(s) or with respect to any of the costs and expenses that Tenant may have incurred in connection with its proposed subletting, and Tenant shall defend, indemnify and hold Landlord harmless from and against any and all claims (including, without limitation, claims for commissions) arising from such proposed subletting. Landlord's foregoing rights and options shall continue throughout the Term and any Option Periods. For purposes of this Section 12.2, a proposed assignment of this Lease shall be deemed a proposed subletting of all of the Premises.

12.3 Assignment by Landlord. If Landlord sells or otherwise transfers the Premises, or if Landlord assigns its interest under this Lease (other than for security purposes) and such purchaser, transferee or assignee assumes Landlord's obligations hereunder arising thereafter, Landlord shall thereupon be relieved of all liabilities hereunder arising thereafter, but this Lease shall otherwise remain in full force and effect.

SECTION 13 - DESTRUCTION OF PREMISES

13.1 Partial Destruction. If the Premises are rendered partially untenantable by fire or other insured casualty, and if the damage is repairable within sixty (60) days from the date of the occurrence (with the repair work and preparations therefore to be done during regular working hours on regular work days), Landlord shall repair the Premises with due diligence and Rent shall be abated in the proportion that the untenantable portion of the Premises bears to the whole thereof for the period from the date of the casualty to the completion of the repairs, unless the casualty results from Tenant's negligence or its breach of the terms hereof and the casualty is not covered by insurance. If thirty percent (30%) or more of the rentable area of the Building is destroyed or damaged, then regardless of whether the Premises are damaged, Landlord may terminate this Lease as of the date of such damage or destruction by giving notice of termination to Tenant within thirty (30) days thereafter.

13.2 Total Destruction. If the Premises are completely destroyed by fire or other casualty, or if they are damaged by uninsured casualty, or by insured casualty to such an extent that the damage cannot be repaired within one hundred eighty (180) days of the occurrence or during the last year of the Term, either party shall have the option to restore the Premises or to terminate this Lease by written notice given to the other party within thirty (30) days after the casualty, with any termination to be effective thirty (30) days after such party's notice. If neither party elects to terminate this Lease then Landlord shall commence and prosecute the restoration work with diligence after obtaining required governmental consents and permits and insurance proceeds. For the period from the date of the casualty until completion of the repairs (or the date of termination of this Lease, if Landlord elects not to restore the Premises), Rent shall be abated in the same proportion that the untenantable portion of the Premises bears to the whole thereof, unless the casualty results from Tenant's negligence or its breach of its obligations under this Lease.

13.3 Limitation. Landlord shall not be liable to Tenant for destruction or damage to any of Tenant's property, such as, but not limited to, personal property, trade fixtures, equipment or alterations, additions or improvements, or for damages or compensation for inconvenience, loss of business or disruption arising from damages to or repairs or restoration of any portion of the Building or the Premises.

SECTION 14 - EMINENT DOMAIN

14.1 Total Taking. If all of the Premises are taken by eminent domain, this Lease shall terminate as of the date Tenant is required to vacate the Premises, and Rent shall be paid to that date. The term "eminent domain" shall include the taking or damaging of property by, through or under any governmental or statutory authority, and any purchase or acquisition in lieu thereof, whether the damaging or taking is by government or any other person.

14.2 Partial Taking. If a taking of any part of the Premises by eminent domain renders the remainder thereof unusable for the business of Tenant, in the reasonable judgment of Landlord and Tenant, this Lease may, at the option of either party, be terminated by written notice given to the other party not more than thirty (30) days after Landlord receives notice (and provides Tenant written notice) of the taking, and

such termination shall be effective as of the date when Tenant is required to vacate the portion of the Premises so taken. If this Lease is so terminated, all Rent shall be paid to the date of termination. Whenever any portion of the Premises is taken by eminent domain and this Lease is not terminated, Landlord shall at its expense proceed with all reasonable dispatch to restore, to the extent of available proceeds and to the extent it is reasonably prudent to do so, the remainder of the Premises to the condition it was in immediately prior to such taking, and Tenant shall at its expense proceed with all reasonable dispatch to restore its fixtures, furniture, furnishings, floor covering and equipment to the same condition they were in immediately prior to such taking. Rent payable hereunder shall be reduced from the date Tenant is required to partially vacate the Premises in the same proportion that the area taken bears to the total area of the Premises prior to taking.

14.3 Damages. Landlord reserves all right to the entire damage award or payment for any taking by eminent domain or a transfer in lieu thereof, and Tenant waives all claim whatsoever against Landlord for damages for termination of its leasehold interest in the Premises or for interference with its business as a result of such taking. Tenant hereby grants and assigns to Landlord any right Tenant may now have or hereafter acquire to such damages and agrees to execute and deliver such further instruments of assignment as Landlord may from time to time request; however, Tenant shall have the right to receive from the condemning authority the amount offered by the condemning authority in its final offer for Tenant's moving costs and for any taking of Tenant's furniture, trade fixtures and other personal property.

SECTION 15 - DEFAULT OF TENANT

15.1 Defaults.

(a) Time is of the essence of this Lease. Tenant shall be in default under this Lease if (i) Tenant violates or breaches or fails to keep or perform any covenant, term or condition of this Lease, (ii) Tenant files or is the subject of a petition under Title 11 of the United States Code (the "*Bankruptcy Code*") or similar domestic or foreign debtor/creditor law and such filing is not discharged within sixty (60) days after such appointment, (iii) a trustee or receiver is appointed for Tenant's assets, or (iv) Tenant makes an assignment for the benefit of creditors. If the default under (i) above is the nonpayment of Rent under this Lease, Tenant shall have five (5) days after written notice to cure the default. If the default under (i) above is something other than nonpayment of Rent due under this Lease, Tenant shall have thirty (30) days following receipt of written notice from Landlord within which to cure any such default; provided, if the nature of the default is such that the same cannot reasonably be cured within such 30-day period, the cure period shall be extended for so long as may be reasonably necessary to cure the default so long as Tenant commences the cure within the initial 30-day period, thereafter diligently prosecutes the cure to completion in good faith, and furnishes Landlord with such assurances and indemnities as Landlord may reasonably require to ensure completion thereof and fully and completely protect Landlord from any loss or liability resulting from any such default or any delay by Tenant in curing the default. The foregoing notices and cure periods include, and are not in addition to, any notices and cure periods otherwise required by applicable law.

(b) If a default is not cured within the applicable cure period, if any, Landlord shall have the following rights and remedies, at its option which shall not be exclusive, but shall be cumulative and in addition and supplemental to any and all other rights and/or remedies that Landlord may have at law or if equity: (i) to declare the term hereof ended and to reenter the Premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon or hereunder; or (ii) without declaring this Lease terminated, to reenter the Premises and occupy the whole or any part thereof for and on account of Tenant and to collect any unpaid Rent, which have become payable, or which may thereafter become payable; or (iii) even though it may have reentered the Premises, to thereafter elect to terminate this Lease and all of the rights of Tenant in or to the Premises. If Landlord reenters the Premises under option (ii) above, Landlord shall not be deemed to have terminated this Lease or the liability of Tenant to pay any Rent thereafter accruing, or to have terminated Tenant's liability for damages under any of the provisions hereof, by any such reentry or by any action, in unlawful detainer or otherwise, to obtain possession of the Premises, unless Landlord shall have notified Tenant in writing that it has so elected to terminate this Lease, and Tenant further covenants that the service by Landlord of any notice pursuant to the unlawful detainer statutes and the surrender of possession pursuant to such notice shall not (unless Landlord elects to the contrary at the time

of or at any time subsequent to the serving of such notices and such election is evidenced by written notice to Tenant) be deemed to be a termination of this Lease. In the event of any entry or taking possession of the Premises, Landlord shall have the right, but not the obligation, to remove therefrom all or any part of the personal property located therein and may place the same in storage at a public warehouse at the expense and risk of Tenant.

(c) If Landlord elects to terminate this Lease pursuant to the provisions of options (i) or (iii) in Section 15.1(b), Landlord may recover from Tenant as damages, the following: (i) the worth at the time of the award of the unpaid Rent accrued as of the time of termination; (ii) the worth at the time of award of amount by which the unpaid Rent accrued after the time of termination exceeds the amount of such loss that Tenant proves reasonably could have been avoided; (iii) the worth at the time of the award of the amount by which the unpaid Rent which Tenant would have paid for the balance of the Lease term after the time of award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease, including, but not limited, any costs or expenses incurred by Landlord in (A) retaking possession of the Premises, including reasonable attorneys' fees therefor, (B) maintaining or preserving the Premises after such default, (C) returning the Premises to the condition required hereunder, (D) performing any remediation or abatement of any Hazardous Materials on the Premises, (E) leasing commissions, and (F) any other costs necessary or appropriate to relet the Premises; plus (G) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of Montana. As used in subparts (i) and (ii) above, the "*worth at the time of the award*" is computed by allowing interest on unpaid amounts at the Default Rate. As used in subpart (iii) above, the "*worth at the time of the award*" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(d) For all purposes of this Section 15.1 only, all such sums, other than Minimum Rent, shall, for the purpose of calculating any amount due under the provisions of item (iii) in Section 15.1(c), be computed on the basis of the average monthly amount thereof accruing during the immediately preceding twelve (12) month period, except that if it becomes necessary to compute such Additional Rent before such a twelve (12) month period has occurred then such Additional Rent shall be computed on the basis of the average monthly amount hereof accruing during such shorter period.

15.2 Legal Expenses. If either party consults an attorney in order to enforce this Lease or if any litigation arises in connection with the Lease, the prevailing party shall be entitled to reimbursement from the non-prevailing party for the prevailing party's reasonable costs and attorneys' fee, whether such costs and attorneys' fees are incurred with or without litigation, in a bankruptcy court or on appeal.

15.3 Remedies Cumulative; Waiver. Landlord's remedies hereunder are cumulative, and Landlord's exercise of any right or remedy due to a default or breach by Tenant shall not be deemed a waiver of, or alter, affect or prejudice any other right or remedy which Landlord may have under this Lease or by law. Neither the acceptance of rent nor any other acts or omissions of Landlord at any time or times after the happening of any event authorizing the cancellation or forfeiture of this Lease shall operate as a waiver of any past or future violation, breach or failure to keep or perform any covenant, agreement, term or condition hereof or to deprive Landlord of its right to cancel or forfeit this Lease, upon the written notice provided for herein, for any default, or be construed so as at any future time to estop Landlord from promptly exercising any other option, right or remedy that it may have under any term or provision of this Lease.

SECTION 16 - ACCESS BY LANDLORD; DEFAULT OF LANDLORD

16.1 Right of Entry. Provided Landlord takes all reasonable measures to avoid interfering with Tenant's use of the Premises, Landlord and its agents shall have the right to enter the Premises at any time upon reasonable prior notice to Tenant, to examine the same (including conducting an environmental audit and performing any testing or sampling as may be required by Landlord in its discretion), to show them to prospective purchasers, lenders or tenants, to make such alterations, repairs, improvements or additions as

Landlord may deem necessary or desirable; provided, in an emergency or perceived emergency, no advance notice shall be required.

16.2 Default of Landlord. If Landlord defaults in the performance of any covenant required to be performed by Landlord, Tenant may serve upon Landlord a written notice specifying the default. If Landlord does not remedy the default within thirty (30) days following receipt thereof or, in the case of a default which reasonably requires more than thirty (30) days to cure, if Landlord has not commenced to remedy the same within thirty (30) days following receipt thereof and be diligently prosecuting such cure, then Tenant may exercise any legal or equitable remedy available as a result of Landlord's default, including, without limitation, any and/or all of the following remedies:

(a) Remedy any default of Landlord provided such action would not adversely affect the systems of the Premises, and in connection with such remedy, Tenant may pay all expenses and employ legal counsel, and all reasonable sums so expended or obligations incurred by Tenant in connection therewith shall be paid by Landlord to Tenant, upon written demand by Tenant, together with the Late Fee and interest at the Default Rate, and if Landlord fails to pay such reimbursement within ten (10) days after written demand, Tenant may, at Tenant's option, deduct all costs and expenses incurred in connection with remedying a default of Landlord from the next reasonable sums subsequently becoming due to Landlord from Tenant under this Lease;

(b) In the event such default consists of the failure by Landlord to pay to Tenant any amounts required to be paid by Landlord pursuant to this Lease, and said default is not cured within the applicable period, then Tenant may offset and deduct the unpaid amount, plus the Late Fee and interest at the Default Rate, against Minimum Rent and Additional Rent due Landlord hereunder; and/or

(c) Enforce its rights and remedies by suit, action at law, or other appropriate proceeding, whether one or more, and/or bring an action for enforcement or specific performance of any covenant, promise or agreement or condition contained in this Lease.

No remedy herein conferred upon or reserved to Tenant is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative. No delay or omission to exercise any right or power accruing upon any default of Landlord shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

SECTION 17 - SURRENDER OF PREMISES

17.1 Surrender of Possession. Tenant shall promptly yield and deliver to Landlord possession of the Premises upon the expiration or earlier termination of this Lease in the condition they were required to be maintained hereunder (subject to the removals required or permitted hereunder). Landlord may place and maintain a "For Rent" sign in conspicuous places on the Premises for one hundred eighty (180) days prior to the expiration or earlier termination of this Lease.

17.2 Holding Over. If Tenant holds over after the end of the Term, such shall be as a tenancy from month to month on the terms and conditions set forth herein, except that Minimum Rent shall equal one and one-half (1½) times the Minimum Rent in effect on the date of expiration of the Term of this Lease, which tenancy may be terminated by either party upon thirty (30) days written notice to the other party.

17.3 Alterations and Personalty. All Alterations shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other

casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least sixty (60) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations so designated in Landlord's notice, and repair any damage caused by such removal. Tenant must, at Tenant's sole cost, remove, upon termination of this Lease, any and all of Tenant's furniture, furnishings, equipment, trade fixtures and personal property installed by or on behalf of Tenant (collectively "*Personalty*"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Landlord, not Tenant, shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal.

SECTION 18 - QUIET ENJOYMENT

Tenant, upon fully complying with and promptly performing all of the terms, covenants and conditions of this Lease on its part to be performed, shall have and quietly enjoy the Premises free from claims arising by, through or under Landlord, but not otherwise, for the Term, if Tenant's performance of such terms, covenants and conditions continues for such period, subject, however, to matters of record on the date hereof and to those matters to which this Lease may be subsequently subordinated in accordance with the terms hereof.

SECTION 19 - MISCELLANEOUS

19.1 Notices. Any notices required in accordance with any of the provisions herein shall be in writing and delivered, sent by overnight courier or mailed by registered or certified mail to Landlord and Tenant at the addresses set forth in Section 1.10, or to such other address as a party shall from time to time advise the other party by a written notice given in accordance with this Section 19.1. If mailed, a notice shall be deemed received two (2) business days after the postmark affixed on the envelope by the United States Post Office.

19.2 Successors or Assigns. All of the terms, conditions, covenants and agreements of this Lease shall extend to and be binding upon Landlord, Tenant and, subject to the terms of Section 12 hereof, their respective heirs, administrators, executors, successors and permitted assigns, and upon any person or persons coming into ownership or possession of any interest in the Premises by operation of law or otherwise, and shall be construed as covenants running with the land.

19.3 Brokerage Commissions. Landlord represents and warrants to Tenant, that there are no claims for brokerage commissions or finder's fees in connection with this Lease as a result of the contracts, contacts or actions of Landlord and Landlord agrees to indemnify Tenant and hold it harmless from all liabilities arising from an alleged agreement or act by Landlord (including, without limitation, the cost of counsel fees in connection therewith); such agreement to survive the termination of this Lease. Tenant represents and warrants to Landlord that there are no claims for brokerage commissions or finder's fees in connection with this Lease as a result of the contracts, contacts or actions of Tenant, and Tenant agrees to indemnify Landlord and hold it harmless from all liabilities arising from any such claim arising from an alleged agreement or act by Tenant (including, without limitation, the cost of counsel fees in connection therewith); such agreement to survive the termination of this Lease.

19.4 Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

19.5 Recording. Tenant shall not record this Lease without the prior written consent of Landlord. However, upon Landlord's request, both parties shall execute a memorandum of this Lease, in a form customarily used for such purpose of recordation. The memorandum shall describe the parties, the Premises and the term of this Lease and shall incorporate the other terms of this Lease by reference.

19.6 Subordination; Estoppel.

(a) Unless otherwise designated by Landlord, this Lease shall be subordinate to all existing or future mortgages and deeds of trust on the Premises, and to any extensions, renewals or replacements thereof. As to any secured loan, Landlord agrees to deliver to Tenant, and Tenant agrees to sign and return within ten (10) business days of receipt, a written subordination, non-disturbance and attomment agreement in recordable form reasonably acceptable to such Lender and Tenant, which provides that so long as Tenant is not in default under this Lease, Tenant's occupancy of the Premises under this Lease will not be disturbed and Tenant will not be joined by the holder of any mortgage or deed of trust in any action or proceeding to foreclose thereunder, except for joinder where such is necessary for jurisdictional reasons. Tenant agrees to attorn to Landlord's successor following any foreclosure sale or transfer in lieu thereof.

(b) Notwithstanding anything to the contrary in this Lease, Landlord shall not be in default under any provision of this Lease unless written notice specifying such default is given to any Lender who has been identified to Tenant in writing as a party to whom notice must be sent. Any lender of Landlord entitled to notice pursuant to the preceding sentence shall have the right to cure any default on behalf of Landlord. So long as a Lender is diligently taking the actions reasonably necessary for it to enter the Premises or cure Landlord's default, Tenant shall not exercise its remedies for Landlord's default under this Lease.

(c) Within ten (10) business days of Landlord's request therefor, Tenant shall promptly execute and deliver to third parties designated by Landlord an estoppel certificate or letter in the form requested by Landlord or its Lender that correctly recites the facts with respect to the Lease and its existence, terms and status.

19.7 Liability of Landlord. Tenant covenants that it shall look solely to Landlord's interests in the Building (including, without limitation, the rents, issues and profits from the Building) for the satisfaction of any judgment or decree against Landlord based upon any default under this Lease; agrees that no other property or assets of the Landlord (or its members) shall be subject to levy, execution or other enforcement procedures for satisfaction of any such judgment or decree; and agrees that no member in Landlord shall be named in any such action or proceeding.

19.8 Force Majeure. Landlord and Tenant shall not be deemed in default hereof nor liable for damages arising from its failure to perform its duties or obligations hereunder if such is due to causes beyond its reasonable control, including, but not limited to, acts of God, acts of civil or military authorities, acts of terrorism, embargoes, fires, floods, windstorms, earthquakes, strikes, lockouts, boycotts or other labor disturbances, civil disturbances or commotion or war; provided, nothing in this Section 19.8 shall limit or otherwise modify or waive Tenant's obligation to pay Minimum Rent and Additional Rent as and when due pursuant to the terms of this Lease.

19.9 Authority. Landlord and Tenant each represent and warrant to the other that it has the power and authority to enter into this Lease and that the person(s) signing this Lease on its behalf were duly authorized to do so.

19.10 Headings. The headings in this Lease are for convenience only and do not in any way limit or affect the terms and provisions hereof.

19.11 Gender. Wherever appropriate in this Lease, the singular shall be deemed to refer to the plural and the plural to the singular, and pronouns of certain genders shall be deemed to include either or both of the other genders.

19.12 Counterparts. This Lease may be executed in counterparts, each of which shall be deemed an original, but which when taken together shall constitute one and the same instrument. Facsimile and electronic mail signatures shall be effective.

19.13 Entire Agreement; Amendments. This Lease and the Exhibits attached hereto, and by this reference incorporated herein, set forth the entire agreement of Landlord and Tenant concerning the Premises, and there are no other agreements or understanding, oral or written, between Landlord and Tenant concerning the Premises. Any subsequent modification or amendment of this Lease shall be binding upon Landlord and Tenant only if reduced to writing and signed by them.

19.14 Governing Law. This Lease shall be governed by, and construed in accordance with the laws of the State of Montana.

Signature Page Follows

DATED as of the day and year first written above.

TENANT:

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

By: _____
Jason Kaye, Divisional Vice President,
Corporate Real Estate & Development

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

On this _____ day of _____, 2012, before me, the undersigned, a Notary Public in and for the State of Montana, duly commissioned and sworn personally appeared Jason Kaye, known to me to be the Divisional Vice President, Corporate Real Estate & Development of HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of
Illinois, residing at _____.
My commission expires _____.

LANDLORD:

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

By: _____

Name: _____

Title: _____

STATE OF MONTANA)
) ss.
COUNTY OF [_____])

On this _____ day of _____, 2012, before me, the undersigned, a Notary Public in and for the State of Montana, duly commissioned and sworn personally appeared _____, known to me to be the _____ of BLUE CROSS AND BLUE SHIELD OF MONTANA, INC., the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of
Montana, residing at _____.
My commission expires _____.

EXHIBIT 8.01(e)

TRIPLE NET LEASE AGREEMENT

by and between

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

as "*LANDLORD*"

and

HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY

as "*TENANT*"

560 N. Park Avenue, Helena, Montana 59601

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EXHIBITS:

Exhibit A - Legal Description

TRIPLE NET LEASE AGREEMENT

THIS TRIPLE NET LEASE AGREEMENT ("*Lease*") is made as of [_____, 2012], by and between BLUE CROSS AND BLUE SHIELD OF MONTANA, INC., a Montana corporation ("*Landlord*"), and HEALTHCARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY, an Illinois corporation ("*Tenant*"). For and in consideration of the mutual promises, covenants and conditions set forth in this Lease, Landlord and Tenant agree as follows:

SECTION 1 - LEASE DATA AND EXHIBITS

The following definitions shall apply for purposes of this Lease, except as otherwise specifically modified herein:

1.1 Building. The building in which the Premises are situated (collectively the "*Building*") is situated on the real property described and depicted on attached Exhibit A (the "*Land*"). The Building address is 560 N. Park Avenue, Helena, Montana 59601.

1.2 Premises. All of the Building and the Land (the "*Premises*"). The rentable area of the Premises is 65,842 square feet.

1.3 Term. Thirty-six (36) months. See Section 3.

1.4 Minimum Rent. Minimum Rent during the Term shall be as set forth in the table below. See Section 4.1.

Lease Month:	**Monthly Minimum Rent**
1 – 12	$35,664.42
13 - 24	$36,542.31
25 – 36	$37,475.07

1.5 Use. Any lawful use, including, without limitation, general office, billing, collection, mail operations, customer payment processing, warehousing and storage. See Section 5.1.

1.6 Tenant's Share. Tenant's Share shall equal a fraction whose numerator is the rentable area of the Premises as set forth in Section 1.2 (subject to adjustment pursuant to Section 2 below) and whose denominator is the rentable area of the Building as set forth in Section 1.2. Initially, based on the respective rentable areas of the Premises and the Building set forth in Section 1.2, Tenant's Share is 100%. See Section 4.3.

1.7 Deposit. $0.00.

1.8 Parking. All parking stalls located at the Building or on the Land. See Section 10.2.

1.9 Notice Addresses.

Landlord: Blue Cross and Blue Shield of Montana, Inc.
560 N. Park Avenue
Helena, MT 59601
Attn: Jerry Lusk

With a copy to: Graham & Dunn PC
2801 Alaskan Way, Suite 300
Seattle, WA 98121
Attn: V. Marc Droppert

Tenant: Health Care Service Corporation, A Mutual Legal Reserve Company
300 East Randolph Street
Chicago, IL 60601-5099
Attn: Jason Kaye, Senior Director, Corporate Real Estate & Development

With a copy to: Bell Nunnally & Martin LLP
3232 McKinney Avenue, Suite 1400
Dallas, TX 75204
Attn: Larry L. Shosid

1.10 Exhibits. The following exhibits are made a part of this Lease:

Exhibit A - Legal Description

SECTION 2 - PREMISES

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises.

SECTION 3 - TERM

3.1 Initial Term. The term of this Lease (the "*Term*") shall be approximately thirty-six (36) months, commencing on the date that Landlord delivers possession of the Premises to Tenant (the "*Commencement Date*"); and terminating at midnight on the last day of the thirty-sixth (36th) Lease Month (the "*Expiration Date*"). For purposes of this Lease, a "*Lease Month*" shall mean, in the case of the first Lease Month, the first full calendar month plus any partial month following the Commencement Date. Thereafter, a "*Lease Month*" shall be each successive calendar month following the expiration of the first Lease Month.

3.2 Extension Option. Tenant shall have the option to extend the Term of this Lease (each an "*Extension Option*") for up to two (2) successive one (1) year renewal periods (each an "*Option Period*") commencing on the original Expiration Date (or on the expiration date of the first Option Period, as applicable) upon the following terms and conditions:

(a) Tenant shall not be in default under this Lease beyond any applicable notice and cure period either at the time Tenant exercises the applicable Extension Option or on the Expiration Date (or the expiration date of the first Option Period, as applicable).

(b) Tenant shall have notified Landlord of Tenant's election to exercise such Extension Option (the "*Option Notice*") not later than six (6) months prior to the Expiration Date (or the expiration date of the first Option Period, as applicable).

Unless each of the foregoing conditions precedent have been satisfied, Tenant's exercise of the Extension Option shall be of no force or effect and the Extension Option shall lapse. If each of the above conditions precedent are satisfied, then the Lease Term shall be extended for the applicable Option Period and all of the terms, conditions and provisions of this Lease shall continue in full force and effect throughout the applicable Option Period, except that Minimum Rent for the applicable Option Period shall be at fair market rent as determined pursuant to Section 4.1(b) below.

SECTION 4 - RENT

4.1 Minimum Rent.

(a) Initial Term Tenant shall pay to Landlord at the address specified in Section 1.10, or at such other address as may be specified by Landlord from time to time, without (except as expressly stated in this Lease) notice, setoff or deduction whatsoever, as fixed monthly minimum rent during the Term,

the amounts set forth in Section 1.4 ("*Minimum Rent*"). Monthly installments of Minimum Rent are due in advance on or before the first day of each month of the Lease term. Minimum Rent for partial months shall be prorated. The Minimum Rent does not include the Additional Rent payable by Tenant pursuant to this Lease.

(b) Option Period. Minimum Rent for an Option Period shall equal the current fair market rental for comparable space in the Building and in other similar buildings in the same rental market as of the date the Option Period is to commence, taking to account the specific provisions of the Lease which will remain constant ("*Market Rental*"). Landlord shall advise Tenant of the new Minimum Rent for the Premises no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than six (6) months prior to the first date on which Tenant may exercise its Extension Option under Section 3.2 above. The Market Rental shall take into account, without limitation, the fact that Tenant shall be responsible for all costs and operating expenses as set forth in this Lease. If Tenant should disagree with Landlord's assessment of Market Rental, and if Landlord and Tenant are unable to resolve such dispute within thirty (30) days after Landlord's delivery to Tenant of such determination, then either Landlord or Tenant shall have the right to require that Market Rental be determined by arbitration as set forth below, in which event such determination shall be final and binding. If either party elects that "*Market Rental*" be determined by arbitration, then the same shall be determined by a single arbitrator appointed in accordance with the American Arbitration Association Real Estate Valuation Arbitration Proceeding Rules ("*AAA Rules*"). The arbitrator shall be impartial and shall have not less than ten (10) years' experience in a calling related to the leasing of office real estate in buildings comparable to the Premises. Within fifteen (15) days following the appointment of the arbitrator, Landlord and Tenant shall attend a hearing before the arbitrator at which each party shall submit a report setting forth its determination of the Market Rental for the term in question, together with such information on comparable rentals and such other evidence as such party shall deem relevant. The arbitrator shall, within thirty (30) days following such hearing and submission of evidence, render his or her decision by selecting the determination of Market Rental submitted by either Landlord or Tenant which, in the judgment of the arbitrator, most nearly reflects the Market Rental for the space and term in question. The arbitrator shall have no power or authority to select any Market Rental other than a Market Rental submitted by Landlord or Tenant, and the decision of the arbitrator shall be final and binding upon Landlord and Tenant. Judgment upon the dispute or any award rendered may be entered in any court of competent jurisdiction. Each party shall pay the fees and expenses of its counsel and witnesses and shall share equally the fees of the arbitrator.

4.2 Additional Rent. In addition to Minimum Rent, all other sums to be paid or reimbursed by Tenant to Landlord, whether or not so designated, are "*Additional Rent*" for the purposes of this Lease. If Tenant defaults in the performance of any of its obligations hereunder, Landlord may, but shall not be obligated to, perform such obligations, and the cost thereof to Landlord shall also be Additional Rent. Unless otherwise specifically provided in this Lease, Tenant shall pay Landlord all Additional Rent within thirty (30) days after Tenant's receipt of written demand for payment. As used herein the term "*Rent*" refers to both Minimum and Additional Rent.

4.3 Triple Net. This Lease is a "triple net" lease and Tenant, and not Landlord (except as provided in Section 9.3), shall have the exclusive right and obligation to operate and maintain the Building and Premises as expressly and specifically provided elsewhere in this Lease and pay all costs and expenses incurred by Tenant in connection therewith.

4.4 Real Property Taxes. Tenant shall pay and discharge as Additional Rent, on and after the Commencement Date, punctually as and when the same shall become due and payable without penalty, all Real Property Taxes (hereinafter defined), which are assessed with respect to any portion of the Term and which shall be levied, assessed or imposed upon or with respect to, or shall be or become liens upon, the Premises, the Land or the Building or any portion thereof or any interest of Landlord or Tenant therein or under this Lease. Landlord shall use commercially reasonable efforts to cause Tenant to be billed directly for such Real Property Taxes, in which event Tenant agrees to deliver to Landlord from time to time upon Landlord's written request, reasonable evidence of Tenant's timely payment of such Real Property Taxes. In the event Tenant is not billed directly for such Taxes, Tenant shall pay such Taxes

directly to the appropriate taxing authority on behalf of Landlord within thirty (30) days following written request therefor from Landlord (but not earlier than fourteen (14) days prior to the due date) accompanied by reasonable evidence of such charges. Tenant shall have the right, at its sole cost and expense, to contest Real Property Taxes in accordance with applicable laws, but in no event shall any Real Property Taxes be permitted to become delinquent nor shall the Premises be subject to any tax foreclosure sale by reason of any such contest undertaken by Tenant. Landlord agrees to reasonably cooperate with Tenant's contest of Real Property Taxes; provided, however, that Landlord shall not be obligated to incur any cost or expense in connection therewith and Landlord shall incur no liability as the result of such cooperation. Nothing contained herein shall either limit Landlord's right to itself contest such Real Property Taxes, or obligate Landlord to do so; provided, further, that Landlord will obtain Tenant's prior written consent prior to contesting any Real Property Taxes and shall be responsible for any increased Real Property Taxes resulting from any such protest undertaken by Landlord. Landlord and Tenant shall use reasonable efforts to coordinate any tax contests undertaken by Landlord. If Real Property Taxes paid with respect to any portion of the Lease Term shall be refunded to Landlord in whole or in part for any reason whatsoever, then Landlord shall refund to Tenant the amount of such refund (allocated to the applicable portion of the Lease Term) within thirty (30) days after Landlord receives such refund. For purposes of this Lease, "*Real Property Taxes*" means all taxes on the Building (including common areas and facilities), and on personal property used in conjunction therewith, and taxes on property of Tenant that has not been paid by Tenant directly to the taxing authority; surcharges; all local improvement and other assessments of every kind and nature levied with respect to the Building and/or the personal property used in connection with the operation of the Building; any taxes levied or assessed in addition to or in lieu of, in whole or in part, such taxes or assessments and any other tax or assessment upon leasing of the Building or rents collected therefrom, other than any federal, state or local net income tax or franchise tax; and all costs incurred by Landlord in contesting taxes or assessments or attempting to reduce such or assessed values.

4.5 Late Charge; Interest. If Tenant fails to pay any amount due hereunder within five (5) business days after Landlord notifies Tenant in writing that the same is past due, Tenant shall pay Landlord a late charge equal to five percent (5%) of the unpaid amount shall be assessed and be due and payable, after ten (10) days written notice from Landlord (a "*Late Fee*"), plus interest at the rate of ten percent (10%) per annum (the "*Default Rate*"). If the foregoing rate exceeds the maximum rate permitted by applicable law, interest shall accrue at the maximum rate so permitted by law, from the date due until paid on any amount not paid when due.

SECTION 5 - CONDUCT OF BUSINESS

5.1 Use of Premises. Tenant shall use the Premises only for the purposes stated in Section 1.5 above. Tenant shall not use or permit the use of the Premises for any other business or purpose without Landlord's express prior written consent, which consent shall not be unreasonably withheld.

5.2 Prohibited Uses. Tenant shall not use or permit the Premises or any part thereof to be used for any purpose in violation of any municipal, county, state or federal law, ordinance, rule or regulation, or for any purpose offensive to the standards of the community of which the Premises is a part.

5.3 Liens and Encumbrances. Tenant shall keep the Premises free and clear of all liens and encumbrances arising or growing out of its use and occupancy of the Premises. If any lien is filed against the Premises as a result of the action or inaction of Tenant or its employees, agents or contractors, Tenant shall within sixty (60) days of Landlord's written demand therefor discharge such lien by payment or post a bond sufficient in amount to cause the lien to be removed of record or insured over.

5.4 Signs. Tenant shall have the exclusive right to i) continue to use any existing signage on the Building or the Land or inside the Premises and to replace such existing signage, and ii) to place, construct or maintain any additional sign, advertisement, awning, banner or other exterior decoration on the Building, the Land and the Premises, including, without limitation, the exclusive right, to place its name and corporate logo on the Building and to construct monument signs outside the Building, all with Landlord's prior written consent, which shall not be unreasonably withheld. Any sign that Tenant has Landlord's consent to place, construct and maintain shall comply with all laws, and Tenant shall obtain any approval

required by such laws. Landlord makes no representation with respect to Tenant's ability to obtain such approval. Tenant's signage may be illuminated and shall consist of such design and size as Tenant shall determine, it its sole discretion, subject to receipt of applicable governmental approval and compliance with applicable Legal Requirements. All installation and upkeep costs shall be at Tenant's expense. Tenant's signage rights shall be transferable to an assignee or sublessee of this Lease. Tenant may also install, in its sole and absolute discretion: (a) any directional and safety signage at the Premises or on the Land or the Building; and/or (b) signs, including its logo, on the walls of the elevator lobbies and on entrance doors to all floors in the Building. Such signage may be installed without Landlord's approval, so long as the same comply with applicable legal requirements and the terms of this Section 5.4. Landlord agrees to reasonably cooperate with Tenant, to the extent reasonably required to obtain approval of such signage.

5.5 Hazardous Materials.

(a) As used in this Lease the term "*Hazardous Material*" shall mean any matter (whether gaseous, liquid or solid) which is or may be harmful to persons or property, including, but not limited to, materials now or hereafter designated as a hazardous or toxic waste or substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC 9601, *et seq.*, all as now or hereafter amended, or which may now or hereafter be regulated under any other federal, state, or local law, statute, ordinance or regulation pertaining to health, industrial hygiene or the environment, including, without limitation, (i) any asbestos and/or asbestos containing materials (collectively "*ACMs*") regardless of whether such ACMs are in a friable or non-friable state, or (ii) any matter designated as a hazardous substance pursuant to Section 311 of the Federal Water Pollution Control Act (33 USC 1317), or (iii) any matter defined as a hazardous waste pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, (42 USC 6901 *et seq.*) pertaining to health or the environment ("*Environmental Laws*"). "*Hazardous Material*" shall not include (A) ordinary cleaning and maintenance products which are used with due care and in accordance with applicable law and the instructions of the manufacturer of such products in the reasonable and prudent conduct of Tenant's business on the Premises; (B) printing and photographic supplies, including inks and cleaning solvents, photographic chemicals, other supplies necessary to operate Tenant's print and photographic shop at the Premises; and (C) batteries and other fuels, lubricants and fluids necessary to operate its equipment and vehicles used in the conduct of its business at the Premises; provided that (in each case) Tenant complies with all Environmental Laws at all times in connection with such Hazardous Materials.

(b) Tenant shall not store, use, sell, release, generate or dispose of any Hazardous Materials in, on or about the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. With respect to any Hazardous Materials stored, used, generated or disposed of from the Premises, Tenant shall promptly, timely and completely comply with all governmental requirements for recording and recordkeeping; submit to Landlord true and correct copies of all reports, manifests and identification numbers at the same time as they are required to be and/or are submitted to the appropriate governmental authority; within five (5) days of Landlord's written request, provide evidence satisfactory to Landlord of Tenant's compliance with all applicable governmental rules, regulations and requirements; and comply with all governmental rules, regulations and requirements regarding the use, sale, transportation, generation, treatment and disposal of Hazardous Materials Prior to the expiration and surrender of the Premises by Tenant, Tenant shall remove any and all Hazardous Materials (including, without limitation, ACMs) which Tenant, its employees, agents, contractors and/or sublessees have brought onto the Premises, or built into or otherwise utilized, stored or disposed of in the Premises, including, without limitation, leasehold improvements, wall, flooring and ceiling materials. Tenant shall be solely responsible for and shall defend (with counsel acceptable to Landlord), indemnify and hold Landlord, its agents affiliates and employees harmless from and against all claims, costs, damages, judgments, penalties, fines, losses, liabilities and expenses, including attorneys' fees and costs, arising out of or in connection with Tenant's breach of its obligations contained in this Section 5.5 (including, without limitation, diminution in value of the Premises and sums paid as settlement of claims, attorneys' fees, consultant fees, and expert fees, whether or not used at trial or in a proceeding) which arise during or after the Term as a result of such contamination. Tenant shall be solely responsible for and shall defend (with counsel acceptable to Landlord), indemnify and hold Landlord, its agents, affiliates and employees harmless from and against any and all claims, costs, damages, lawsuits, penalties, liens, losses and/or liabilities, including attorneys' fees and costs (collectively,

"*Losses*"), arising out of or in connection with removal, cleanup and restoration work and materials necessary to return the Premises and any other property of whatever nature to their condition existing prior to the appearance of Hazardous Material on or about the Premises that was brought onto the Premises by Tenant, its employees, agents, contractors and/or its permitted assignees and sublessees; provided that Landlord's written approval of such actions and that of any Lender shall first be obtained, which approval shall not be unreasonably withheld so long as the actions would not potentially have any material adverse, long-term or short-term effect on the Premises, Common Areas, or the Building. Notwithstanding anything else set forth herein, Tenant's obligations under this Section 5.5 shall survive the expiration of this Lease.

(c) Landlord hereby agrees to protect, indemnify, save and defend Tenant, its employees, directors, officers, shareholders, members, partners, successors and assigns (collectively, the "*Tenant Indemnitees*") harmless from any and all Losses that Tenant or any other Tenant Indemnitee may suffer as a result of or with respect to: (i) any violation of Environmental Laws relating to the Premises existing on the Commencement Date; (ii) any act or omission by Landlord after the Commencement Date which results in the violation of any Environmental Law; and (iii) any other spill or release of or the presence of any Hazardous Materials brought upon the Premises by any person, other than Tenant or any of its employees, agents or contractors prior to the Commencement Date.

5.6 Building Access. Nothing herein shall prohibit Tenant from having unlimited access to the Premises, the Land and the Building twenty-four (24) hours per day, seven (7) days per week during the Term. Since Tenant will be responsible for all operating expenses (including Real Property Taxes and insurance) and utility costs incurred after the Commencement Date, Tenant shall have the sole and exclusive right to determine and implement the operating procedures for the Building.

5.7 Roof Rights. During the Term, Tenant may use the roof of the Building to install communications equipment, and the roof and easements located within the Premises to connect cabling under the Buildings for supplemental HVAC and telecommunication equipment (including satellite disk, antenna, microwave dish and fiber optics), at Tenant's expense, provided such complies with Laws, and subject to Landlord's prior written approval, which approval shall not be unreasonably withheld. Upon receipt of Tenant's request to place communications equipment on the roof of the Buildings, in the event Landlord fails to respond within thirty (30) days thereafter, such request of Tenant shall be deemed approved. Tenant shall be solely responsible for any damage caused by the placement of communications equipment on the roof. Any penetrations of the roof membrane necessitated by the installation of such equipment shall be made by the roofing contractor (including related maintenance, repair and replacement) who installed the roof system, or such other roofing contractor authorized by the manufacturer to perform warranty work on the roof system installed at the Premises, and any damage or loss of warranty resulting therefrom shall be Tenant's responsibility.

SECTION 6 - UTILITIES AND OTHER CHARGES

6.1 Utilities. Upon delivery of the Premises to Tenant, Tenant covenants to promptly, and as the bills therefor become due and payable, pay for any and all heat, air conditioning, water, light, power and/or other utility service, including garbage, trash removal and sewage disposal, used by Tenant in or about the Premises during the Lease Term or any extension thereof, whether such bills be presented before or after the termination of the occupancy of said Premises by the Tenant.

6.2 Interruption. Landlord shall not be liable for any Losses to person or property caused by or resulting from any variation, interruption or failure of services due to any cause whatsoever, including, but not limited to, electrical surges, or from failure to make any repairs or perform any maintenance, unless such Losses are caused by Landlord's gross negligence or willful misconduct. No temporary interruption or failure of such services incident to the making of repairs, alterations or improvements or due to accident, strike or conditions or events shall be deemed an eviction of Tenant or to relieve Tenant from any of Tenant's obligations hereunder or to give Tenant a right of action against Landlord for damages, unless such Losses are caused by Landlord's gross negligence or willful misconduct.

6.3 Licenses and Taxes. Tenant shall be liable for, and shall pay throughout the term of this Lease, all license and excise fees and occupation taxes covering the business conducted on the Premises and all personal property taxes levied with respect to all personal property located at the Premises. If any governmental authority levies a tax or license fee on rents payable under this Lease or rents accruing from use of the Premises or a tax or license fee in any form against Landlord or Tenant because of or measured by or based upon income derived from the leasing or rental thereof (other than a net income tax on Landlord's income and as otherwise provided in Section 4.4), or a transaction privilege tax, such tax or license fee shall be paid by Tenant, either directly if required by law, or by reimbursing Landlord for the amount thereof upon demand. Notwithstanding the foregoing, in no event will Tenant be responsible for any income or similar tax owed by Landlord.

SECTION 7 - DEPOSIT

Intentionally Omitted

SECTION 8 - ALTERATIONS

8.1 "AS IS" Condition. Except as expressly provided herein, Tenant accepts the Premises in their "AS IS" condition without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements or to provide any allowances. Notwithstanding anything contained herein to the contrary, Landlord hereby represents and warrants to Tenant that all of the Building's systems, including, without limitation, the heating, ventilation and air conditioning, fire safety, mechanical, elevator, electrical, plumbing and gas systems, and the roof, foundation, exterior walls of the Building, the structure of the Building, parking lots, sidewalks and windows, are (and will be as of the Commencement Date) in good working order and condition, in compliance with all applicable laws.

8.2 Alterations by Tenant. Tenant shall have the right to perform any alterations, additions or improvements ("*Alterations*") to the Premises, subject to Landlord's prior written consent, not to be unreasonably withheld or delayed. Notwithstanding the immediately preceding sentence, Tenant shall have the right to perform Alterations without the written consent of Landlord, but with prior notice thereof to Landlord; provided: (a) such Alterations do not: (i) require modifications or work to be done with respect to any structural elements of the Premises; (ii) modify in a manner to permanently damage or adversely affect the functionality of any of the mechanical, electrical, plumbing, HVAC, life safety or other basic systems of the Premises; (iii) require the penetration or excavation below the surface of the Land; or (iv) limit or void any warranty in effect with respect to the Premises; and (b) such Alterations cost (in the aggregate) less than $100,000 with respect to any project (it being agreed that Tenant shall not stage or divide one project or work into smaller projects so as to avoid the requirement to obtain Landlord's consent therefor). Before commencing any Alterations, Tenant shall obtain any building permits or other permits or licenses required under applicable Laws. Once the Alterations begin, Tenant shall diligently and continuously pursue their completion in accordance with all applicable Laws. In connection with any Alterations performed by or on behalf of Tenant, Tenant shall provide Landlord with certificates of insurance by Tenant's contractor for commercial general liability insurance with limits not less than $20,000,000 General Aggregate, $1,000,000 Products/Complete Operations Aggregate, $1,000,000 Personal & Advertising Injury, $1,000,000 Each Occurrence, $100,000 Fire Damage, $100,000 Medical Expense, $500,000 Auto Liability (Combined Single Limit, including Hired/Non-Owned Auto Liability), Workers Compensation, including Employer's Liability, as required by state statute (or such other limits and policies as Landlord and Tenant shall agree upon in writing), with such commercial general liability policy endorsed to show Landlord as an additional insured.

SECTION 9 - MAINTENANCE OF PREMISES

9.1 Maintenance and Repair by Tenant Except for matters which are Landlord's responsibility under Section 9.3, Tenant shall at all times keep the entire Premises and all furniture, trade fixtures and equipment (including fire extinguishers) located therein, in good order, condition and repair, reasonable wear and tear and damage caused by casualty excepted.

9.2 Failure to Maintain. If Tenant fails to keep and maintain the Premises in the condition set forth in Section 9.1, Landlord may, at its option and following ten (10) days' prior written notice to Tenant, except in an emergency, put or cause the same to be put in the condition required thereunder, and Tenant on demand shall pay Landlord the entire cost thereof within ten (10) days after its receipt of an invoice therefor.

9.3 Repairs by Landlord. Landlord shall maintain and repair the roof structure, exterior walls, foundation and building structure of the Building in good order, condition and repair. Landlord shall perform any repair or maintenance work called to its attention by Tenant within a reasonable period of time after receipt of such notice from Tenant. All costs incurred by Landlord in performing services under this Section 9.3 shall be paid by Landlord.

9.4 Landscaping. Tenant shall maintain and keep all landscaping at the Premises in good and attractive condition, and in compliance with all legal requirements.

9.5 Snow Removal. Tenant shall have responsibility for removal of snow and ice from the Premises.

SECTION 10 - COMMON AREAS

10.1 Control of Common Areas by Landlord. During the term of this Lease, Tenant and its employees, customers and invitees, shall have the exclusive right to use all entrances and other public areas of the Building (the "*Common Areas*"). Tenant at all times shall have the exclusive control and management of the Common Areas. Landlord shall not have the right from time to time to establish, modify and enforce rules and regulations regarding the use of the Common Areas or the right to change the area, level, location and arrangement of the Common Areas.

10.2 Parking. Tenant shall be entitled to use all of the parking stalls at the Building or on the Land at no additional cost to Tenant. Tenant, but not Landlord, shall have the right to promulgate rules, regulations and procedures with respect to use of the parking areas, and Tenant shall have the exclusive sole right to enforce such rules, regulations and procedures.

10.3 Rules and Regulations. Tenant shall comply with any rules and regulations contained in this Lease.

SECTION 11 - INSURANCE AND INDEMNITY

11.1 Indemnification.

(a) Tenant Indemnity. Except as otherwise expressly provided in this Lease, Landlord shall not be liable to Tenant (a) for any injury to any person, or for any loss of or damage to any property (including property of Tenant) occurring in or about the Premises from any cause whatsoever, other than the gross negligence or intentional misconduct of Landlord or its employees or agents, (b) for interference with light, air or view, or (c) for any latent defect in the Premises or Building. Tenant shall indemnify, defend and hold Landlord, its lender(s) ("*Lender*"), its and their officers, agents, employees and contractors, and other tenants and occupants of the Building, harmless from all Losses resulting from any actual or alleged injury to any person or from any actual or alleged loss of or damage to any property alleged to be attributable to Tenant's operation or occupation of the Premises or caused by or resulting from any act or omission of Tenant or any licensee, assignee, or concessionaire, or of any officer, agent, employee, guest or invitee of any such person in, on or about the Premises, unless such Losses are caused by Landlord's gross negligence or willful misconduct. Tenant agrees that the foregoing indemnity specifically covers actions brought by its own employees. Notwithstanding any of the foregoing, if losses, liabilities, damages, liens, costs and expenses so arising are caused by the concurrent negligence of both Landlord and Tenant, their employees, agents, invitees and licensees, Tenant shall indemnify Landlord only to the extent of Tenant's own negligence or that of its officers, agents, employees, guests or invitees. As between Landlord and Tenant, the foregoing indemnity is specifically and expressly intended to constitute a waiver of Tenant's

immunity under Montana's workmen's compensation statutes and regulations, for the sole purpose of and only to the extent necessary to provide Landlord with a full and complete indemnity from claims made against Landlord by Tenant's employees. The indemnification provided for in this Section 11.1(a) with respect to acts or omissions during the term of this Lease shall survive termination or expiration of this Lease.

(b) Landlord Indemnity. Landlord shall defend, indemnify and hold Tenant and the other Tenant Indemnitees harmless from and against any and all Losses arising out of, connected with, or resulting from: (a) the gross negligence or willful misconduct of Landlord; (b) any accident, injury or damage whatsoever caused to any person or to the property of any person and occurring prior to the Commencement Date in or about the Premises, the Land or the Building; and (c) any breach, violation or nonperformance of any covenant, condition or agreement in this Lease set forth and contained on the part of Landlord to be fulfilled, kept, observed and performed. The terms of this Section 11.1(b) shall survive the expiration or earlier termination of this Lease.

11.2 Insurance. During the term of this Lease, Tenant shall, at its own expense, maintain the following:

(a) Liability. Commercial general liability insurance with broad form and stop gap (employer's liability) endorsements in minimum limits of $5,000,000 per occurrence and annual aggregate for property damage or loss and minimum limits of $5,000,000 per occurrence and annual aggregate for personal injuries and death, to indemnify Landlord, Tenant and Lender against claims, demands, losses, damages, liabilities, fines, penalties and expenses. Landlord shall have the right to periodically review the appropriateness of such limits in view of changing industry conditions and court decisions and to require a reasonable increase in such limits upon ninety (90) days prior written notice to Tenant. Landlord and Lender shall be named as additional insureds and shall be furnished with a certificate of such policy or policies of insurance which shall bear an endorsement that the same shall not be canceled nor materially reduced in coverage or limits without thirty (30) days prior written notice to Landlord and Lender.

(b) Tenant's Property Insurance. Tenant, at all times during Term and at Tenant's sole expense, shall maintain a policy of standard fire and extended coverage insurance with "all risk" "special form" (or its or their then current equivalent) coverage on the Premises (including any Alterations constructed by Landlord on behalf of Tenant pursuant to separate agreement) and on all personal property and equipment owned by Tenant, at one hundred percent (100%) of their full replacement value. The proceeds from this policy shall (unless this Lease shall be terminated pursuant to the terms hereof) be made available to and used by Tenant for the repair and replacement of the Premises and replacement of personal property and equipment and the restoration of Tenant's Alterations. Tenant shall use commercially reasonable efforts to have this policy contain an express waiver, in favor of Landlord, of any right of subrogation by the insurer.

11.3 Insurance Requirements. All insurance required under this Lease shall: (a) be issued by insurance companies authorized to do business in the State of Montana and having a financial rating reasonably acceptable to Landlord; (b) be issued as a primary policy, or under the blanket policy, not contributing with and not in excess of coverage which Landlord may carry; and (c) in the case of the liability policy, contain a contractual liability coverage endorsement.

11.4 Waiver of Subrogation. Neither Landlord nor Tenant shall be liable to the other party or to any insurance company (by way of subrogation or otherwise) insuring the property of the other party for any loss or damage to any building, structure or tangible personal property of the other occurring in or about the Premises, the Land or the Building, even though such loss or damage might have been occasioned by the negligence of such party, its agents or employees, if such loss or damage is covered by property insurance benefiting the party suffering such loss or damage or was required to be covered by property insurance under terms of this Lease. Each party shall cause each insurance policy obtained by it insuring its property to contain such a waiver of subrogation clause.

11 5 Failure to Provide. If Tenant fails to provide any of the insurance or subsequently fails to maintain the insurance in accordance with the requirements of this Lease, Landlord may, but is not

required to, after five (5) days prior written notice to Tenant, procure or renew such insurance to protect its own interests only, and any amounts paid by Landlord for such insurance will be Additional Rent due and payable on or before the due date of the next installment of Rent. Landlord and Tenant agree that any insurance acquired by Landlord shall not cover any interest or liability of Tenant.

SECTION 12 - ASSIGNMENT AND SUBLETTING

12.1 Assignment or Sublease. Tenant shall not sublet the whole or any part of the Premises, nor shall this Lease or any interest thereunder be transferred, assigned, encumbered or transferred, whether by operation of law or by any process or proceeding of any court or otherwise (each, a "*Transfer*") without the express prior written consent of Landlord, which shall not be unreasonably withheld. Any transfer of this Lease by merger, consolidation or liquidation, or any change in the ownership of, or power to vote the majority of Tenant's outstanding stock or membership or partnership interests, shall constitute an assignment for the purposes of Section 12. Before requesting such consent Tenant shall provide Landlord with the identity, operating history, financial information and proposed use of the prospective subtenant or assignee. Landlord shall not unreasonably withhold its consent (to the extent such consent is required) to a Transfer of this Lease or the Premises, provided that, in any such case: (a) the assignee or sublessee shall use the Premises only for Tenant's Permitted Use and the same shall comply with all applicable laws; (b) if such transfer is in the form of an assignment, such assignee shall assume in writing for Landlord's benefit the performance of all of the terms, conditions and covenants of this Lease; and (c) such assignee or sublessee shall comply with all the terms of this Lease. Any assignment or sublease without Landlord's prior written consent shall, at Landlord's option, be void. Each assignment shall be by an instrument in writing in form satisfactory to Landlord. Failure to first obtain in writing Landlord's written consent or to comply with the provisions of this section shall operate to prevent any such assignment or sublease from becoming effective. If Tenant assigns its interest in this Lease or sublets the Premises, Tenant shall pay to Landlord any and all consideration received by Tenant for such assignment or sublease. Tenant shall also pay all reasonable attorneys' fees and other costs incurred by Landlord in connection with Landlord's consideration of Tenant's request for approval of assignments or subleases, including assignments for security purposes. No assignment shall release Tenant from primary liability on this Lease. Notwithstanding the foregoing, Tenant shall have the right to Transfer this Lease, in whole or in part (each, a "*Transaction*"), without consent of (but with prior notice to) Landlord, to (a) an affiliated entity which Tenant controls, is controlled by or is under common control with Tenant ("*Affiliate*"), or (b) any entity resulting from the merger, consolidation or restructuring of Tenant, or in connection with a sale of all or substantially all of Tenant's capital stock or the assets used in connection with the business operated by Tenant at the Premises ("*Permitted Transferee*"); provided that such Permitted Transferee (i) does not change in any material respects the nature of the business conducted in the Premises, and (ii) has a net worth immediately after the completion of such transaction of at least $100 million. For purposes hereof, "*control*" shall mean that the one entity owns (directly or indirectly) at least 51% of the equity interests in such other entity, and has the power to direct the day-to-day operations and long term decisions of such other entity. Notwithstanding the foregoing provisions of this Section 12.1, no "*assignment*" for which consent of Landlord is required under this Section shall be deemed to have occurred which results from a change in Tenant's policyholders, for so long as Tenant is a mutual company owned by its policyholders. Tenant shall also have the right to sublease or license portions of the Premises to third party providers of services to Tenant of Tenant's Affiliates (e.g. landscaping, security and food services) without Landlord's consent.

12.2 Procedures. If Tenant desires to assign this Lease, or any interest therein, or sublet all or part of the Premises and Landlord's consent is required pursuant to Section 12.1 above, then Tenant shall give Landlord written notice thereof designating the space proposed to be sublet and the terms proposed. Landlord shall have the prior right and option (to be exercised by written notice to Tenant given within thirty (30) days after receipt of Tenant's notice) (a) to terminate this Lease as it pertains to the portion of the Premises so proposed by Tenant to be sublet, or (b) to approve Tenant's proposal to sublet conditional upon Landlord's subsequent written approval of the specific sublease obtained by Tenant and the specific subtenant named therein. With Tenant's notice to Landlord Tenant shall submit to Landlord for Landlord's consideration Tenant's proposed sublease agreement (in which the proposed subtenant shall be named). If Landlord fails to exercise its option to terminate this Lease, this shall not be

construed as or constitute a waiver of any of the provisions of this Section 12. If Landlord exercises its option to terminate this Lease, Landlord shall not have any liability for any real estate brokerage commission(s) or with respect to any of the costs and expenses that Tenant may have incurred in connection with its proposed subletting, and Tenant shall defend, indemnify and hold Landlord harmless from and against any and all claims (including, without limitation, claims for commissions) arising from such proposed subletting. Landlord's foregoing rights and options shall continue throughout the Term and any Option Periods. For purposes of this Section 12.2, a proposed assignment of this Lease shall be deemed a proposed subletting of all of the Premises.

12.3 Assignment by Landlord. If Landlord sells or otherwise transfers the Premises, or if Landlord assigns its interest under this Lease (other than for security purposes) and such purchaser, transferee or assignee assumes Landlord's obligations hereunder arising thereafter, Landlord shall thereupon be relieved of all liabilities hereunder arising thereafter, but this Lease shall otherwise remain in full force and effect.

SECTION 13 - DESTRUCTION OF PREMISES

13.1 Partial Destruction. If the Premises are rendered partially untenantable by fire or other insured casualty, and if the damage is repairable within sixty (60) days from the date of the occurrence (with the repair work and preparations therefore to be done during regular working hours on regular work days), Landlord shall repair the Premises with due diligence and Rent shall be abated in the proportion that the untenantable portion of the Premises bears to the whole thereof for the period from the date of the casualty to the completion of the repairs, unless the casualty results from Tenant's negligence or its breach of the terms hereof and the casualty is not covered by insurance. If thirty percent (30%) or more of the rentable area of the Building is destroyed or damaged, then regardless of whether the Premises are damaged, Landlord may terminate this Lease as of the date of such damage or destruction by giving notice of termination to Tenant within thirty (30) days thereafter.

13.2 Total Destruction. If the Premises are completely destroyed by fire or other casualty, or if they are damaged by uninsured casualty, or by insured casualty to such an extent that the damage cannot be repaired within one hundred eighty (180) days of the occurrence or during the last year of the Term, either party shall have the option to restore the Premises or to terminate this Lease by written notice given to the other party within thirty (30) days after the casualty, with any termination to be effective thirty (30) days after such party's notice. If neither party elects to terminate this Lease then Landlord shall commence and prosecute the restoration work with diligence after obtaining required governmental consents and permits and insurance proceeds. For the period from the date of the casualty until completion of the repairs (or the date of termination of this Lease, if Landlord elects not to restore the Premises), Rent shall be abated in the same proportion that the untenantable portion of the Premises bears to the whole thereof, unless the casualty results from Tenant's negligence or its breach of its obligations under this Lease.

13.3 Limitation. Landlord shall not be liable to Tenant for destruction or damage to any of Tenant's property, such as, but not limited to, personal property, trade fixtures, equipment or alterations, additions or improvements, or for damages or compensation for inconvenience, loss of business or disruption arising from damages to or repairs or restoration of any portion of the Building or the Premises.

SECTION 14 - EMINENT DOMAIN

14.1 Total Taking. If all of the Premises are taken by eminent domain, this Lease shall terminate as of the date Tenant is required to vacate the Premises, and Rent shall be paid to that date. The term "eminent domain" shall include the taking or damaging of property by, through or under any governmental or statutory authority, and any purchase or acquisition in lieu thereof, whether the damaging or taking is by government or any other person.

14.2 Partial Taking. If a taking of any part of the Premises by eminent domain renders the remainder thereof unusable for the business of Tenant, in the reasonable judgment of Landlord and Tenant, this Lease may, at the option of either party, be terminated by written notice given to the other party not more than thirty (30) days after Landlord receives notice (and provides Tenant written notice) of the taking, and

such termination shall be effective as of the date when Tenant is required to vacate the portion of the Premises so taken. If this Lease is so terminated, all Rent shall be paid to the date of termination. Whenever any portion of the Premises is taken by eminent domain and this Lease is not terminated, Landlord shall at its expense proceed with all reasonable dispatch to restore, to the extent of available proceeds and to the extent it is reasonably prudent to do so, the remainder of the Premises to the condition it was in immediately prior to such taking, and Tenant shall at its expense proceed with all reasonable dispatch to restore its fixtures, furniture, furnishings, floor covering and equipment to the same condition they were in immediately prior to such taking. Rent payable hereunder shall be reduced from the date Tenant is required to partially vacate the Premises in the same proportion that the area taken bears to the total area of the Premises prior to taking.

14.3 Damages. Landlord reserves all right to the entire damage award or payment for any taking by eminent domain or a transfer in lieu thereof, and Tenant waives all claim whatsoever against Landlord for damages for termination of its leasehold interest in the Premises or for interference with its business as a result of such taking. Tenant hereby grants and assigns to Landlord any right Tenant may now have or hereafter acquire to such damages and agrees to execute and deliver such further instruments of assignment as Landlord may from time to time request; however, Tenant shall have the right to receive from the condemning authority the amount offered by the condemning authority in its final offer for Tenant's moving costs and for any taking of Tenant's furniture, trade fixtures and other personal property.

SECTION 15 - DEFAULT OF TENANT

15.1 Defaults.

(a) Time is of the essence of this Lease. Tenant shall be in default under this Lease if (i) Tenant violates or breaches or fails to keep or perform any covenant, term or condition of this Lease, (ii) Tenant files or is the subject of a petition under Title 11 of the United States Code (the "*Bankruptcy Code*") or similar domestic or foreign debtor/creditor law and such filing is not discharged within sixty (60) days after such appointment, (iii) a trustee or receiver is appointed for Tenant's assets, or (iv) Tenant makes an assignment for the benefit of creditors. If the default under (i) above is the nonpayment of Rent under this Lease, Tenant shall have five (5) days after written notice to cure the default. If the default under (i) above is something other than nonpayment of Rent due under this Lease, Tenant shall have thirty (30) days following receipt of written notice from Landlord within which to cure any such default; provided, if the nature of the default is such that the same cannot reasonably be cured within such 30-day period, the cure period shall be extended for so long as may be reasonably necessary to cure the default so long as Tenant commences the cure within the initial 30-day period, thereafter diligently prosecutes the cure to completion in good faith, and furnishes Landlord with such assurances and indemnities as Landlord may reasonably require to ensure completion thereof and fully and completely protect Landlord from any loss or liability resulting from any such default or any delay by Tenant in curing the default. The foregoing notices and cure periods include, and are not in addition to, any notices and cure periods otherwise required by applicable law.

(b) If a default is not cured within the applicable cure period, if any, Landlord shall have the following rights and remedies, at its option which shall not be exclusive, but shall be cumulative and in addition and supplemental to any and all other rights and/or remedies that Landlord may have at law or if equity: (i) to declare the term hereof ended and to reenter the Premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon or hereunder; or (ii) without declaring this Lease terminated, to reenter the Premises and occupy the whole or any part thereof for and on account of Tenant and to collect any unpaid Rent, which have become payable, or which may thereafter become payable; or (iii) even though it may have reentered the Premises, to thereafter elect to terminate this Lease and all of the rights of Tenant in or to the Premises. If Landlord reenters the Premises under option (ii) above, Landlord shall not be deemed to have terminated this Lease or the liability of Tenant to pay any Rent thereafter accruing, or to have terminated Tenant's liability for damages under any of the provisions hereof, by any such reentry or by any action, in unlawful detainer or otherwise, to obtain possession of the Premises, unless Landlord shall have notified Tenant in writing that it has so elected to terminate this Lease, and Tenant further covenants that the service by Landlord of any notice pursuant to the unlawful detainer statutes and the surrender of possession pursuant to such notice shall not (unless Landlord elects to the contrary at the time

of or at any time subsequent to the serving of such notices and such election is evidenced by written notice to Tenant) be deemed to be a termination of this Lease. In the event of any entry or taking possession of the Premises, Landlord shall have the right, but not the obligation, to remove therefrom all or any part of the personal property located therein and may place the same in storage at a public warehouse at the expense and risk of Tenant.

(c) If Landlord elects to terminate this Lease pursuant to the provisions of options (i) or (iii) in Section 15.1(b), Landlord may recover from Tenant as damages, the following: (i) the worth at the time of the award of the unpaid Rent accrued as of the time of termination; (ii) the worth at the time of award of amount by which the unpaid Rent accrued after the time of termination exceeds the amount of such loss that Tenant proves reasonably could have been avoided; (iii) the worth at the time of the award of the amount by which the unpaid Rent which Tenant would have paid for the balance of the Lease term after the time of award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease, including, but not limited, any costs or expenses incurred by Landlord in (A) retaking possession of the Premises, including reasonable attorneys' fees therefor, (B) maintaining or preserving the Premises after such default, (C) returning the Premises to the condition required hereunder, (D) performing any remediation or abatement of any Hazardous Materials on the Premises, (E) leasing commissions, and (F) any other costs necessary or appropriate to relet the Premises; plus (G) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of Montana. As used in subparts (i) and (ii) above, the "*worth at the time of the award*" is computed by allowing interest on unpaid amounts at the Default Rate. As used in subpart (iii) above, the "*worth at the time of the award*" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(d) For all purposes of this Section 15.1 only, all such sums, other than Minimum Rent, shall, for the purpose of calculating any amount due under the provisions of item (iii) in Section 15.1(c), be computed on the basis of the average monthly amount thereof accruing during the immediately preceding twelve (12) month period, except that if it becomes necessary to compute such Additional Rent before such a twelve (12) month period has occurred then such Additional Rent shall be computed on the basis of the average monthly amount hereof accruing during such shorter period.

15.2 Legal Expenses. If either party consults an attorney in order to enforce this Lease or if any litigation arises in connection with the Lease, the prevailing party shall be entitled to reimbursement from the non-prevailing party for the prevailing party's reasonable costs and attorneys' fee, whether such costs and attorneys' fees are incurred with or without litigation, in a bankruptcy court or on appeal.

15.3 Remedies Cumulative; Waiver. Landlord's remedies hereunder are cumulative, and Landlord's exercise of any right or remedy due to a default or breach by Tenant shall not be deemed a waiver of, or alter, affect or prejudice any other right or remedy which Landlord may have under this Lease or by law. Neither the acceptance of rent nor any other acts or omissions of Landlord at any time or times after the happening of any event authorizing the cancellation or forfeiture of this Lease shall operate as a waiver of any past or future violation, breach or failure to keep or perform any covenant, agreement, term or condition hereof or to deprive Landlord of its right to cancel or forfeit this Lease, upon the written notice provided for herein, for any default, or be construed so as at any future time to estop Landlord from promptly exercising any other option, right or remedy that it may have under any term or provision of this Lease.

SECTION 16 - ACCESS BY LANDLORD, DEFAULT OF LANDLORD

16.1 Right of Entry. Provided Landlord takes all reasonable measures to avoid interfering with Tenant's use of the Premises, Landlord and its agents shall have the right to enter the Premises at any time upon reasonable prior notice to Tenant, to examine the same (including conducting an environmental audit and performing any testing or sampling as may be required by Landlord in its discretion), to show them to prospective purchasers, lenders or tenants, to make such alterations, repairs, improvements or additions as

Landlord may deem necessary or desirable; provided, in an emergency or perceived emergency, no advance notice shall be required.

16.2 Default of Landlord. If Landlord defaults in the performance of any covenant required to be performed by Landlord, Tenant may serve upon Landlord a written notice specifying the default. If Landlord does not remedy the default within thirty (30) days following receipt thereof or, in the case of a default which reasonably requires more than thirty (30) days to cure, if Landlord has not commenced to remedy the same within thirty (30) days following receipt thereof and be diligently prosecuting such cure, then Tenant may exercise any legal or equitable remedy available as a result of Landlord's default, including, without limitation, any and/or all of the following remedies:

(a) Remedy any default of Landlord provided such action would not adversely affect the systems of the Premises, and in connection with such remedy, Tenant may pay all expenses and employ legal counsel, and all reasonable sums so expended or obligations incurred by Tenant in connection therewith shall be paid by Landlord to Tenant, upon written demand by Tenant, together with the Late Fee and interest at the Default Rate, and if Landlord fails to pay such reimbursement within ten (10) days after written demand, Tenant may, at Tenant's option, deduct all costs and expenses incurred in connection with remedying a default of Landlord from the next reasonable sums subsequently becoming due to Landlord from Tenant under this Lease;

(b) In the event such default consists of the failure by Landlord to pay to Tenant any amounts required to be paid by Landlord pursuant to this Lease, and said default is not cured within the applicable period, then Tenant may offset and deduct the unpaid amount, plus the Late Fee and interest at the Default Rate, against Minimum Rent and Additional Rent due Landlord hereunder; and/or

(c) Enforce its rights and remedies by suit, action at law, or other appropriate proceeding, whether one or more, and/or bring an action for enforcement or specific performance of any covenant, promise or agreement or condition contained in this Lease.

No remedy herein conferred upon or reserved to Tenant is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative. No delay or omission to exercise any right or power accruing upon any default of Landlord shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

SECTION 17 - SURRENDER OF PREMISES

17.1 Surrender of Possession. Tenant shall promptly yield and deliver to Landlord possession of the Premises upon the expiration or earlier termination of this Lease in the condition they were required to be maintained hereunder (subject to the removals required or permitted hereunder). Landlord may place and maintain a "For Rent" sign in conspicuous places on the Premises for one hundred eighty (180) days prior to the expiration or earlier termination of this Lease.

17.2 Holding Over. If Tenant holds over after the end of the Term, such shall be as a tenancy from month to month on the terms and conditions set forth herein, except that Minimum Rent shall equal one and one-half (1½) times the Minimum Rent in effect on the date of expiration of the Term of this Lease, which tenancy may be terminated by either party upon thirty (30) days written notice to the other party.

17.3 Alterations and Personalty. All Alterations shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other

casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least sixty (60) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations so designated in Landlord's notice, and repair any damage caused by such removal. Tenant must, at Tenant's sole cost, remove, upon termination of this Lease, any and all of Tenant's furniture, furnishings, equipment, trade fixtures and personal property installed by or on behalf of Tenant (collectively "*Personalty*"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Landlord, not Tenant, shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal.

SECTION 18 - QUIET ENJOYMENT

Tenant, upon fully complying with and promptly performing all of the terms, covenants and conditions of this Lease on its part to be performed, shall have and quietly enjoy the Premises free from claims arising by, through or under Landlord, but not otherwise, for the Term, if Tenant's performance of such terms, covenants and conditions continues for such period, subject, however, to matters of record on the date hereof and to those matters to which this Lease may be subsequently subordinated in accordance with the terms hereof.

SECTION 19 - MISCELLANEOUS

19.1 Notices. Any notices required in accordance with any of the provisions herein shall be in writing and delivered, sent by overnight courier or mailed by registered or certified mail to Landlord and Tenant at the addresses set forth in Section 1.10, or to such other address as a party shall from time to time advise the other party by a written notice given in accordance with this Section 19.1. If mailed, a notice shall be deemed received two (2) business days after the postmark affixed on the envelope by the United States Post Office.

19.2 Successors or Assigns. All of the terms, conditions, covenants and agreements of this Lease shall extend to and be binding upon Landlord, Tenant and, subject to the terms of Section 12 hereof, their respective heirs, administrators, executors, successors and permitted assigns, and upon any person or persons coming into ownership or possession of any interest in the Premises by operation of law or otherwise, and shall be construed as covenants running with the land.

19.3 Brokerage Commissions. Landlord represents and warrants to Tenant, that there are no claims for brokerage commissions or finder's fees in connection with this Lease as a result of the contracts, contacts or actions of Landlord and Landlord agrees to indemnify Tenant and hold it harmless from all liabilities arising from an alleged agreement or act by Landlord (including, without limitation, the cost of counsel fees in connection therewith); such agreement to survive the termination of this Lease. Tenant represents and warrants to Landlord that there are no claims for brokerage commissions or finder's fees in connection with this Lease as a result of the contracts, contacts or actions of Tenant, and Tenant agrees to indemnify Landlord and hold it harmless from all liabilities arising from any such claim arising from an alleged agreement or act by Tenant (including, without limitation, the cost of counsel fees in connection therewith); such agreement to survive the termination of this Lease.

19 4 Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

19.5 Recording. Tenant shall not record this Lease without the prior written consent of Landlord. However, upon Landlord's request, both parties shall execute a memorandum of this Lease, in a form customarily used for such purpose of recordation. The memorandum shall describe the parties, the Premises and the term of this Lease and shall incorporate the other terms of this Lease by reference.

19.6 Subordination; Estoppel.

(a) Unless otherwise designated by Landlord, this Lease shall be subordinate to all existing or future mortgages and deeds of trust on the Premises, and to any extensions, renewals or replacements thereof. As to any secured loan, Landlord agrees to deliver to Tenant, and Tenant agrees to sign and return within ten (10) business days of receipt, a written subordination, non-disturbance and attornment agreement in recordable form reasonably acceptable to such Lender and Tenant, which provides that so long as Tenant is not in default under this Lease, Tenant's occupancy of the Premises under this Lease will not be disturbed and Tenant will not be joined by the holder of any mortgage or deed of trust in any action or proceeding to foreclose thereunder, except for joinder where such is necessary for jurisdictional reasons. Tenant agrees to attorn to Landlord's successor following any foreclosure sale or transfer in lieu thereof.

(b) Notwithstanding anything to the contrary in this Lease, Landlord shall not be in default under any provision of this Lease unless written notice specifying such default is given to any Lender who has been identified to Tenant in writing as a party to whom notice must be sent. Any lender of Landlord entitled to notice pursuant to the preceding sentence shall have the right to cure any default on behalf of Landlord. So long as a Lender is diligently taking the actions reasonably necessary for it to enter the Premises or cure Landlord's default, Tenant shall not exercise its remedies for Landlord's default under this Lease.

(c) Within ten (10) business days of Landlord's request therefor, Tenant shall promptly execute and deliver to third parties designated by Landlord an estoppel certificate or letter in the form requested by Landlord or its Lender that correctly recites the facts with respect to the Lease and its existence, terms and status.

19.7 Liability of Landlord. Tenant covenants that it shall look solely to Landlord's interests in the Building (including, without limitation, the rents, issues and profits from the Building) for the satisfaction of any judgment or decree against Landlord based upon any default under this Lease; agrees that no other property or assets of the Landlord (or its members) shall be subject to levy, execution or other enforcement procedures for satisfaction of any such judgment or decree; and agrees that no member in Landlord shall be named in any such action or proceeding.

19.8 Force Majeure. Landlord and Tenant shall not be deemed in default hereof nor liable for damages arising from its failure to perform its duties or obligations hereunder if such is due to causes beyond its reasonable control, including, but not limited to, acts of God, acts of civil or military authorities, acts of terrorism, embargoes, fires, floods, windstorms, earthquakes, strikes, lockouts, boycotts or other labor disturbances, civil disturbances or commotion or war; provided, nothing in this Section 19.8 shall limit or otherwise modify or waive Tenant's obligation to pay Minimum Rent and Additional Rent as and when due pursuant to the terms of this Lease.

19.9 Authority. Landlord and Tenant each represent and warrant to the other that it has the power and authority to enter into this Lease and that the person(s) signing this Lease on its behalf were duly authorized to do so.

19.10 Headings. The headings in this Lease are for convenience only and do not in any way limit or affect the terms and provisions hereof.

19.11 Gender. Wherever appropriate in this Lease, the singular shall be deemed to refer to the plural and the plural to the singular, and pronouns of certain genders shall be deemed to include either or both of the other genders.

19.12 Counterparts. This Lease may be executed in counterparts, each of which shall be deemed an original, but which when taken together shall constitute one and the same instrument. Facsimile and electronic mail signatures shall be effective.

19.13 Entire Agreement; Amendments. This Lease and the Exhibits attached hereto, and by this reference incorporated herein, set forth the entire agreement of Landlord and Tenant concerning the Premises, and there are no other agreements or understanding, oral or written, between Landlord and Tenant concerning the Premises. Any subsequent modification or amendment of this Lease shall be binding upon Landlord and Tenant only if reduced to writing and signed by them.

19.14 Governing Law. This Lease shall be governed by, and construed in accordance with the laws of the State of Montana.

Signature Page Follows

DATED as of the day and year first written above.

TENANT:

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

By: _____
Jason Kaye, Divisional Vice President,
Corporate Real Estate & Development

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

On this _____ day of _____, 2012, before me, the undersigned, a Notary Public in and for the State of Montana, duly commissioned and sworn personally appeared Jason Kaye, known to me to be the Divisional Vice President, Corporate Real Estate & Development of HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of
Illinois, residing at _____.
My commission expires _____.

LANDLORD:

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

By: _____

Name: _____

Title: _____

STATE OF MONTANA)
) ss.
COUNTY OF [_____])

On this _____ day of _____, 2012, before me, the undersigned, a Notary Public in and for the State of Montana, duly commissioned and sworn personally appeared _____, known to me to be the _____ of BLUE CROSS AND BLUE SHIELD OF MONTANA, INC., the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of
Montana, residing at _____.
My commission expires _____.

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Agreement") is made as of [_____, **201_**], by and among (i) BLUE CROSS AND BLUE SHIELD OF MONTANA, INC. ("BCBSMT"), (ii) HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company ("HCSC"), and (iii) WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as escrow agent (the "Escrow Agent"). BCBSMT and HCSC are sometimes collectively referred to herein as the "Parties" and individually as a "Party."

WHEREAS, BCBSMT and HCSC have entered into an Asset Purchase Agreement, dated as of [_____], 2012 (the "Asset Purchase Agreement"). Each capitalized term used but not defined herein has the meaning ascribed to such term in the Asset Purchase Agreement;

WHEREAS, Section 9.12 of the Asset Purchase Agreement provides that the Escrow Amount shall be deposited with the Escrow Agent at the Closing;

WHEREAS, the parties hereto desire to more specifically set forth their rights and obligations with respect to the Escrow Amount and the distribution and release thereof; and

WHEREAS, the Asset Purchase Agreement requires as a condition to the consummation of the transactions contemplated thereunder the execution and delivery of this Agreement at the Closing.

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements contained herein and in the Asset Purchase Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties and the Escrow Agent hereby act and agree as follows:

Section 1. Appointment of the Escrow Agent. The Parties hereby appoint the Escrow Agent as escrow agent in accordance with the terms and conditions set forth herein, and the Escrow Agent hereby accepts such appointment.

Section 2. Escrow Deposit. Simultaneously with the execution of this Agreement, BCBSMT has caused to be deposited with the Escrow Agent $20,000,000 in cash in accordance with Section 9.12 of the Asset Purchase Agreement (the "Escrow Amount"). The Escrow Agent hereby acknowledges receipt of the Escrow Amount and agrees to hold the Escrow Amount, together with all products and proceeds thereof, including all interest, dividends, gains and other income (collectively, "Escrow Earnings") earned with respect thereto (collectively, the "Escrow Fund"), in a separate and distinct account ("Escrow Account"), subject to the terms and conditions of this Agreement. The Escrow

Agent shall not distribute or release the Escrow Fund except in accordance with the express terms and conditions of this Agreement.

Section 3. Permitted Investments.

(a) The Escrow Agent shall follow the written instructions of BCBSMT concerning any investment or reinvestment from time to time of the funds held in the Escrow Account; provided that permissible investments shall be limited to: (a) money market accounts and money market mutual funds (including those of the Escrow Agent), treasury bills, treasury notes or any other direct obligations issued by or guaranteed in full as to principal and interest by the United States of America, (b) obligations of or guaranteed by the U.S. government with a maturity of not more than 120 days, (c) certificates of deposit with a maturity of not more than 120 days with a commercial bank having capital, surplus and undivided profits of not less than $100,000,000 (including the Escrow Agent and its affiliates), (d) commercial paper with a maturity of not more than 120 days that is rated A-2, P-2 or better by Standard & Poor's Corporation or Moody's Investors Services, Inc. and (e) debt of or guaranteed by any state or political subdivision with a maturity of not more than 120 days that is rated A or better ("Permitted Investments"). In the absence of the written instructions described above, the Escrow Agent shall invest the Escrow Fund, to the extent reasonably practicable, in Wells Fargo Bank Money Market Deposit Account ("MMDA") or such successor or similar fund with the Escrow Agent. Amounts on deposit in the MMDA are insured up to a total of $250,000 per depositor, per insured bank (including principal and accrued interest) by the Federal Deposit Insurance Corporation ("FDIC"), subject to the applicable rules and regulations of the FDIC. The Parties understand that deposits in the MMDA are not secured. None of the Parties or the Escrow Agent shall be liable or responsible in any manner for any loss or depreciation resulting from any such Permitted Investment or any liquidation thereof, or for any costs in connection therewith, and all of said losses and costs shall be borne by the Escrow Account. The Escrow Agent is hereby authorized to execute purchases and sales of investments through the facilities of its own trading or capital markets operations or those of any affiliated entity. The Escrow Agent shall send statements to each of the Parties on a monthly basis reflecting activity in the Escrow Account for the preceding month. The Escrow Agent will act upon investment instructions the day that such instructions are received; provided that the instructions are communicated within a reasonable amount of time to allow the Escrow Agent to make the specified investment.

(b) The Parties recognize and agree that the Escrow Agent will not provide supervision, recommendations or advice relating to either the investment of moneys held in the Escrow Account or the purchase, sale, retention or other disposition of any Permitted Investment.

(c) Although the Parties recognize that they may obtain a broker

confirmation or written statement containing comparable information at no additional cost, the Parties hereby agree that confirmations of Permitted Investments are not required to be issued by the Escrow Agent for each month in which a monthly statement is rendered. No statement need be rendered for the Escrow Account if no activity occurred for such month.

(d) The Parties acknowledge and agree that the delivery of the escrowed property is subject to the sale and final settlement of Permitted Investments. Proceeds of a sale of Permitted Investments will be delivered on the Business Day on which the appropriate instructions are delivered to the Escrow Agent if received prior to the deadline for same day sale of such Permitted Investments. If such instructions are received after the applicable deadline, proceeds will be delivered on the next succeeding Business Day.

Section 4. Release of Escrow Fund. The Escrow Fund shall only be distributed and released as set forth in and in accordance with this Section 4:

(a) Excluded Liability Claims. At any time and from time to time prior to the release of the Escrow Funds in accordance with subsection (e) below, BCBSMT may submit a certificate of an authorized signatory of BCBSMT to the Escrow Agent and HCSC, enclosing therewith: (i) a duly executed release or settlement agreement providing for the cash settlement of any Excluded Liability, (ii) a Final Order (as defined in Section 5(f)) providing for the final determination of any Action regarding an Excluded Liability, (iii) a statement that BCBSMT has satisfied an Excluded Liability and the amount paid (and the payee) with respect thereto and/or (iv) invoices for fees and expenses of third party service providers incurred by BCBSMT in connection with the good faith defense, investigation or settlement of an Excluded Liability (such certificate and the materials enclosed therewith, an "Excluded Liability Claim Notice") requesting that the Escrow Agent distribute to BCBSMT a portion of the Escrow Funds in order to satisfy BCBSMT's obligations in respect of the items described in (i), (ii), (iii) and/or (iv) above (an "Excluded Liability Claim") and certifying that the amounts described in such certificate represent amounts payable in respect of bona fide Excluded Liabilities or bona fide fees and/or expenses incurred in defense of bona fide Excluded Liabilities, net of any insurance, indemnification or insurance proceeds received or receivable by BCBSMT with respect thereto. On the date that is ten (10) Business Days following the receipt of the Excluded Liability Claim Notice, the Escrow Agent shall release to BCBSMT a portion of the Escrow Fund in accordance with the payment instructions set forth in the Excluded Liability Claim Notice (such amount to be distributed by wire transfer of immediately available funds to an account or accounts designated in the Excluded Liability Claim Notice by BCBSMT).

(b) Indemnification Claims. At any time and from time to time prior to the release of the Escrow Funds in accordance with subsection (e) below, if any Purchaser Indemnitee makes a claim for indemnification pursuant to Article IX of

the Asset Purchase Agreement (an "Indemnification Claim" and together with an Excluded Liability Claim, each a "Claim" and collectively "Claims"), HCSC shall deliver written notice to the Escrow Agent at the same time HCSC delivers written notice to BCBSMT of the Indemnification Claim pursuant to, and in accordance with, Article IX of the Asset Purchase Agreement ("Indemnification Notice"). If the Escrow Agent has not received a written objection to such Indemnification Claim from BCBSMT within 15 Business Days after delivery of the Indemnification Notice to the Escrow Agent and BCBSMT, then on the sixteenth Business Day following the date of such delivery, the Escrow Agent shall release to HCSC a portion of the Escrow Fund from the Escrow Account equal to the amount of such Indemnification Claim (such amount to be distributed by wire transfer of immediately available funds to an account or accounts designated by HCSC).

(c) Indemnification Claim Disputes. If BCBSMT delivers to the Escrow Agent and HCSC a written objection (a "Dispute Notice") with respect to any Indemnification Claim or portion thereof within 15 Business Days after the date of delivery of the Indemnification Notice to the other Party, then, the Escrow Agent shall not distribute to HCSC any portion of the Escrow Fund that is the subject of the Dispute Notice until the Escrow Agent receives either (i) joint written instructions signed by BCBSMT and HCSC authorizing the release to HCSC of the portion of the Escrow Fund that is the subject of the Dispute Notice or such other amount as BCBSMT and HCSC shall have set forth in such joint written instructions or (ii) a Final Order directing the release to HCSC or its designee of the portion of the Escrow Fund that is the subject of the Dispute Notice. Upon receipt of such joint written instructions or such Final Order, as the case may be, the Escrow Agent shall release to HCSC the portion of the Escrow Fund subject to dispute in accordance with such joint written instructions or Final Order. In the event that BCBSMT is the prevailing party in whole or in part in connection with any such dispute, the portion of the Escrow Fund that was the subject of such Dispute Notice and that is not released as provided in the immediately preceding sentence shall remain in the Escrow Account and shall be available to satisfy subsequent Indemnification Claims until released as provided herein. Any Dispute Notice shall describe in reasonable detail the basis for any objection to the matters set forth in the Indemnification Notice and the portion of such Indemnification Claim (if less than all) which is the subject of such Dispute Notice.

(d) Partial Release. If any Dispute Notice includes an objection to only a portion of an Indemnification Claim, the Escrow Agent shall promptly release to HCSC a portion of the Escrow Fund equal to the portion of the Indemnification Claim for which there is no objection; provided that no such partial release by the Escrow Agent shall terminate or otherwise prejudice HCSC's rights with respect to amounts claimed in any Indemnification Notice which are in excess of the amounts so released.

(e) Release of Escrow Fund.

BCBSMT and HCSC shall meet periodically, on the written request by one party to the other, to review the Escrow Fund balance, and the scope and status of remaining Excluded Liability and Indemnification Claims, and shall in good faith determine whether the Escrow Fund balance can reasonably be reduced, based on the status and scope of such Claims. Upon such determination, they shall jointly provide written notice any such reduction to the Escrow Agent, and on the date that is ten (10) Business Days following the receipt of such notice, the Escrow Agent shall release to BCBSMT such portion of the Escrow Fund in accordance with BCBSMT's related payment instructions. Notwithstanding the foregoing, on the date that is five (5) years from the Closing Date the Escrow Agent shall release to BCBSMT by wire transfer or otherwise distribute, from the Escrow Account, an amount equal to (A) the remaining balance of the Escrow Fund, less (B) the amount of all Unresolved Claims as of such date (it being understood that if the foregoing calculation results in a negative amount, the Escrow Agent shall make no distribution), to BCBSMT. For purposes of this Agreement, "Unresolved Claims" shall mean, as of such date, (A) the aggregate amount of all Indemnification Claims that are the subject of a Dispute Notice or for which an Excluded Liability Notice or Indemnification Notice has been delivered but for which the 10 Business Day notice period or the 15 Business Day objection period, as the case may be, has not expired as of such date and (B) an amount determined by HCSC to be reasonably necessary for payment of any unresolved Actions or other Excluded Liabilities known to exist and remaining unsatisfied, which amount HCSC may designate by written notice delivered to the Escrow Agent and BCBSMT not more than sixty (60) days prior to the scheduled release date. The aggregate amount of the Unresolved Claims shall continue to be held in the Escrow Fund subject to release in accordance with the provisions of this Section 4. Any release of the Escrow Fund other than in accordance with the provisions of this Section 4 shall require the prior written consent of HCSC and BCBSMT.

(f) No Limitation of Remedies. BCBSMT hereby acknowledges and agrees that the payment of all or any portion of the Escrow Fund to HCSC pursuant to this Agreement shall not limit or otherwise affect any right of indemnification which any Purchaser Indemnitee may otherwise have pursuant to the Asset Purchase Agreement.

Section 5. Conditions to Escrow. The Escrow Agent agrees to hold the Escrow Fund and to perform its obligations in accordance with the terms and provisions of this Agreement. The Parties agree that the Escrow Agent shall not assume any responsibility for the failure of the Parties to perform in accordance with the Asset Purchase Agreement or this Agreement. The acceptance by the Escrow Agent of its responsibilities hereunder is subject to the following terms and conditions, which the Parties and the Escrow Agent agree shall govern and control with respect to the Escrow Agent's rights, duties and liabilities hereunder:

(a) Documents. The Escrow Agent shall be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it, not only as to its due execution and validity and the effectiveness of its provisions, but also as to the truth and accuracy of any information therein contained, which the Escrow Agent in good faith believes to be genuine and what it purports to be. If it is necessary for the Escrow Agent to act upon any instructions, directions, documents or instruments issued or signed by or on behalf of any corporation, partnership, fiduciary or individual acting on behalf of another party hereto, it shall not be necessary for the Escrow Agent to inquire into such corporation's, partnership's, fiduciary's or individual's authority. The Escrow Agent is also relieved from the necessity of satisfying itself as to the authority of the persons executing this Agreement in a representative capacity on behalf of any of the Parties. Concurrent with the execution of this Agreement, the Parties shall deliver to the Escrow Agent authorized signers' forms in the form of Exhibit A-1 and Exhibit A-2 attached hereto.

(b) Liability. The Escrow Agent shall not be liable for anything which it may do or refrain from doing in connection herewith, except for its own gross negligence, bad faith or willful misconduct.

(c) Legal Counsel. The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any question as to any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and instructions of such counsel.

(d) Limitation of Duties. The Escrow Agent shall have no duties except those which are expressly set forth herein and it shall not be bound by any agreements of the Parties, including, without limitation, the Asset Purchase Agreement (whether or not it has any knowledge thereof). The Escrow Agent shall not be deemed a fiduciary for any party to this Agreement. In no event shall the Escrow Agent be liable, directly or indirectly, for any (i) damages, losses or expenses arising out of the services provided hereunder, other than damages, losses or expenses which result from the Escrow Agent's gross negligence, bad faith or willful misconduct, or (ii) special, indirect or consequential losses or damages of any kind whatsoever (including, without limitation, lost profits), even if the Escrow Agent has been advised of the possibility of such losses or damages and regardless of the form of action.

(e) Resignation or Termination of the Escrow Agent. The Escrow Agent shall have the right to resign at any time by giving 30 days prior written notice of such resignation to the Parties and the Parties shall have the right to terminate the services of the Escrow Agent hereunder at any time by giving written notice (with such written notice being signed by the Parties) of such termination to the Escrow Agent, in each case specifying the effective date of such resignation or termination. Within 30 days after receiving or delivering the

aforesaid notice, as the case may be, the Párties agree to appoint a successor escrow agent to which the Escrow Agent shall distribute the property then held hereunder in accordance with the terms hereof. If a successor escrow agent has not been appointed and has not accepted such appointment by the end of such 30-day period, the Escrow Agent may apply to a court of competent jurisdiction for the appointment of a successor escrow agent, and the reasonable costs and expenses which are incurred in connection with any such proceeding shall be paid out of the Escrow Fund. Except as otherwise agreed to in writing by the Parties, no Escrow Fund shall be released from the Escrow Account unless and until a successor escrow agent has been appointed in accordance with this Section 5(e).

(f) Discharge of the Escrow Agent. Upon delivery of all of the Escrow Fund pursuant to the terms of Section 4 above or to a successor the Escrow Agent, the Escrow Agent shall thereafter be discharged from any further obligations hereunder. The Escrow Agent is hereby authorized, in any and all events, to comply with and obey any and all final, non-appealable judgments, orders and decrees of any court of competent jurisdiction which may be filed, entered or issued, and all final, non-appealable arbitration awards (each a "Final Order") and, if it shall so comply or obey, it shall not be liable to any other person by reason of such compliance or obedience. The Escrow Agent shall be entitled to receive and may conclusively rely upon an opinion of counsel to the effect that a judgment, order or decree is final and non-appealable and from a court of competent jurisdiction.

(g)Interpleading of Assets upon Dispute. In the event that (i) any dispute shall arise between the Parties with respect to the disposition or disbursement of any of the assets held hereunder or (ii) the Escrow Agent shall be uncertain as to how to proceed in a situation not explicitly addressed by the terms of this Agreement whether because of conflicting demands by the other parties hereto or otherwise, the Escrow Agent shall be permitted to interplead all of the assets held hereunder into a court of competent jurisdiction, and thereafter be fully relieved from any and all liability or obligation with respect to such interpleaded assets. The Parties further agree to pursue any redress or recourse in connection with such a dispute, without making the Escrow Agent a party to the same.

(h)Agency. The Escrow Agent shall have the right to perform any of its duties hereunder through agents, attorneys, custodians or nominees.

(i) Merger of the Escrow Agent. Any banking association or corporation into which the Escrow Agent may be merged, converted or with which the Escrow Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Escrow Agent shall be a party, or any banking association or corporation to which all or substantially all of the corporate trust business of the Escrow Agent shall be transferred, shall succeed to all the Escrow Agent's rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of any of

the Parties, anything herein to the contrary notwithstanding.

(j) Garnishment of Escrow Fund. In the event that any of the Escrow Fund shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

Section 6. Taxation and Release of Escrow Earnings; Distributions for Taxes. The Parties hereby acknowledge that, for federal and state income tax purposes, the Escrow Earnings shall be income of BCBSMT. The Escrow Agent shall be responsible for reporting any Escrow Earnings to the Internal Revenue Service; provided that the Parties acknowledge that payments of any Escrow Earnings will be subject to backup withholding penalties unless a properly completed Internal Revenue Service form W-8 or W-9 certification is submitted to the Escrow Agent on behalf of BCBSMT. BCBSMT acknowledges that, unless otherwise required by applicable law and subject to the immediately preceding sentence, the Escrow Agent is not required to prepare and file any income or other tax returns applicable to the Escrow Account with the Internal Revenue Service or any required state or local departments of revenue in any year income is earned in any particular tax year. Any taxes payable on income earned from the investment of any sums held in the Escrow Account shall be paid by BCBSMT whether or not the income was distributed by the Escrow Agent during any particular year and to the extent required under the provisions of the Internal Revenue Code of 1986, as amended.

Section 7. Indemnification. BCBSMT, on the one hand, and HCSC, on the other, hereby agree, severally and not jointly, to indemnify the Escrow Agent for and to hold it harmless against any loss, liability or reasonable expense (including reasonable attorneys' fees and expenses) incurred without negligence, willful misconduct or bad faith on the part of the Escrow Agent arising out of or in connection with its performance under this Agreement; provided, however, that BCBSMT and HCSC shall each be responsible for not more than 50% of any such losses, liabilities, fees or expenses unless the events underlying the indemnification were caused exclusively by BCBSMT, on the one hand, or HCSC, on the other.

Section 8. Escrow Costs. The Escrow Agent shall be entitled to be paid a fee for its services pursuant to the attached Exhibit B and to be reimbursed

for its reasonable costs and expenses incurred in connection with maintaining the Escrow Account hereunder, which fees, costs and expenses shall be paid by HCSC. The Escrow Agent shall be entitled and is hereby granted the right to set off and deduct from the Escrow Fund any unpaid fees, non-reimbursed expenses and unsatisfied indemnification rights from such Escrow Fund. As between BCBSMT on the one hand and HCSC, on the other, the parties agree that BCBSMT shall have the right to contribution from HCSC for an amount equal to the amounts due to Escrow Agent under this Section 8 and 50% of the amounts due to the Escrow Agent under Section 7 to the extent paid from the Escrow Funds or paid by BCBSMT.

Section 9. Limitations on Rights to Escrow Fund. None of the Parties shall have any right, title or interest in or to, or possession of, the Escrow Account and therefore shall not have the ability to pledge, convey, hypothecate or grant as security all or any portion of the Escrow Fund unless and until such Escrow Fund has been released pursuant to Section 4 above. Accordingly, the Escrow Agent shall be in sole possession of the Escrow Fund and shall not act as custodian of the Parties under this Agreement for the purposes of perfecting a security interest therein, and no creditor of any of the Parties shall have any right to have or to hold or otherwise attach or seize all or any portion of the Escrow Fund as collateral for any obligation and shall not be able to obtain a security interest in any of the Escrow Fund unless and until such Escrow Fund has been released pursuant to Section 4 above. Notwithstanding the foregoing, however, nothing herein shall restrict or otherwise limit the ability of HCSC's and its affiliates' lenders to attach or obtain a security interest in the right of HCSC to receive payments from the Escrow Account.

Section 10. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10):

Notice to HCSC:

HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company
300 East Randolph Street
Chicago, Illinois 60601-5099
Attention: Chief Legal Officer
Fax No.: (312) 819-1943

with a copy to:

(which shall not constitute notice to HCSC)

KIRKLAND & ELLIS LLP
300 North LaSalle
Chicago, IL 60654
Attention: Keith S. Crow, P.C. and Kevin L. Morris
Fax No.: (312) 862-2200

Notice to BCBSMT:

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.
560 N. Park Avenue
Helena, Montana 59601
Attention: President and Chief Executive Officer

with copies to:
(which shall not constitute notice to BCBSMT)

GRAHAM & DUNN, PC
Pier 70
2801 Alaskan Way
Seattle, WA 98121-1128
Attention: V. Marc Droppert
Fax No.: (206) 340-9599

Notice to the Escrow Agent:

WELLS FARGO BANK, NATIONAL ASSOCIATION
Corporate Trust Dept.
230 W. Monroe St., 29th Floor
Chicago, IL 60606
Facsimile: (312) 726-2158
Phone No.: (312) 726-2137
Attention: Timothy Martin

Section 11. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 12. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid,

illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible

Section 13. Entire Agreement. The Transaction Documents constitute the entire agreement of the Parties with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, between BCBSMT and HCSC with respect to the subject matter hereof.

Section 14. Assignment. This Agreement may not be assigned by operation of Law or otherwise without the express written consent of BCBSMT and HCSC (which consent may be granted or withheld in the sole discretion of BCBSMT and HCSC); provided, however, that HCSC may assign this Agreement to an affiliate of HCSC without the consent of BCBSMT (no such assignment shall release HCSC from its obligations hereunder).

Section 15. No Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the Parties and the Escrow Agent, and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, including, without limitation, any union or any employee or former employee of BCBSMT, any legal or equitable right, benefit or remedy of any nature whatsoever, including, without limitation, any rights of employment for any specified period, under or by reason of this Agreement.

Section 16. Interpretation. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, BCBSMT, HCSC and the Escrow Agent.

Section 17. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois, applicable to contracts executed in and to be performed entirely within that state.

Section 18. Disputes; Arbitration. Any conflicts or disputes regarding this Agreement, the Transaction Documents or any transaction contemplated hereby or thereby shall be resolved by arbitration as provided in Section 11.11 of the Asset Purchase Agreement.

Section 19. Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

Section 20. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at Law or equity, without the necessity of demonstrating the inadequacy of money damages.

Section 21. Banking Days. If any date on which the Escrow Agent is required to make an investment or a delivery pursuant to the provisions hereof is not a banking day, then the Escrow Agent shall make such investment or delivery on the next succeeding banking day.

Section 22. Termination. This Agreement shall terminate when all of the Escrow Funds in the Escrow Account have been released and distributed in accordance with Section 4. Upon such termination this Agreement shall have no further force and effect, except that the provisions of this Section 22 and Section 5, Section 6 and Section 7 and Section 9 through Section 21 shall survive such termination and the resignation or removal of the Escrow Agent.

* * * *

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of the date first written above.

BLUE CROSS AND BLUE SHIELD OF MONTANA, INC.

By: _____
Its: _____

HEALTH CARE SERVICE CORPORATION, a Mutual Legal Reserve Company

By: _____
Its: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ESCROW AGENT

By: _____
Name: _____
Its: _____

EXHIBIT A-1

Certificate as to Authorized Signatures

The specimen signatures shown below are the specimen signatures of the individuals who have been designated as authorized representatives of BCBSMT and are authorized to initiate and approve transactions of all types for the escrow account or accounts established under the Escrow Agreement to which this Exhibit B-1 is attached, on behalf of BCBSMT.

Name / Title	Specimen Signature
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	

EXHIBIT A-2

Certificate as to Authorized Signatures

The specimen signatures shown below are the specimen signatures of the individuals who have been designated as authorized representatives of HCSC and are authorized to initiate and approve transactions of all types for the escrow account or accounts established under the Escrow Agreement to which this Exhibit B-2 is attached, on behalf of HCSC.

Name / Title	Specimen Signature
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	
_____ Name	_____ Signature
_____ Title	

EXHIBIT B

FEES OF THE ESCROW AGENT

Annual Charge $[_____]

Any out-of-pocket expenses, or extraordinary fees or expenses such as attorney's fees or messenger cost's, are additional and are not included in the above schedule, subject to the terms and conditions of the Agreement.

These fees cover a full year, or any part thereof, and thus are not prorated in the year of termination. The annual fee is billed in advance and payable prior to that year's service.

NERA
ECONOMIC CONSULTING

FINANCIAL AND COMMUNITY IMPACT REPORT

Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation

November 10, 2012

Project Team

Thomas R. McCarthy, Ph.D. – Economist and senior vice president of NERA Economic Consulting (NERA). Head of NERA's health care practice. Specializes in antitrust and intellectual property matters. Has worked on a large number of health insurance mergers, including PacifiCare – FHP, Aetna – Prudential, UnitedHealth – PacifiCare, Cigna – Great West, and Cigna – HealthSource. Worked as a Federal Trade Commission (FTC) staff economist before joining NERA.

Scott J. Thomas, Ph.D. – Economist and vice president of NERA. Specializes in antitrust, intellectual property, and commercial damage matters. Has worked on a large number of health care cases involving a variety of settings, including insurers, hospitals, and physicians. Has provided expert testimony in both federal and state court and has made presentations on health care mergers to a variety of regulatory agencies, including the FTC.

Annie Lam, MBA – Consultant at NERA. Specializes in the health care industry. Has worked on a large number of health insurance mergers as a member of the NERA health care practice.

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I. Introduction

Blue Cross and Blue Shield of Montana, Inc. (BCBSMT) is a health insurance company that operates almost entirely in Montana. It holds the Blue Cross and Blue Shield marks in Montana. It offers a variety of fully-insured and self-funded health insurance products (e.g., PPO, HDHP, Medicare Advantage, and Medicare supplement, as well as third-party administrator services). It also offers some specialty insurance products (e.g., dental and vision). Health Care Service Corporation (HCSC) is a health insurance company that operates primarily in Illinois, Texas, Oklahoma, and New Mexico. It holds the Blue Cross and Blue Shield marks in those states. It also offers a variety of fully-insured and self-funded health insurance products as well a dental insurance product. All of these BCBS plans are non-investor owned (NIO) plans.

BCBSMT is proposing to enter into an alliance with HCSC.[1] As a result of the transaction, HCSC will acquire BCBSMT's member contracts, provider contracts, Blue Cross and Blue Shield marks in Montana, and most of its liabilities. It will also start doing business in Montana as BCBSMT. In return, HCSC will pay BCBSMT approximately $18 million for the assets it is acquiring and then BCBSMT will transfer this money to a Foundation.[2] Likewise, BCBSMT will transfer to HCSC a certain amount of assets and cash to support the liabilities that HCSC is acquiring from it. Some of BCBSMT's assets and liabilities are excluded from the transaction. The excluded assets, which include land, buildings, and other assets, are estimated to be worth over $100 million. After the closing of the transaction, the excluded assets and liabilities will be retained by the corporate BCBSMT entity, which will continue to exist under a different name until the excluded liabilities are paid or otherwise discharged. At that time, the corporate BCBSMT entity will then transfer the remaining assets to the Foundation. In total, the Foundation is expected to receive around $18 million from HCSC and over $100 million from BCBSMT, which can then be used for the benefit of Montanans.

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[1] The proposed alliance is described in greater detail in the Application for Approval of Conversion and Alliance.

[2] The Foundation will represent a designated I.R.C. 501(c)(3) or 501(c)(4) foundation or other nonprofit organization, meeting specific criteria under Montana Code Annotated § 50-4-720.

Counsel for HCSC and BCBSMT have asked Dr. Thomas R. McCarthy and Dr. Scott J. Thomas of NERA Economic Consulting to address several of the criteria that the Montana Statutes say the commissioner may consider in determining whether the proposed alliance is "in the public interest."[3] The specific criteria that we have been asked to address are the following:

- 50-4-717 (2) (d) whether the conversion transaction has the likelihood of creating a significant adverse effect on the availability or accessibility of health care services or health insurance coverage in the affected community;
- 50-4-717 (2) (e) whether the conversion transaction includes sufficient safeguards to ensure that the affected community will have continued access to affordable health care;
- 50-4-717 (2) (g) (i) whether the conversion transaction is equitable to the public interest, enrollees, insureds, shareholders, and certificate holders, if any, of the transferor;
- 50-4-717 (3) (a) whether the conversion transaction would result in inefficient economies of scale; and
- 50-4-717 (3) (b) whether the conversion transaction would violate federal or state antitrust laws.

In addressing these criteria, we have reviewed a number of materials provided to us by the two parties, including planning documents addressing the expected efficiencies and other benefits of the proposed alliance and enrollment data for their members who reside in and outside of Montana. We have also reviewed a number of publicly available materials, including National Association of Insurance Commissioners (NAIC) premium data, Centers for Medicare & Medicaid Services (CMS) enrollment data, U.S. Census Bureau population data, and Bureau of Labor Statistics data on the number of uninsured in Montana. In addition, we have conducted a number of interviews with senior management of the two parties and with a producer located in Billings.[4]

Based on the work that we have performed, it is our conclusion that the proposed alliance is "in the public interest" since it will make BCBSMT financially more stable, more efficient, and a stronger competitor. Further, the "public interest" is protected since the proposed alliance

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[3] Appendix A contains a brief description of NERA Economic Consulting as well as the curriculum vitae for Dr. McCarthy and Dr. Thomas.

[4] The producers are also often referred to as agents.

will *not* lead to a lessening of competition in any relevant market. In the remainder of this report and in our accompanying Antitrust Report, we explain the basis for these overall conclusions.

II. Impact on Availability or Accessibility of Health Care Services

The proposed alliance will make BCBSMT a stronger competitor by giving it access to more capital and by generating a number of efficiencies. As such, it will ensure that BCBSMT has the financial strength to continue providing the services and coverage it has provided in the past while keeping premiums at competitive levels. Importantly, the proposed alliance will *not* negatively impact either availability or accessibility of health care services or health insurance coverage in Montana. The basis for this conclusion is as follows:

- HCSC is the fourth largest health insurer in the U.S. [See Table 1.][5] Compared to BCBSMT, it has many more commercial health members (13,143,727 vs. 208,209), a much higher risk-based capital ratio (1,227 percent vs. 577 percent), a lower administrative expense ratio (8.6 percent vs. 12.8 percent), and a stronger underwriting margin (7.54 percent vs. -0.96 percent).[6]

Table 1: Total Health Membership of Largest Insurers, 2011

Plan	Risk	ASO	Total
UnitedHealth	18,250,000	16,320,000	34,570,000
WellPoint	13,745,000	20,506,000	34,251,000
Aetna	5,755,000	12,704,000	18,459,000
HCSC	4,786,301	8,357,426	13,143,727
Cigna	1,933,000	9,550,000	11,483,000
Humana	8,559,500	2,625,100	11,184,600
Coventry	3,692,000	1,073,000	4,765,000

Sources: HCSC Membership by Plan 2007-2011.xlsx.
Individual Insurance Companies's Form 10-K, 2011.

[5] The totals in Table 1 for HCSC include its commercial health members only. NERA obtained the totals for the other groups from their annual reports. As such, they likely include both commercial and government health members.

[6] See Appendices B, C, D, and E.

- By aligning with HCSC, BCBSMT will gain access to more capital. This will make BCBSMT financially stronger, which is especially important with the recent removal of caps on patient claims. This will allow BCBSMT to continue to price aggressively to win fully-insured business in Montana. It will also put BCBSMT in a better position to expand its individual business when the Affordable Care Act becomes fully implemented in 2014. The individual business is typically higher risk with higher administrative costs than the small group or large group businesses. Being financially stronger and more efficient will allow BCBSMT to take on more of this business, thus providing increased coverage to reduce the number of uninsured.[7]

- By aligning with HCSC, BCBSMT will be able to lower its administrative expense ratio by spreading its administrative expenses over a much larger membership base.[8] This will make it easier for BCBSMT to keep premiums down and adapt to the minimum medical loss ratios that take effect when the Affordable Care Act becomes fully implemented in 2014. The lower administrative cost ratios will mean that BCBSMT can maintain a reasonable underwriting margin while spending a greater share of the premium dollar on medical services to members.

- By aligning with HCSC, BCBSMT will be able to avoid having to fund by itself the $100 million in capital requirements and incremental operating expenses that it estimates will need to be made over the next five years to successfully compete, improve operational efficiency, and meet Blue Cross Blue Shield Association and municipal regulations.[9] HCSC has already begun to make many of these investments for itself, most of which are easily shared with BCBSMT at relatively low implementation costs that will avoid the need for millions in investment in Montana.[10] These projects include:

  - $36 million required to implement an ICD-10 complaint claims system[11]

  - $4 million in one-time costs and $1 million per year to upgrade computer systems to interface with Montana's public health insurance exchange infrastructure ($9 million total five-year spend)

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[7] One of the concerns with the implementation of the Affordable Care Act is that insurers will no longer be able exclude individuals due to pre-existing conditions. This means the risk (and therefore medical expenses) associated with providing health insurance to the individual business is likely to significantly increase since the insurers will have to take all comers.

[8] Interviews with HCSC and BCBSMT senior management.

[9] Interviews with BCBSMT senior management.

[10] Based on prior transactions, HCSC senior management estimates that the transition and implementation costs will be about $25 million. These costs will show up on BCBSMT's books after the transition is completed. This means the net savings to Montana will be around $75 million (=$100 million - $25 million). About $8 million of the $25 million in implementation cost are already being spent as a result of BCBSMT entering into an administrative services agreement with HCSC. It is our understanding that this agreement was only entered into since the two parties expect the proposed alliance to be approved.

[11] This expense involves implementing a new claims processing system that can process an additional digit on the ICD diagnosis and procedure codes. These are the codes that hospitals use to bill for their services and the current codes contain nine digits only. This is one of the changes required by the Affordable Care Act.

- $5 million to build an ICD-10 compliant data warehouse
- $200,000 in one-time costs and an incremental increase of $960,000 per year to implement various medical and care management programs, including a wellness website update, new utilization management software beginning in 2012, and new medical oncology management software beginning in 2013 ($5 million total five-year spend)
- $5 million in physician incentives to introduce patient-centered medical homes to approximately 50,000 members
- $860,000 per year to purchase excess of loss coverage ($3.4 million total five-year spend)
- $1.2 million in one-time costs and $600,000 per year to upgrade financial systems, including cost accounting, budgeting, and financial reporting tools ($4.2 million total five-year spend)

- Finally, by aligning with HCSC, BCBSMT will gain access to HCSC's technology, which will expand and improve the services that BCBSMT can provide its members. These market-leading systems include:[12]
  - HCSC's BlueChip claims and customer service platform and BlueStar membership and billing platform, which will increase BCBSMT's efficiency in administering its core health insurance business[13]
  - HCSC's strong track record of improvement and maintenance of customer-facing web portals for its individual plans
  - HCSC's state-of-the-art Tier IV data centers in Waukegan, IL and Fort Worth, TX, the use of which will enhance security and reliability of BCBSMT's sensitive member data[14]
  - HCSC's MEDecision care management programs bring "best practices" care to chronically ill patients and reduce medical expenses and improve overall managed care capabilities for helping the chronically ill

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[12] Interviews with HCSC and BCBSMT senior management. Another advantage of aligning with HCSC is the company has dedicated teams focusing on specific areas of the business, which BCBSMT cannot afford due to its much smaller size. For example, HCSC has an entire team focused on understanding and planning for the changes that are going to occur under the Affordable Care Act.

[13] According to senior management at both HCSC and BCBSMT, HCSC has one of the best claims processing systems in the industry. For example, in comparison to BCBSMT, HCSC has a higher rate of adjudicating clean claims (80 percent vs. 65 to 70 percent) and a faster rate of adjudicating all claims (4 days vs. 5 to 7 days). HCSC's claims processing also has a financial accuracy of over 99 percent. Finally, clean claims are those that have all of the information on the claims filled out. An adjudication rate of 80 percent for clean claims means that 80 percent of those claims do not have to be manually reviewed. This, of course, speeds up how quickly the providers are paid.

[14] It is our understanding that these are the two centers where HCSC stores its claims processing hardware.

- The private exchange platform of HCSC's partially-owned subsidiary, Bloom Health, which can be used to offer an exchange-based solution for defined contribution group plans or individual retail customers

- HCSC's individual business administrator, Hallmark, which can help BCBSMT reduce its administrative expenses on a per member basis and improve its internal operations for over 30,000 Montana individual members

III. Impact on Affordability of Health Care

The proposed alliance will have no adverse impact on competition in the market for health insurance in Montana. As discussed elsewhere in our report on the antitrust analysis of this proposed alliance, HCSC's membership in Montana is relatively small and HCSC does not have an active sales presence in Montana. Thus, no competitive interactions are lost. Further, BCBSMT will continue to face the same strong competitors it does now, including Cigna, UnitedHealth, PacificSource, and Employee Benefit Management Services, Inc. (EBMS is a large third party administrator). Each of these plans has a growing presence in Montana. As such, there will be sufficient competitive safeguards to ensure that Montanans will have access to affordable health care. The basis for this conclusion is as follows:

- Table 2 shows that HCSC's health business in Montana is relatively small – only 812 fully-insured commercial members and 12,468 administrative services only (ASO) members in

Table 2: Health Care Service Corporation Membership in Montana, As of December 31, 2011

Plan	Risk	ASO	Total
Illinois	357	7,288	7,645
New Mexico	20	108	128
Oklahoma	165	572	737
Texas	270	4,500	4,770
Total	**812**	**12,468**	**13,280**

Source: Data provided by Health Care Service Corporation.

2011.[15] The vast majority of these are national account members, for which BCBSMT does not compete since the headquarters for those members are located in other states where BCBSMT does not submit bids. Further, HCSC has no active sales presence in Montana and does not compete for local accounts.

- BCBSMT will continue to face a number of strong competitors in Montana health insurance market. These competitors include Cigna, UnitedHealth, PacificSource (which recently acquired most of New West Health Services' commercial business), and EBMS.

- Cigna, UnitedHealth, PacificSource, and EBMS have been expanding their operations in Montana. For example, over the past five years, Cigna has significantly increased its fully-insured group presence through its wholly-owned subsidiary, Allegiance Life & Health Insurance Co., based in Missoula, Montana.[16] Likewise, Cigna just won a three-year contract for the State of Montana employee account, previously held by BCBSMT. This account represents around 28,000 members and is expected to shift up to $4.5 million in annual administrative service fee revenue from BCBSMT to Cigna in 2013.[17] In addition, UnitedHealth just won the contract to administer TriCare benefits for active and retired service members and their families effective March 2013.[18] BCBSMT had a share of the previous contract.[19] TriCare is fairly large in Montana. Finally, EBMS recently won the Automobile Dealers Association business, previously held by BCBSMT.[20]

- Even though the alliance will cause BCBSMT to pay a premium tax on its fully-insured business, BCBSMT will not be able to pass that tax on to its members in the form of higher premiums since Cigna and UnitedHealth already pay that tax and have it built into their already competitive premiums. In addition, PacificSource does not have to pay a premium tax.[21] That is, if BCBSMT tried to increase its premiums to cover the premium tax, it would likely lose a substantial number of members to Cigna, UnitedHealth, and PacificSource since their premiums would remain unchanged.

IV. Impact on Public Interest, Enrollees, Insureds, Shareholders, and Certificate Holders

The proposed alliance will not impact any shareholders or stock certificate holders since BCBSMT is a not-for-profit entity and does not have any shareholders or stock certificate

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15 Information from HCSC.

16 sao.mt.gov/legal/insurance/pdf/108_Alliegance.pdf.

17 Information from BCBSMT.

18 www.ama-assn.org/amednews/2012/04/02/bise0404.htm.

19 Information from BCBSMT.

20 Interview with a producer located in Billings.

21 Information from BCBSMT.

holders.[22] However, there are a number of other entities that could be impacted by the proposed alliance. They include the enrollees who are covered by the health insurance, the insureds who purchase the health insurance, the producers and brokers who help sell the health insurance, the providers who treat the enrollees and insureds that require health care services, and the other residents of Montana who are likely to benefit from the resulting Foundation.

We discussed in the previous two sections why the proposed alliance will make BCBSMT a more efficient and stronger competitor while having no adverse impact on competition in the Montana health insurance market. This means the proposed alliance will be equitable to both the enrollees and insureds that use and purchase health insurance from BCBSMT because they will still enjoy competitive premiums and will be able to keep the insurance options they have chosen.[23] It also means that the proposed alliance will be equitable to the producers and brokers who help sell health insurance for BCBSMT since there will be no material impact on competition in that market and they will benefit from having access to HCSC's enhanced technology and other innovative services, including HCSC's Web Mobile and medical management capabilities.[24] These capabilities will make it easier for them to sell BCBSMT's health insurance. Further, HCSC will honor the agreement that BCBSMT made in its settlement of the recent New West litigation, e.g., HCSC will not sign exclusive contracts with independent brokers in Montana.[25]

In addition, the proposed alliance will be equitable to the hospitals, physicians, and other types of providers who treat the BCBSMT enrollees and insureds who require health care services since the alliance will have no adverse impact on competition in any of the markets for the providers' services. As discussed in our accompanying Antitrust Report, reimbursement rates will not be negatively impacted. There are also no plans to systematically reduce or alter the provider networks established by BCBSMT after the transaction. Moreover, Montana providers will realize other benefits from the alliance. For example, HCSC's BlueChip claims

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[22] Interviews with BCBSMT senior management.

[23] The employers will also benefit since they will gain access to HCSC's highly-regarded reporting packages including Blue Insights. [Interview with HCSC senior management]

[24] The Web Mobile capabilities allow members to obtain claim, provider, and medical information on-line without having to go through customer representatives.

system will speed up how quickly the providers' claims are processed and paid.[26] Likewise, HCSC's BlueChip claims system is much more flexible and can handle advanced payment methodologies which the BCBSMT system cannot.[27] This will allow the providers to participate in risk sharing programs and pay for performance programs if they want to. Such reimbursement systems are expected to be increasingly popular under the Affordable Care Act.

Finally, the proposed alliance will be equitable to the other residents of Montana since the alliance is expected to result in BCBSMT setting up a Foundation with over $118 million in assets (including the HCSC purchase price). This money will be controlled by the Foundation and can be used for a number of different purposes. This, of course, should represent a tremendous benefit to Montanans.

Given BCBSMT does not have any shareholders or stock certificate holders, and given the proposed alliance will be equitable to all of the other entities that could be impacted by it, this means the proposed alliance will be equitable to the "public interest." There is clearly an upside to the "public interest" if the proposed alliance is completed. There is, however, a downside if it is not. That is, if the proposed alliance is not completed, BCBSMT may be unable to generate sufficient revenue to make the $100 million in investments that it estimates it will need to make over the next five years to become more efficient so that it can remain competitive.

Most of the basis for our conclusions in this section is discussed in the sections above. Additionally:

- HCSC's BCBS plans have a local affiliate board and the organizational structure features a local member-facing approach, with sales and marketing services localized in the states. As part of HCSC, BCBSMT will still be recognized as Blue Cross and Blue Shield of Montana, not HCSC. This model ensures that HCSC's Blue plans can leverage the scale benefits of

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[25] www.justice.gov/atr/cases/f282000/282088.pdf (Final Judgment).

[26] Again, in comparison to BCBSMT, HCSC has a higher rate of automated adjudication of clean claims (80 percent vs. 65 to 70 percent) and a faster rate of adjudicating all claims (4 days vs. 5 to 7 days). HCSC's claims processing also has a financial accuracy of over 99 percent.

[27] Interviews with HCSC senior management.

HCSC corporate services while remaining an integral and visible part of the local healthcare market.[28]

- HCSC remains committed to the fundamental health insurance business at a time when many health insurers are attempting to diversify earnings by offering non-insurance services. To that end, HCSC's recent acquisitions including Bloom Health, MEDecision, and TMG Health, are all strongly focused on the core health business.[29]

- HCSC has successfully integrated BCBS plans in New Mexico in 2001 and Oklahoma in 2005, providing it with significant expertise in how to effectively manage integrations that do not disrupt core operations, including claims and customer service.[30]

- Many insurers use producers and brokers to help sell their policies to individuals and small groups, for which producers and brokers receive a commission from the insurers. Since HCSC Montana business comprises mainly national account members, Montana producers and brokers do not compete for that business.[31] It is business that is sold in other states. As such, the proposed alliance will have no adverse impact on producers and brokers. However, as mentioned above, it will provide several benefits to them.

- The BlueCard program allows members enrolled in BCBS plans in other states to use the BCBSMT provider network. Because of this, BCBSMT already counts these members as part of its membership when negotiating its contracts with the Montana providers.[32] Thus, the proposed alliance will not generate any additional negotiating strength for BCBSMT with the providers since the HCSC members in Montana are already part of the membership volume it offers providers in negotiations.

V. Economies of Scale Implications

Economists typically define economies of scale as average cost falling as the size of the organization and its output increases.[33] The proposed alliance is designed to make BCBSMT more efficient in many ways, including stronger scale economies, the adoption of new technologies, and greater access to capital and financial stability. The stronger scale economies will come about by BCBSMT joining its administrative processes with HCSC. This will reduce BCBSMT's administrative expense ratio by allowing HCSC and BCBSMT to spread their total

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[28] Interviews with BCBSMT senior management.

[29] Interviews with HCSC senior management.

[30] Interviews with HCSC senior management.

[31] Interviews with HCSC and BCBSMT senior management.

[32] Interviews with BCBSMT senior management.

[33] See, e.g., D. Carlton and J. Perloff, *Modern Industrial Organization* 4th ed. (2005: Pearson/Addison Wesley).

administrative costs over their combined membership. This means the proposed alliance will result in real and significant economies of scale. The basis for this conclusion is as follows:

- Administrative expenses include general overhead costs for information technology systems, accounting services, actuarial services, legal services, member services, and other management services. Many of these costs (such as computer hardware and software costs) are relatively fixed and would not vary with the increase in membership that BCBSMT brings. Adding the BCBSMT membership to the HCSC membership will allow the aligned entities to reduce the total fixed costs needed to manage both operations. In addition, HCSC plans to use some of the BCBSMT personnel to provide services to its other health insurance operating divisions. Finally, HCSC can get better prices from its vendors than BCBSMT since it can drive bigger quantities. All of this will reduce the administrative expense ratio for both BCBSMT and, to a lesser extent, HCSC.

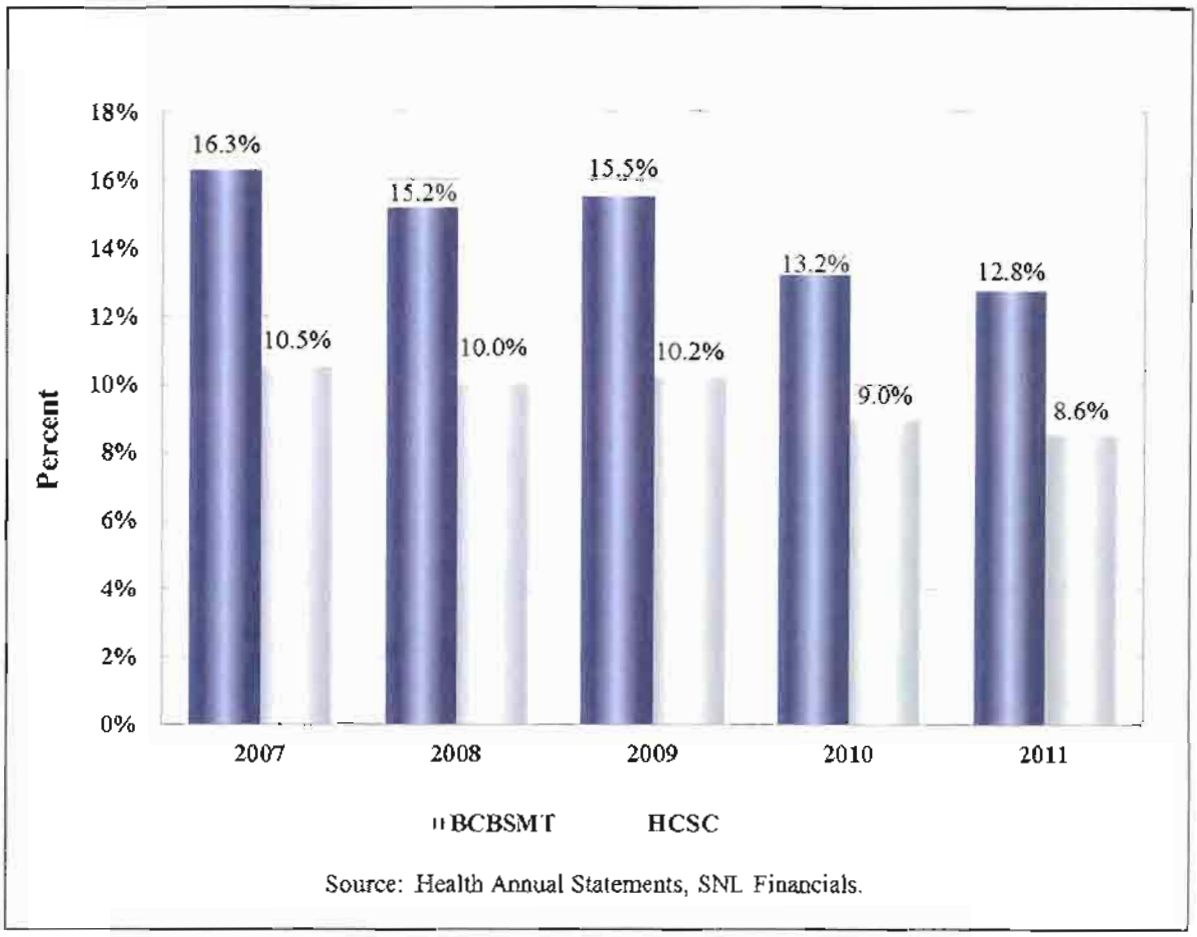
- Historically, BCBSMT has had a much larger statutory administrative expense ratio than HCSC.[34] [See Figure 1.] For example, in 2007, BCBSMT had an expense ratio equal to 16.3 percent, while HCSC had an expense ratio equal to 10.5 percent.[35] Likewise, in 2011, BCBSMT had an expense ratio equal to 12.8 percent, while HCSC had an expense ratio equal to 8.6 percent. These differences are consistent with the size of the respective total commercial health membership: BCBSMT: 203,531 members in 2007 and 208,209 members in 2011 and HCSC: 11,782,742 members in 2007 and 13,143,727 members in 2011.[36] If BCBSMT can capture most of the 4-6 percentage point difference in administrative costs, consequent cost savings will contribute to lower premiums for Montanans.

[34] It is our understanding that BCBSMT, like most health insurers, keeps two sets of financial statements: generally accepted accounting principles (GAAP) financial statements and statutory financial statements. The statutory financial statements reflect various regulatory statutes. The "statutory administrative expense ratio" is based on the statutory financial statements.

[35] See Appendix D.

[36] See Appendix B.

Figure 1: Statutory Administrative Expense Ratio Excluding Non-Income Tax Expenses, 2007-2011



Source: Health Annual Statements, SNL Financials.

- HCSC was able to reduce the administrative expense ratios for the BCBS plans that it acquired in Texas, New Mexico, and Oklahoma by streamlining their operations and centralizing various corporate overhead functions including information technology systems.[37] For example, the administrative expense ratio of the Oklahoma plan dropped from 13.4 percent in 2005 (the year of the transaction) to 11.2 percent in 2011.[38] Moreover, even though HCSC streamlined some of the operations at those plans by centralizing them, it did not lay off the employees who had performed them. Instead, HCSC re-trained those employees and then moved them to other jobs.[39]

[37] Interview with HCSC senior management.

[38] Interview with HCSC senior management. These administrative expense ratios reflect both the premium revenues and the ASO revenues.

[39] Interview with HCSC senior management.

VI. Antitrust Implications

Please see NERA's accompanying Antitrust Report for a discussion of the antitrust implications of the proposed alliance. In that report, we conclude that the proposed alliance will have no adverse impact on competition in any health care related market in Montana, including the market for health insurance and the markets for provider services. Thus, in our opinion, there is no likelihood of a substantial lessening of competition in any line of the insurance business or in any provider market.

APPENDIX A: Background Information

A-1: Overview of NERA Economic Consulting

A-2: Thomas R. McCarthy Vitae

A-3: Scott J. Thomas Vitae

A-1: Overview of NERA Economic Consulting

NERA Economic Consulting

- Founded in 1961 as National Economic Research Associates; acquires by Marsh & McLennan Companies in 1983
- Core Purpose: Provide clear and credible expert analyses that have an impact on important decisions through the application of microeconomics and related disciplines
- We provide economic analysis and advice in litigation and regulation, as well as advisory services that help shape business strategies
- Clients include all of the *American Lawyer* Global 100 and 87 of the *Fortune* 100; we have served clients in 120 countries
- ~210 senior consulting staff, most with PhDs
- ~500 total staff in 25 offices across North America, Europe, and Asia Pacific
- 4 global practices: Antitrust; Energy, Environment, Network Industries; Intellectual Property; Securities & Finance

A-2: Thomas R McCarthy Vitae

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Dr. McCarthy received a B.A. in Economics from Assumption College in Worcester, Massachusetts and Master's and Ph.D. degrees in Economics from the University of Maryland under a National Defense Education Act Fellowship. After teaching microeconomic theory and urban economics at the University of Maryland, Dr. McCarthy joined the faculty of the School of Economics and Management of Oakland University in Michigan. There he taught graduate and undergraduate microeconomics as well as health economics, his area of special interest.

Dr. McCarthy joined NERA in 1983 and now directs NERA's health care practice, a practice that specializes in the economic analysis of regulatory, public policy, and litigation matters in health care markets. His own projects include analyzing the competitive effects of many health care industry mergers, including evaluating the horizontal and vertical issues created by mergers of hospitals, hospital systems, health insurers, physician groups, physician practice management companies, imaging and other medical device manufacturers, and home health care companies. In a variety of health care antitrust liability and damages cases, he has analyzed exclusive contracts, physician staff privileges issues, exclusions from managed care panels, GPO contracting, alleged foreclosures due to shifting referral patterns and exclusive contracting (e.g., the *PeaceHealth* case), bundling, joint ventures, hospital and physician monopolization cases, monopsony, and state action immunity issues involving certificates of public advantage covering hospital mergers in Montana and South Carolina. He has also analyzed class certification and liability issues in health care class action cases, including serving as a liability expert in the Miami MDL brought by physicians against ten national HMOs. In the pharmaceuticals area, he recently served as the liability witness on behalf of Lundbeck in the *FTC v. Lundbeck (Ovation)* case. As part of his policy work, Dr. McCarthy has analyzed the competitive effects of a "Blues" conversion to for-profit status and Medicare prescription drug proposals. He is also co-editor and a principal author of a year-long, two-volume study of health care reform in 12 industrialized countries, published by Kluwer.

Another area of specialization for Dr. McCarthy has been the economics of intellectual property protection, including the estimation of contract, trade dress, trade secret and patent damages, often for medical equipment and devices but also including computer hardware, CD-Rs, supermarket equipment, satellites, and agricultural products. He has also worked on antitrust damages or class certification matters involving the pharmaceutical, medical devices, soft drink, agriculture, candy, ice cream, auto parts, oil, video distribution, and newspaper industries. Other major projects include the competitive analysis of revenue sharing agreements used by supermarkets during a recent labor strike, the development of affirmative action plans, and the estimation of damages resulting from a major oil spill.

Prior to joining NERA, Dr. McCarthy was a staff economist with the Federal Trade Commission conducting studies of regulation and competition in health care markets. One such study examined the competitive effects of certificate-of-need regulation in the hospital market.

Dr. McCarthy has written several papers analyzing competition and antitrust damages in health care. These include an article in the *Journal of Health Economics* on competition in the physician services market and articles in ABA monographs on hospital merger efficiencies, monopoly and monopsony issues between payers and providers, antitrust damages, and defining geographic markets in hospital mergers. Other research activities include presentations at professional meetings and his serving as an invited panelist or moderator for various ABA and health care policy conferences. He was also invited by the Federal Trade Commission and the Antitrust Division of the Department of Justice to testify at three different sessions about monopoly and monopsony issues in health care at their joint hearings on Health Care and Competition Law and Policy. He has testified as an economic expert in federal and state court, as well as before arbitration panels, state insurance agencies, and the International Trade Commission.

Dr. McCarthy is a member of the American Economic Association and an associate member of both the American Health Lawyers Association and the American Bar Association's Section of Antitrust Law, including membership with the Section's Health Care Committee. He also served on the American Bar Association's Task Force on Hospital Mergers.

NERA
ECONOMIC CONSULTING

Education

University of Maryland
Ph.D., Economics, 1980
M.A., Economics, 1973

Assumption College
B.A., Economics, 1971

Canisius College
1967-1969

Professional Experience

	NERA Economic Consulting
1996-	Senior Vice President
1989-1996	Vice President
1986-1989	Senior Consultant and Project Director
1983-1986	Senior Analyst
	Federal Trade Commission
1982-1983	Staff Economist, Division of Regulatory Analysis, Bureau of Economics
	Oakland University
1978-1983	Assistant Professor, School of Economics and Management
	Blue Cross/Blue Shield of Michigan
1980-1982	Consultant
	Department of Health, Education and Welfare
1978-1980	Sole-source Contractor, Health Care Financing Administration
	General Electric Tempo
1975-1978	Consultant, Center for Advanced Studies

	University of Maryland
1975-1978	Instructor, Department of Economics
1975	Teaching Assistant, Department of Economics
1971-1973	National Defense Education Act Teaching Fellow

Honors and Professional Activities

Wall Street Journal Award for Outstanding Achievement in Economics, Assumption College, 1971

Graduate Assistantship, University of Maryland, 1974-1975

National Defense Education Act Fellowship, University of Maryland, 1971-1974

Outstanding Faculty Award, Oakland University Chapter of the Golden Key National Honor Society, 1981

Member, American Economic Association

Member, American Health Lawyers Association

Associate Member, American Bar Association, including membership in Section of Antitrust Law and Health Care Committee

Member, ABA Task Force on Hospital Mergers

Publications

"Revenue Sharing Agreements: Do They Restrict Competition?" (with Elizabeth Newlon and Kristin Terris), *ABA Antitrust Law, Economics Committee Newsletter*, Vol. 10, No. 1 (Summer 2010).

"Contracting Practices by Hospitals," Chapter 11, *Economics of Antitrust: New Issues, Questions, and Insights*, NERA Economic Consulting, 2004.

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"Health Care Funding and Its Impact on the Balance of Supply, Demand and the Meeting of Needs," *A New Socio-Economic Order in Twenty-First Century Europe*, Conference Proceedings of the General Assembly of the European Federation of Pharmaceutical Industries' Associations, 1993, pp. 47-54.

"U.S. Health Care Reform: NERA Offers a Number of Recommendations" (with Julie Minnis), *Viewpoint*, Vol. XXII, No. 1 (Winter 1993), pp. 15-21.

"The Effect of City Size on Journey to Work Behavior: Some Empirical Evidence" (with Oded Izraeli), *Perspectives in Urban Geography*, Volume V (Concept Publishing Company, New Delhi, India, 1987).

"The Competitive Nature of the Primary Care Physician Services Market," *Journal of Health Economics*, Vol. 4, No. 2 (June 1985).

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"Beyond Goldfarb: Applying Traditional Antitrust Analysis to Changing Health Markets" (with Geraldine Alpert), *The Antitrust Bulletin*, Vol. 24, No. 2 (Summer 1984), pp. 165-204.

"Commentary," in *A New Approach to the Economics of Health Care*, Mancur Olson, ed., American Enterprise Institute, Washington, DC (December 1981). A review of four papers on Hospital Regulation presented at AEI conference on "Health Care-Professional Ethics, Government Regulation, or Markets," September 25-26, 1980.

Deposition Testimony

Allergan, Inc. v. Merz Pharmaceuticals, LLC, MERZ GmbH & Co. KGaA, MERZ Aesthetics, Inc., et al., January 26, 2012.

Alan Moelleken, M.D., et al. v. Cottage Health System, et al., December 22, 2011.

Saint Alphonsus Diversified Care, Inc. v. MRI Associates, LLP; MRI Associates, LLP, MRI Limited Partnership, and MRI Mobile Limited, Counter-Claimants v. Saint Alphonsus Diversified Care, Inc., Counter-Defendant, July 20, 2011.

The Foundation for Seacoast Health v. Hospital Corporation of America, et al., April 6, 2011.

In Re Aetna UCR Litigation, December 21, 2010.

Diane Hiltman, Mona Rupe, on behalf of themselves and all others similarly situated, and on behalf of the general public v. Farmers Insurance Exchange, An Inter-Insurance Exchange, et al., October 30, 2009.

Federal Trade Commission v. Lundbeck, Inc., State of Minnesota v. Lundbeck, Inc., September 10, 2009.

Kelli Miller, individually and on behalf of all others similarly situated vs. Farmers Insurance Company, Inc., et al., September 2, 2009.

George S. Cohlmia, Jr., MD and Cardiovascular Surgical Specialists, Corp. v. Ardent Health Services, LLC, et al., April 2, 2009.

Carolinas HealthCare System, et al. v. South Carolina Department of Health and Environmental Control, et al., February 24, 2009.

Paul Schwam v. Farmers Insurance Company of Arizona, et al., February 19, 2008.

Carolina Care Plan, Inc. v. United HealthCare Services, Inc. et al., January 29, 2008.

State of California v. Safeway, et al., January 18, 2008.

State of California v. Safeway, et al., August 7, 2006.

Kaswan v. Allergan, May 4, 2006.

Edward Collins, M.D., et al., v. Anthem Health Plans, Inc., February 1, 2006 and November 14, 2003.

Saint Agnes Medical Center, et al. v. PacifiCare of California, et al., March 8, 2005 and October 28, 2005.

In Re: Managed Care Litigation, Provider Track Case relating to Shane I, MDL 1334, February 2, 2005.

U.S. Philips Corporation v. Princo Corporation and Princo America Corporation and Gigastorage Corporation and Gigastorage USA v. U.S. Philips Corporation and Koninkligke Philips Electronics, NV, October 12, 2004.

In the Matter of the Proposed Conversion of Premera Blue Cross to a For-Profit Corporation, Washington State Insurance Commission, December 3-4, 2003.

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Retractable Technologies, Inc. v. Becton Dickinson & Company, et al., August 25, 2003.

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Yvonne Green, on her behalf and on behalf of all others similarly situated, v. Aetna U.S. Healthcare, Inc., et al., October 26, 2001.

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Boston Scientific Corporation v. Mentor Medical, Inc., August 21, 1998.

The County of Tuolumne and Eric Runte v. Sonora Community Hospital, et al., October 2-3, 1997.

St. Mary Medical Group, Inc. v. M & C ProActive Management, Ltd., et al., April 18, 1997.

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American Council of Certified Podiatric Physicians and Surgeons v. American Board of Podiatric Surgery and American Podiatric Medical Association, March 14, 1996.

Retina Associates, P.A. v. Southern Baptist Hospital of Florida, Inc., January 18-19, 1996.

Santa Cruz Medical Clinic and Derjjan Associates, Inc. v. Dominican Santa Cruz Hospital, September 5-6, 1995, October 3-4, 1995 and February 2, 1996.

Trylon Corporation v. Metwest, Inc. and Unilab Corporation, April 7, 1995.

Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc., et al., March 8, 1994 and June 8, 1994.

American Health Advisors and William Phillips v. The University of Texas System, et al., November 9, 1993.

John A. Bakos, M.D. v. Roseville Community Hospital, et al. and John A. Bakos, M.D. v. Donald Franks, M.D., et al., October 8, 1993.

Diasonics, Inc. v. Acuson Corporation, December 8-9, 1992, March 15 and March 24, 1993.

David B. Kaye, M.D., et al. v. California Eye Institute, et al., December 28-29, 1992.

Gerhard Flegel, D.O. and Richard Still, D.O. v. Christian Hospital Northeast-Northwest, et al., August 28, 1992.

Lawrence Leyba, D.O. v. Hartmut Renger, M.D., Anesthesia Specialists of Albuquerque and St. Joseph's Health Care Corporation, August 22, 1991.

Dan A. Morgenstern, M.D. v. Charles S. Wilson, M.D., et al., July 18-19, 1991.

Colorado Orthopedic Dance and Athletic Rehabilitation, P.C. and Linda Perkin v. Preferred Independent Physical Therapy Organization, Inc., October 4, 1990.

Jeanne Call, et al. v. Prudential Insurance Company of America, et al., September 5, 1990.

Weldotron Corporation v. Hobart Corporation and Waldyssa, S.A., March 6-9, 1990, April 30, 1990 and May 1-4, 1990.

AB Food Products, Inc. v. Fabrica de Chocolates La Azteca, The Quaker Oats Company and Gabriel Tello, January 3, 1990.

Thomas Andrew Cherewick and Therapeutic Radiology, P.S.C. v. Northern Rockies Regional Cancer Treatment Center, et al., February 9, 1989.

Dreyer's Grand Ice Cream, Inc. v. Popsicle Industries, Inc., Sara Lee Corporation, and DOES 1-100, December 9 and December 12, 1988.

Michigan State Podiatry Association, et al. v. Blue Cross and Blue Shield of Michigan and Eugene Harper, D.P.M., et al. v. Blue Cross and Blue Shield of Michigan, July 20 and July 21, 1987.

Sun Drop Bottling Company, Inc., et al. v. Coca-Cola Bottling Co. Consolidated and Pepsi-Cola Bottling Company of Charlotte, Inc., January 30 and January 31, 1986.

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Federal Trade Commission v. Lundbeck, Inc., State of Minnesota v. Lundbeck, Inc., (Federal Court, 8th Circuit, District of Minnesota), December 15, 2009.

Komeshak v. Illinois Farmers Insurance Company, et al., (Circuit Court, Twentieth Judicial District, St. Clair County, Illinois), Class Certification Hearing, September 30, 2009.

R.J. McCauley and Roxanne Rogers, et al. v. Farmers Insurance Company, et al., (District Court of Canadian County, State of Oklahoma), Class Certification Hearing, April 22, 2009.

McKenzie-Willamette Hospital v. PeaceHealth (U.S. District Court for the District of Oregon, Portland Division), October 22-23, 2003.

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Gil N. Mileikowsky, M.D. v. Sheldon L. Schein, M.D., et al., (Superior Court of the State of California, County of Los Angeles), October 25, 1993.

Dan A. Morgenstern, M.D. v. Charles S. Wilson, M.D., et al., (U.S. District Court, District of Nebraska), December 9-10, 1991 and September 8-10, 1992.

Sun Drop Bottling Company, Inc., et al. v. Coca-Cola Bottling Co. Consolidated and Pepsi Cola Bottling Company of Charlotte, Inc., (U.S. District Court, Western District of North Carolina), May 29-30, 1986.

Other Testimony

Arbitration Testimony

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Trylon Corporation v. Metwest, Inc. and Unilab Corporation (binding arbitration before Judge Weil); April 19, April 21, May 29, 1995 and July 10, 1995.

Testimony Provided to the International Trade Commission

In the Matter of Certain Recordable Compact Discs and Rewritable Compact Discs (USITC Inv. No. 337-TA-474), Washington, DC, June 19, 2003.

Testimony Provided to State Agencies

Colorado Division of Insurance, Testimony in support of CIGNA's acquisition of Great West Healthcare, Denver, CO, March 11, 2008.

Alaska Division of Insurance, Testimony in support of Premera Blue Cross' proposed conversion to for-profit status, June 9, 2004.

Washington State Office of the Insurance Commissioner, Testimony in support of Premera Blue Cross' proposed conversion to for-profit status, May 5, 2004.

New Mexico Division of Insurance, Testimony in support of Cimarron Health Plan's acquisition of QualMed Plans for Health, Santa Fe, New Mexico, August 30, 1999.

Florida State Department of Insurance, (written) Testimony in support of Aetna, Inc.'s acquisition of Prudential Health Care's Florida Division, Tallahassee, Florida, March 2, 1999 and March 11, 1999.

New Mexico Division of Insurance, Testimony in support of Presbyterian Health Plan's acquisition of FHP of New Mexico, Inc., Santa Fe, New Mexico, October 23, 1997.

Testimony Provided to State Legislative Committee

"The Mission Health System COPA," testimony and presentation to the North Carolina House Select Committee on the Certificate Of Need Process and Related Hospital Issues, Fletcher, North Carolina, October 20, 2011.

Testimony Provided to Federal Agencies

"Health Insurance Monopsony – Competitive Effects," testimony and presentation to The Federal Trade Commission and The Department of Justice Antitrust Division, Hearings on Health Care and Competition Law and Policy, Washington, DC, April 25, 2003.

"Health Insurance Monopsony – Market Definition," testimony and presentation to The Federal Trade Commission and The Department of Justice Antitrust Division, Hearings on Health Care and Competition Law and Policy, Washington, DC, April 24, 2003.

"Contracting Practices," testimony and presentation to The Federal Trade Commission and The Department of Justice Antitrust Division, Hearings on Health Care and Competition Law and Policy, Washington, DC, March 27, 2003.

Certificate of Need Hearing Testimony

Fact-finding hearing before Virginia State Department of Health on behalf of Brandermill Active Retirement Village, Inc. – Evaluation of the Virginia State Department of Health nursing home bed need methodology, October 9, 1986.

Conference Papers and Presentations

"Agreements Among Competitors to Share Revenues During a Labor Dispute under *California v. Safeway, Inc.*," invited speech to the *Los Angeles County Bar Association*, Los Angeles, CA, February 9, 2012.

"*FTC v. Lundbeck* (Ovation): A Retrospective Merger Review," invited speech to the *Antitrust Committee of the New York City Bar Association*, New York, NY, October 21, 2010.

"Unmasking the Wolf: The Universal Applicability of Antitrust Law and Economics?," *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 11, 2009.

"Bundling: Does *PeaceHealth* Tie It All Together?," Moderator, *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 3, 2008.

"When Does the Flow of Competitively Sensitive Information Create Antitrust Concerns?," presentation to *American Health Lawyers Association's Antitrust in Healthcare Conference*, Washington, DC, September 17, 2007.

"How Buying at Low Prices Can Violate the Antitrust Laws: Monopsony Lessons from Healthcare Antitrust Cases," presentation to the *American Bar Association, Section of Antitrust Law Meetings*, Washington, DC, April 19, 2007.

"Health Care Quality and the Measurement of Market Power," invited panelist at *Antitrust and Health Care: Assessing Issues in California and the United States*, a UC-Berkeley conference sponsored by the *Nicholas C. Petris Center on Health Care Markets and Consumer Welfare*, April 30 – May 1, 2004.

"Economics v. Daubert: Roundtable and Moot Hearing," Moderator, *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 6, 2002.

"Leadership in Challenging Times," Directors' Roundtable speech and discussion with the Honorable Timothy Muris, Chairman of the Federal Trade Commission, Los Angeles, CA, April 18, 2002.

"Antitrust Issues Affecting Payors," presentation and paper to conference on "Antitrust in Healthcare," sponsored by the *ABA Section of Antitrust Law, the ABA Health Law Section, and the American Health Lawyers Association*, Washington, DC, May 17-18, 2001.

"Why Tobacco II: What Changes Do Plaintiffs Want in the Use of Financial Incentives in the Managed Care Industry?" Moderator and panelist at *Marsh Health Spectrum Forum on Managed Care Organization Enterprise Risk*, New Orleans, LA, July 13, 2000.

"Use of Economists – Help or Hindrance?" Workshop presentation at *American Health Lawyers' Association Conference* on "Antitrust in the Healthcare Field," Arlington, VA, February 17, 2000.

"Aetna's Acquisition of Prudential Health Care," presentation at *DC Bar Association Luncheon*, Washington, DC, December 14, 1999.

"Restructuring and Competition in the Health Insurance Industry," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 10, 1999.

"Efficiencies Analysis in Hospital Mergers," speech at the *ABA Conference on Antitrust Issues in Health Care*, sponsored by the *ABA Section of Antitrust Law and the Section of Health Law*, in New Orleans, LA, October 16, 1998.

"Restructuring and Competition in the Health Care Industry," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 11, 1998.

"Overview of International Health Care Systems," presentation to the *Eli Lilly and UCLA Anderson School of Business' 1998 Global Health Care Conference* on "Managing Evolving Health Care," Los Angeles, CA, June 26, 1998.

"Current Antitrust Issues for Health Plans," presented to the *American Association of Health Plans' 8th Annual Managed Care Law Conference*, San Diego, CA, April 27-29, 1997.

"Certificates of Public Advantage: The Example of a Great Falls Hospital Merger," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 4, 1996.

"Hospital Mergers and State Action Immunity," speech before the State Action/Noerr Doctrine Committee at the *American Bar Association meetings of the Section of Antitrust Law*, Washington, DC, March 27, 1996.

"The Economics of Vertical Mergers," presented to *Preston, Gates & Ellis Conference* on "Antitrust: Does the Tiger Again Have Teeth?" Seattle, WA, May 5, 1995.

"Analyzing Damages in a Health Care Antitrust Case," presented at *American Bar Association Conference on Antitrust and Health Care*, co-sponsored by the Section of Antitrust Law and the American Bar Association Forum on Health Care, New Orleans, LA, October 7, 1994.

"Health Care Reforms Worldwide," presented at *William M. Mercer International Conference*, New York, NY, September 29, 1994.

"Employer Mandates in Health Care Reform," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 7, 1994.

"Health Care Reforms -- Are They Answering the Right Questions?" Speech to the Financial Times World Pharmaceuticals Conference, *Adapting a Global Industry to the New Health Care Environment*, London, U.K., March 23, 1994.

"Establishing the Relevant Market in Health Care Cases," presented at the *National Health Lawyers Association meetings on Antitrust in the Health Care Field*, Washington, DC, February 18, 1994.

"Cost Crisis in Health Care: A Global Convergence Toward Market-Based Solutions," sponsored by The Center for Strategic and International Studies. The results of NERA's 16-volume study of health care reform in 12 industrialized countries were presented to Congressional staffs on September 15, 1993 in the Senate's Hart Building, Washington, DC (with U. Hoffmeyer and R. Rapp).

"The Implications of Health Care Reform for Antitrust Litigation," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 10, 1993.

"Health Care Funding: It's Impact on the Balance of Supply, Demand and the Meeting of Needs," presented at the *Annual Conference of the European Federation of Pharmaceutical Industries' Associations*, Salzburg, Austria, May 25, 1993.

"Health Care Reform and the European Economic Community," presentation to representatives of various Directorates General of the European Commission, including Mr. Fernand Saur, in charge of pharmaceutical policy for the EC, Brussels, Belgium, May 13, 1993.

"Financing Health Care, with Particular Reference to Medicines," presentation of year long study to CEOs of 35 R&D based pharmaceutical companies, Washington, DC, April 1, 1993.

Discussant, "The Proposed Dutch Health Care System: Moving Away from Employer Based Health Insurance," by Warren Greenberg, *American Economic Association Meetings*, Anaheim, CA, January 7, 1993.

"Effective Use of Economists in Health Care Litigation," presented at the *National Health Lawyers Association meetings on Antitrust in the Health Care Field*, Washington, DC, January 29-31, 1992.

"Calculating Damages For Lost Earnings," presented at *NERA Seminar on Calculating Economic Damages in Employment Cases*, Los Angeles, CA, March 26, 1991.

"Valuing Intangibles in Transfer Pricing Cases," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 7, 1990.

"Estimating Patent Infringement Damages," *NERA Seminar on New Developments in the Economics of Patent Infringement Litigation*, San Francisco, CA, and Los Angeles, CA, December 5 and 6, 1989.

"Competition and Cooperation in the Provision of Health Care," presented at *NERA Seminar on Contracting in the NHS*, London, UK, September 11, 1989.

"A Comparison of the Cluster of Services Approach with the Product Line Approach in Analyzing Hospital Mergers and Acquisitions," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 1987 and *Young Partners Luncheon Series*, New York, NY, October 5, 1987.

"The Application of Franchising Concepts in the Health Care Industry," workshop presented to the *Ninth Annual American Bar Association's Forum Committee on Franchising*, San Antonio, TX, October 23-24, 1986.

"Misuse and Confiscation of Intellectual Property," presented at a *NERA Seminar on Patents: The New Economics (Infringement, Misuse and Damages)*, New York, NY, April 17, 1986.

"Calculating Economic Damages in Wrongful Termination Cases," presented at the *First Annual Employment Litigation Workshop*, sponsored by the *Employee Relations Law Journal*, Williamsburg, VA, September 18-20, 1985.

"An Economic Analysis of Certificate of Need Laws" (with David Kass), presented at the *American Economic Association Meetings*, San Francisco, CA, December 1983.

"Medical, Legal, and Economic Ramifications of Changes in the Health Care System," panelist at the *American Enterprise Institute Conference* on "Restructuring the Health Care Financing System: Policies and Programs" Washington, DC, January 26-27, 1983.

"A Reexamination of Medical Society Control of Blue Shield Plans," discussant of Arnould and Debrock paper at the *Eastern Economic Association Meetings*, Washington, DC, April 29, 1982.

"Public Policy Toward the Health Care Sector," presented to the *Detroit Chapter of the National Association of Health Services Executives*, Pontiac, MI, June 15, 1982.

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Reviewer of four papers on "Regulation – Can It Improve Incentives?" at the *American Enterprise Institute Conference* on "Health Care – Professional Ethics, Government Regulation, or Markets?" Washington, DC, September 25-26, 1980.

"A Model of the Primary Care Physician Firm," presented at the *Eastern Economic Association Meetings*, Montreal, Canada, May 8-10, 1980.

Moderator, *Conference on Physician Manpower Issues – Health Economists' Views* (Reinhardt, Sloan), Oakland University Health Education Program, Rochester, MI, October 16, 1979.

March 2012

A-3: Scott J. Thomas Vitae

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Dr. Thomas received a B.A. *cum laude* in Economics from the University of California, Los Angeles, and M.A. and Ph.D. degrees in Economics from the University of California, Irvine. While in graduate school, he specialized in public choice, industrial organization, and econometrics. His graduate honors included a Regent's Dissertation Fellowship and an Outstanding Graduate Scholar Award.

At NERA, Dr. Thomas has worked on a variety of health care antitrust matters involving hospitals, physicians, insurers, trauma centers, home health providers, skilled nursing centers, laboratories, medical equipment distributors, ambulance companies, and pharmaceutical manufacturers. He has studied relevant markets, monopoly pricing, predatory practices, price discrimination, tying, vertical restraints, mergers and acquisitions, antitrust damages, and class certification issues. Dr. Thomas has also specialized in intellectual property matters involving the medical equipment and pharmaceutical industries. He has focused on the valuation of patents and trade secrets and the calculation of damages resulting from infringement.

In addition, Dr. Thomas has worked on a number of health care commercial damage matters involving hospitals, physicians, laboratories, and pharmaceutical manufacturers. He has applied econometric techniques and financial analysis to calculate damages for tortious interference, breach of contract, and wrongful injury/termination cases. Finally, Dr. Thomas has performed valuations of various businesses, including hospitals and physician practices. He has used strategic projections, financial statements, and stock price data to assess the market value of these entities.

Before joining NERA, Dr. Thomas served on the faculty at the University of California, Irvine. He taught introductory macroeconomics, intermediate macroeconomics, and intermediate microeconomics. His research focused on information and advertising: bill sponsors as voting

cues, stock market reaction to unanticipated legislation, and negative advertisements and voter turnout.

Dr. Thomas has published several papers in the areas of public choice and industrial organization. His article, "Determinants of Legislative Success in House Committees," appeared in the journal *Public Choice*. Another article, "Geographic Market Issues in Hospital Mergers," appeared in a handbook on health care mergers and acquisitions published by the American Bar Association.

He is a member of the American Economic Association and Western Economic Association and an associate member of the American Bar Association's Antitrust, Intellectual Property, and Health Law Sections.

Education

UNIVERSITY OF CALIFORNIA, IRVINE
Ph.D., Economics, 1989
M.A., Economics, 1987
Areas of Concentration: Public Choice
Industrial Organization
Econometrics
Honors: Outstanding Graduate Scholar Award, 1989
Regent's Dissertation Fellowship, 1988-1989

UNIVERSITY OF CALIFORNIA, LOS ANGELES
B.A., Economics, 1979
Honors: Graduated *Cum Laude*

Professional Experience

National Economic Research Associates, Inc.

1999-present Vice President

1993-1999 Senior Consultant

1990-1993 Senior Analyst

University of California, Irvine

1989-1990 Visiting Assistant Professor. Lectured approximately 150 students per quarter in intermediate macroeconomics and intermediate microeconomics.

1989	Teaching Associate. Lectured 266 students in introductory macroeconomics.
1986-1988	Teaching Assistant. Taught discussion sections for econometrics, intermediate macroeconomics, and intermediate microeconomics.
	Crain & Thomas
1979-1985	Senior Partner. Analyzed cement industry structure and performance for a class action antitrust case. Designed campaign contributing strategies for corporate political action committees. Compiled national election statistics by district to determine the effect of congressional redistricting.

Professional Activities

American Bar Association
American Economic Association
Western Economic Association

Publications

"Analyzing Exclusionary Practices in Health Care Matters," prepared for the ABA-AHLA Antitrust in Healthcare Meeting, Washington DC, May 24-25, 2010.

"Analyzing Monopsony in Health Care Matters," prepared for the ABA Antitrust Spring Meeting, Washington DC, April 18-20, 2007.

"Do Not-For-Profit Firms Behave Differently?," *Antitrust Insights,* New York: NERA Economic Consulting, September/October 2005.

"Geographic Market Issues in Hospital Mergers," in Douglas C. Ross and Mark J. Horoschak, *Health Care Mergers and Acquisitions Handbook.* Chicago: American Bar Association, 2003.

"Antitrust Issues Between Payers and Providers," prepared for the ABA-AHLA Health Care Antitrust Meeting, Washington DC, May 17-18, 2001. (Reprinted in two parts in *Antitrust Health Care Chronicle*, Chicago: American Bar Association, Spring 2002 and Summer 2002.)

"Efficiencies Analysis in Hospital Mergers," *Antitrust Health Care Chronicle*, Chicago: American Bar Association, Spring 1999. (Reprinted in Howard Feller, *Antitrust and Healthcare Insights into Analysis and Enforcement*, Chicago: American Bar Association, Spring 1999.)
"Hypothetical Expert Report on Damages," in Laurence H. Pretty, James L. Ewing, IV, and Tom Arnold, *Patent Litigation 1997.* Vol. 2, New York: Practising Law Institute, 1997.

"Analyzing Damages in Health Care Antitrust Cases," in Howard Feller, *Antitrust Developments in Evolving Health Care Markets*, Chicago: American Bar Association, 1996.

"The Effects of Congressional Rules About Bill Cosponsorship on Duplicate Bills: Changing Incentives for Credit Claiming," *Public Choice*, Vol. 75, No. 1, January 1993.

"Determinants of Legislative Success in House Committees," *Public Choice*, Vol. 74, No. 2, September 1992.

"A Negative Advertising Theory of Campaign Expenditures," in W. Mark Crain and Robert D. Tollison, *Predicting Politics*, Ann Arbor: University of Michigan Press, 1990.

"Do Incumbent Campaign Expenditures Matter?," *Journal of Politics*, Vol. 51, No. 4, November 1989.

Speeches

"Analyzing Exclusionary Practices in Health Care," presented at the ABA-AHLA *Antitrust in Healthcare Conference*, Arlington, Virginia, May 25, 2010.

"Analyzing Collusive Monopsony," presented at the NERA *Twenty-Seventh Annual Antitrust & Trade Regulation Seminar*, Santa Fe, New Mexico, July 7, 2006.

"What Approach Should You Use for Calculating Patent Damages: Lost Profits, Reasonable Royalties, or Both?," presented at NERA seminar series on *Intellectual Property Matters*, Newport Beach, California, February 7, 2000 and Los Angeles, California, February 8, 2000.

"Diagnosing Monopoly Pricing," presented at the NERA *Nineteenth Annual Antitrust & Trade Regulation Seminar*, Santa Fe, New Mexico, July 11, 1998.

"Direct and Cross-Examination of a Damages Expert – Demonstrations and Panel Critique," presented at the Practising Law Institute conference on *Patent Litigation 1997*, Beverly Hills, California, September 26, 1997.

"Health Care Business Problems Commonly Analyzed by Economists," presented at the Healthcare Financial Managers Association, Lone Star Chapter, *Spring Symposium*, Dallas, Texas, March 27, 1997.

"Recent Antitrust Developments in the Hospital Industry," presented at the Annual Meeting of Catholic Healthcare West Hospital CFOs, Santa Cruz, California, June 7, 1996.

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Consulting Reports

Interrogatory Response filed on behalf of defendant, in connection with *Richard A. Hynes, M.D., et al. v. Health First, Inc.* in the Circuit Court for Eighteenth Judicial Circuit in and for Brevard County, Florida, Case No. 05-2007-CA-19182, June 15, 2012.

Supplemental Expert Report submitted on behalf of defendants in the United States District Court for the District of Nevada, *Virgin Valley Water District v. Vanguard Piping Systems, et al.*, Case No. 2:09-cv-00309, June 29, 2010.

Rebuttal Expert Report submitted on behalf of defendants in the United States District Court for the District of Nevada, *Virgin Valley Water District v. Vanguard Piping Systems, et al.*, Case No. 2:09-cv-00309, June 28, 2010.

Rebuttal Expert Report submitted on behalf of counterclaimant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), November 13, 2009.

Preliminary Expert Report submitted on behalf of counterclaimant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), July 9, 2009.

Supplemental Expert Report submitted on behalf of defendants in the United States District Court for the Northern District of Oklahoma, *George S. Cohlmia, Jr., M.D., et al. v. Ardent Health Services, LLC, et al.*, Case No. 05-CV-0384 JHP-PJC, March 21, 2009.

Expert Report submitted on behalf of defendants in the United States District Court for the Northern District of Oklahoma, *George S. Cohlmia, Jr., M.D., et al. v. Ardent Health Services, LLC, et al.*, Case No. 05-CV-0384 JHP-PJC, August 14, 2008.

"Supplement to Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Alaska," prepared for Premera Blue Cross, March 8, 2004. (Found on the Alaska Division of Insurance Website.)

"Supplement to Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Washington," prepared for Premera Blue Cross, March 5, 2004. (Found on the Washington Office of Insurance Commissioner Website.)

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Presentations

Part of presentation team on behalf of St. Joseph Health System and Hoag Memorial Presbyterian Hospital at a meeting with the Federal Trade Commission in connection with the proposed affiliation between the two health care systems, June 29, 2012.

Part of presentation team on behalf of LHP Hospital Group, Inc. Saint Mary's Health System, Inc., and Greater Waterbury Health Network, Inc., at a meeting with the Federal Trade Commission in connection with the proposed joint venture between the parties, January 1, 2012.

Part of presentation team on behalf of Renown Health System and Reno Heart Physicians at a meeting with the Federal Trade Commission and Nevada Attorney General's Office in connection with the proposed affiliation between the parties, November 15, 2011.

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Trial Testimony

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September 2012

APPENDIX B: HCSC and BCBSMT Commercial Health Membership, 2007-2011

	HCSC			BCBSMT		
Year	Risk	ASO	Total	Risk	ASO	Total
	(1)	(2)	(3)	(4)	(5)	(6)
2007	4,331,003	7,451,739	11,782,742	156,717	46,814	203,531
2008	4,574,192	7,810,297	12,384,489	147,023	48,420	195,443
2009	4,877,992	7,800,675	12,678,667	139,415	52,657	192,072
2010	4,881,019	7,476,129	12,357,148	145,229	60,219	205,448
2011	4,786,301	8,357,426	13,143,727	142,675	65,534	208,209

Sources. BCBSMT Enrollment for 2007 - 2011.xlsx.
HCSC Membership by Plan 2007-2011 xlsx.

APPENDIX C: NIO Blues Surplus Analysis at 2011 YE

Plan	Total Adjusted Capital	ACL RBC (Required Capital)	RBC Ratio	Capital Required by BCBSA (375% RBC)
	($000,000)	($000,000)		($000,000)
	(1)	(2)	(3)	(4)
Multi-State NIO Blues				
HCSC	$ 8,909 9	$ 726 3	1,226.7 %	$ 2,723 6
Highmark (incl-DE)	4,533.4	704 8	643 2	2,642 9
CareFirst	1,476.1	171 9	858 6	644 7
Regence	1,888 6	194 5	971 0	729 4
Premera	973 1	100 4	969 6	376 3
Wellmark	1,084 3	120 9	897 0	453 3
Multi-State Sub-Total	$ 18,865 2	$ 2,018 7	934 5 %	$ 7,570 3
Large Single-State NIO Blues excl-Blue Shield of California (> 2,000,000 Health Members in 2011)				
Michigan	$ 2,789 7	$ 414 5	673 0 %	$ 1,554 5
Horizon	1,973 2	278 2	709 3	1,043 2
Tennessee	1,491 9	172 1	866.9	645 3
Alabama	991 1	104 8	945 6	393 0
North Carolina	1,816 2	170 6	1,064 7	639 7
Massachusetts	1,626 3	261.0	623 0	978 9
Independence BC	1,906 7	288 1	661 7	1,080 6
Florida	2,924 1	230 1	1,270 8	862 9
Minnesota	1,161 1	145 1	800 2	544 1
Large Sub-Total	$ 16,680 2	$ 2,064.6	807.9 %	$ 7,742 2
Medium Single-State NIO Blues (500,000-2,000,000 Health Members in 2011)				
Excellus NY	$ 1,267 3	$ 200.7	631 4 %	$ 752 7
Triple-S Salud	290 7	44 1	658 7	165 5
Louisiana	873 8	84 5	1,034 4	316 8
Arkansas	632 7	67 8	933 7	254 1
Arizona	891 0	59 9	1,487 7	224 6
South Carolina	1,785 0	212 5	840 0	796.8
Mississippi	561 1	33 2	1,689 4	124 5
Capital BC	810 3	101.6	797 3	381 1
Health Now NY	528.9	84 9	623 3	318.2
Hawaii	406 2	74 2	547.1	278 4
Nebraska	380 3	30.0	1,266 2	112 6
Medium Sub-Total	$ 8,427 3	$ 993 5	848 3 %	$ 3,725 5
Small Single-State NIO Blues, excl-Delaware and Kansas (< 500,000 Health Members in 2011)				
Kansas City	$ 649 6	$ 55 8	1,164 8 %	$ 209 1
Rhode Island	323 4	53 0	610 4	198 7
BC-Idaho	443 8	43 1	1,028 7	161 8
North Dakota	286 8	50 7	566 2	190 0
NE Pennsylvania	295 8	36 9	802 0	138 3
Montana	130 8	22 7	577.3	85 0
Vermont	115 3	17 0	677 3	63 8
Wyoming	179 0	11 1	1,619 3	41 5
Small Sub-Total	$ 2,424 5	$ 290 2	835 6 %	$ 1,088 1
NIO Blues Total	**$ 46,397.2**	**$ 5,366.9**	**864.5 %**	**$ 20,126.0**

Notes RBC denotes as Risk based capital
BS-California excluded due to differences between California Statutory Filings and NAIC filings
BCBS-Kansas excluded because NAIC statutory filings not available

Source Health Annual Statements, SNL Financial

APPENDIX D: General and Administrative Expense: Analysis for HCSC and BCBSMT, 2007-2011

	2007	2008	2009	2010	2011
	($000,000)				
	(1)	(2)	(3)	(4)	(5)
HCSC Actual Results					
Net Premiums Earned	$ 14,774.8	$ 16,455.0	$ 17,764.4	$ 19,960.1	$ 20,324.7
Total Expenses	1,783.4	1,884.7	2,120.8	2,167.8	2,231.5
Expense Ratio	*12.1 %*	*11.5 %*	*11.9 %*	*10.9 %*	*11.0 %*
Expense Adjustments					
Real Estate Taxes	$ (9.8)	$ (10.8)	$ (11.4)	$ (16.6)	$ (13.4)
State & Local Taxes	0.2	0.6	(0.8)	(24.9)	(111.6)
Premium Taxes	(108.8)	(117.2)	(140.9)	(162.4)	(164.5)
Regulatory Authority Fees	(0.4)	(0.2)	(0.9)	(1.6)	(0.5)
Payroll Taxes	(76.2)	(79.7)	(82.0)	(79.6)	(82.4)
Other Taxes	(29.7)	(35.1)	(69.9)	(87.2)	(119.0)
Expenses excl-Taxes & Fees	**$ 1,558.7**	**$ 1,642.2**	**$ 1,815.0**	**$ 1,795.4**	**$ 1,740.2**
Adjusted Expense Ratio	***10.5 %***	***10.0 %***	***10.2 %***	***9.0 %***	***8.6 %***

	2007	2008	2009	2010	2011
	($000,000)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT Actual Results					
Net Premiums Earned	$ 509.0	$ 516.2	$ 503.3	$ 529.3	$ 562.3
Total Expenses	90.0	85.1	84.7	77.2	79.6
Expense Ratio	*17.7 %*	*16.5 %*	*16.8 %*	*14.6 %*	*14.2 %*
Expense Adjustments					
Real Estate Taxes	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)
State & Local Taxes	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Premium Taxes	0.0	0.0	0.0	0.0	0.0
Regulatory Authority Fees	(0.6)	(0.1)	0.0	(0.1)	(0.6)
Payroll Taxes	(2.4)	(2.2)	(2.6)	(2.5)	(2.4)
Other Taxes	(3.7)	(4.0)	(3.6)	(4.1)	(4.5)
Expenses excl-Taxes & Fees	**$ 83.0**	**$ 78.5**	**$ 78.2**	**$ 70.1**	**$ 71.8**
Adjusted Expense Ratio	***16.3 %***	***15.2 %***	***15.5 %***	***13.2 %***	***12.8 %***

Source: Health Annual Statements, SNL Financial.

APPENDIX E: NIO Blues Underwriting Margin, 2010-2011

Plan	2010 Premium Revenues	2010 Net Underwriting Gain	2010 Underwriting Margin	2011 Premium Revenues	2011 Net Underwriting Gain	2011 Underwriting Margin
	($000,000)			($000,000)		
	(1)	(2)	(3)	(4)	(5)	(6)
Multi-State NIO Blues						
HCSC	$ 19,960 1	$ 1,253 0	6.3 %	$ 20,324 7	$ 1,533 5	7 5 %
Highmark (incl-DE)	12,096 0	0 2	0 0	12,121 0	486 2	4 0
CareFirst	6,778 5	220 5	3 3	6,940 2	73 6	1 1
Regence	6,003 8	45 1	0.8	5,814 0	(98 8)	(1 7)
Premera	2,787 2	68 2	2 4	2,959.3	86 3	2 9
Wellmark	3,119 0	60 7	1 9	3,204 2	660 6	20 6
Multi-State Sub-Total	$ 50,744 7	$ 1,647 7	3 2 %	$ 51,363 3	$ 2,741.4	5 3 %
Large Single-State NIO Blues excl-Blue Shield of California (> 2,000,000 Health Members in 2011)						
Michigan	$ 8,966 1	$ 5 5	0 1 %	$ 9,028 2	$ 90 4	1 0 %
Horizon	7,958 3	20.5	0 3	8,316 4	73 3	0 9
Tennessee	4,767 9	104 9	2 2	5,128 1	234 1	4 6
Alabama	4,273 3	159 0	3 7	4,105 6	250 4	6 1
North Carolina	4,682 9	(27 8)	(0 6)	4,971 3	112 5	2 3
Massachusetts	6,313 7	(100 7)	(1 6)	6,346 2	42.7	0 7
Independence BC	9,975 0	213 5	2 1	9,392 9	287 0	3 1
Florida	7,432 4	370.2	5 0	7,469 3	124 0	1 7
Minnesota	3,837 8	104 7	2.7	3,995.7	168 2	4 2
Large Sub-Total	$ 58,207 3	$ 849 9	1.5 %	$ 58,753 6	$ 1,382 5	2 4 %
Medium Single-State NIO Blues (500,000-2,000,000 Health Members in 2011)						
Excellus NY	$ 5,172 2	$ 33 0	0 6 %	$ 5,664 1	$ 156 9	2 8 %
Triple-S Salud	2,081 0	50 5	2 4	1,890.5	26.1	1 4
Louisiana	2,303 5	17 5	0.8	2,508 4	20 9	0 8
Arkansas	1,334 1	82 2	6 2	1,406 1	58 6	4 2
Arizona	1,494 8	76 8	5 1	1,441 9	81 3	5 6
South Carolina	2,478 1	68.2	2 8	2,661 9	81 3	3 1
Mississippi	1,072 7	7 6	0 7	1,108 2	8 0	0 7
Capital BC	1,937 9	20 2	1 0	2,012 8	31 2	1 6
Health Now NY	2,397 1	26 4	1 1	2,396 6	(17 6)	(0 7)
Hawaii	1,763 5	(26 4)	(1 5)	2,064.4	22 3	1 1
Nebraska	1,334 0	44 9	3 4	1,448 1	(0 1)	(0 0)
Medium Sub-Total	$ 23,368 9	$ 400 8	1 7 %	$ 24,602 9	$ 468 9	1 9 %
Small Single-State NIO Blues, excl-Delaware and Kansas (< 500,000 Health Members in 2011)						
Kansas City	$ 1,550 1	$ 28 8	1 9 %	$ 1,618 5	$ 428 7	26 5 %
Rhode Island	1,631 1	(60 6)	(3 7)	1,568 9	75 3	4.8
BC-Idaho	1,148 5	27 3	2 4	1,230.4	45 1	3 7
North Dakota	988 4	11 1	1 1	1,056 2	25 0	2.4
NE Pennsylvania	722 2	(31 4)	(4 4)	639 1	(53 9)	(8 4)
Montana	529 3	(6 2)	(1 2)	562 3	(5 4)	(1 0)
Vermont	415 6	10 9	2 6	460 6	5 7	1 2
Wyoming	233 4	14 2	6 1	254 0	20 4	8.0
Small Sub-Total	$ 7,218 5	$ (6 0)	(0 1) %	$ 7,389 9	$ 540 8	7 3 %
NIO Blues Total	**$ 139,539.4**	**$ 2,892.4**	**2.1 %**	**$ 142,109.7**	**$ 5,133.6**	**3.6 %**

Notes: BS-California excluded due to differences between California Statutory Filings and NAIC filings
BCBS-Kansas excluded because NAIC statutory filings not available

Source: Health Annual Statements, SNL Financial

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Report Prepared By

Actuarial Services & Financial Modeling, Inc.

As Requested By

Blue Cross Blue Shield of Montana

Regarding

Actuarial Appraisal of Certain Health Care Contracts

With Appraisal Dates of January 1, 2013 and June 30, 2012

Report Dated: November 9, 2012

By:

James P. Galasso, FSA, MAAA
President & Consulting Actuary
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I. EXECUTIVE SUMMARY

Actuarial Services & Financial Modeling, Inc. [dba Actuarial Modeling ("ActMod")] cautions the reader of this Executive Summary of the need to review the complete Report including Attachments to appreciate its purpose, scope, and limitations. This Executive Summary is provided as a convenience to the reader to summarize the key observations and conclusions that are discussed in detail in the body of this Report. The key observations and conclusions are as follows:

A. That this Report discusses ActMod's independent Actuarial Appraisal (the "Appraisal") of certain health care contracts (the "Modeled Business Segments") written and administered by Blue Cross Blue Shield of Montana ("BCBSMT").

B. That BCBSMT has announced the likelihood of an alliance with the Health Care Service Corporation (dba Blue Cross Blue Shield of Illinois/Texas/New Mexico/Oklahoma), or "HCSC." The purpose of ActMod's Appraisal, however, is not specific to a potential HCSC alliance but is to assist BCBSMT with respect to any transaction regarding the possible transfer of BCBSMT's obligations and cash flows related to the Modeled Business Segments.

C. That ActMod believes the recent financial experience of BCBSMT and certain requirements of the Affordable Care Act ("ACA"), specifically as regards smaller health insurers, challenge the ongoing financial viability of BCBSMT.

D. That using what ActMod considers reasonable assumptions, we developed various scenarios for the Modeled Business Segments that produced independent Appraisal Values with Appraisal Dates of January 1, 2013 and June 30, 2012.

   For the January 1, 2013 Appraisal Date, Appraisal Values ranged from $0.1 million to $41.6 million. While it is customary to prepare Appraisals with a range of reasonable values, BCBSMT requested that ActMod provide a single and specific Appraisal Value that we considered reasonable. In response to this request, ActMod developed a specific Appraisal Value of $18.6 million for this January 1, 2013 Appraisal Date. We request that any reader of this Report refer to the body of the Report for ActMod's caveats concerning the development of a single and specific Appraisal Value.

   For the June 30, 2012 Appraisal Date, Appraisal Values ranged from $0.0 million to $39.5 million. Consistent with the above single and specific Appraisal Value for a January 1, 2013 Appraisal Date, ActMod developed an Appraisal Value of $17.6 million for this June 30, 2012 Appraisal Date. Again, we request that any reader of this Report refer to the body of the Report for ActMod's caveats concerning the development of a single and specific Appraisal Value.

E. In ActMod's opinion our Appraisal reflects certain intangible assets related to the cash flow of the contracts that were the subject of our review. Specifically, the intangible value of the "customer list" that generates the cash flow is included in our Appraisal. In addition, the intellectual property and infrastructure that is expected to generate the substantial cash flows attributable to new business written after the valuation date is reflected in our Appraisal. Since no reduction in cash flows was attributed to the potential loss of the Blue Cross Blue Shield franchise enjoyed by BCBSMT, the intangible value attributable to this franchise, in ActMod's opinion, is also reflected in our Appraisal.

II. GENERAL BACKGROUND AND SCOPE OF SERVICES

BCBSMT is one of 38 independent community-based and locally operated Blue Cross Blue Shield companies licensed by the Blue Cross and Blue Shield Association ("BCBSA").

Recent years have been financially challenging to BCBSMT as Exhibit 5 clearly illustrates. There have been no net underwriting gains reported in the calendar year-end Statutory financial statements filed with the Montana Commissioner of Securities and Insurance ("CSI") since 2007. Net underwriting losses from 2008 to 2011 ranged from $0.8 million for calendar year 2008 to $17.6 million for calendar year 2009. Net underwriting losses for 2011, the most recent calendar year reporting period, amounted to $5.4 million.

Perhaps even more significant is the 24% decrease in BCBSMT's Risk-Based Capital ("RBC") Ratio from 760.1% as of 12/31/2007 to 577.3% as of 12/31/2011 (please see Exhibit 6). If there were a single factor most reflective of the financial health of a Managed Care Organization ("MCO"), it would likely be the RBC Ratio – or, more significantly the trend in the RBC Ratio. While 577% is comfortably in excess of the BCBSA minimum level of 375%, the trend is obviously troubling.

With under $600 million of Premium Income (as reported in the 2011 Statutory Financial Statement), we consider BCBSMT to be a relatively small MCO. This is especially true when BCBSMT is compared to the largest national MCOs. Exhibit 12 compares the revenues and employees of the eleven largest public MCOs to BCBSMT (i.e. the MCOs that were members of the Fortune 500 club for the 2011 calendar year). Revenues for these large MCOs are from 9 to 181 times larger than BCBSMT's revenues. Similarly, the number of employees for these large MCOs range from 8 to 185 times that of BCBSMT's.

In ActMod's opinion, scale matters from at least three very important perspectives:

A. MCOs require economy of scale if they are to maintain profitability and compete on price with the larger players.

B. It will be increasingly essential for an MCO to make sufficient capital investments for it to remain competitive while developing innovative health care programs and providing Members with satisfactory service in an ever changing and challenging environment. Many initiatives will require large fixed investments that will prove difficult or impossible for smaller MCOs with limited resources.

C. We believe that there is an industry consensus that the Affordable Care Act ("ACA") will make it much more difficult for smaller plans to remain financially viable and that industry consolidation is very likely if not inevitable. For example, the ACA mandates minimum medical loss ratios and focuses the industry on improving medical care delivery while restraining future costs via innovative and likely costly investments and/or alliances. In addition, the health care exchanges are specifically designed to increase competition, partially by facilitating price comparisons for various MCO offerings. The economies of scale enjoyed by the larger MCOs are expected to provide them with price advantages over smaller MCOs.

BCBSMT management recognized these challenges and initiated a review of its strategic position, including the potential merging of its businesses or an acquisition/alliance by or with a larger MCO.

In this regard, ActMod was engaged to assist BCBSMT in its discussions with potential acquirers by developing an independent appraisal of the expected cash flows associated with the Modeled Business Segments. ActMod also understands that such a transaction will almost certainly involve discussions with the Montana Commissioner of Securities and Insurance ("CSI"). ActMod has agreed to assist BCBSMT with respect to responding to questions the CSI may have with respect to our Appraisal.

Please note that throughout this report (the "Report") the definition of capitalized terms not defined in the body of the Report can generally be found in Exhibit 2 ("Definitions and Industry Terminology").

The scope of ActMod's assignment was limited to preparing projected cash flows and corresponding present values for the "Modeled Business Segments." The nine Modeled Business Segments addressed by our Appraisal consist of:

A. Individual Business Segment ("Individual"): This segment consists of health care polices purchased by individual Subscribers. These policies are also sometimes referred to as "Direct Pay."

B. Small Group Business Segment ("Small Group"): The data provided to ActMod for review define this segment as health care policies purchased by employers with fewer than 51 employees. The Affordable Care Act ("ACA") defines small groups as employers with less than 101 employees but permits states to define small groups as employers with less than 51 employees until January 1, 2016 (at which time small groups must be defined as employers with less than 101 employees).

   Since ActMod does not believe that BCBSMT will be materially challenged with respect to meeting the ACA-Defined minimum Medical Loss Ratios for either the Small Group or Large Group Business Segments [please see Section IV. Scenario 1: (A) below], ActMod does not believe that the definition of Small Group materially impacts our Appraisal.

C. Large Group Business Segment ("Large Group"): This segment consists of health care policies purchased by employers with 51 or more employees.

D. Medicare Supplement Business Segment ("Medicare Supplement"): This segment consists of supplemental health care policies (also called "Medigap" policies) purchased by individuals enrolled in the traditional Medicare program.

E. Medicare Part D Business Segment ("Medicare Part D"): This segment consists of government-subsidized prescription drug policies purchased by Medicare eligible individuals.

F. Federal Employee Program Business Segment ("FEP"): This segment consists of health care policy offerings to federal employees. The FEP program offers individual federal employees a choice of health care plans from a multitude of health care plans. BCBSA negotiates with the U.S. Office of Personnel Management a common FEP benefit plan that is offered by all Blue Cross Blue Shield plans. BCBSMT writes the FEP benefit plans offered to Federal employees residing in Montana.

G. Students Business Segment ("Students"): This segment consists of health care policies designed for and sold to college students.

H. Self-Funded Business Segment ("Self-Funded"): This segment consists of health care policies administered by BCBSMT and purchased by larger employers capable of assuming some or all of the underwriting risk normally assumed by BCBSMT.

I. Stop Loss Business Segment ("Stop Loss"): This segment consists of health care policies that are supplemental to self-funded policies. Employers purchasing self-funded policies often purchase these Stop Loss policies to protect them from catastrophic losses. BCBSMT reinsures 75% of the risk it assumes from these Stop Loss policies on a Quota Share basis to protect it from these same catastrophic losses. The Appraisal values only the cash flows for the 25% of the Stop Loss financial experience retained by BCBSMT.

Exhibit 4 shows the distribution of Premiums Earned and Members served for each of the nine Modeled Business Segments for the six-month period ending June 30, 2012.

At the present time there are several non-modeled Business Segments (i.e. an Administrative Services Contract servicing Montana State employees, a Medicare Advantage Business Segment, and minor miscellaneous activities) that are not considered in the Appraisal. BCBSMT has indicated that these non-modeled Business Segments will either terminate prior to January 1, 2013 (i.e. one of two Appraisal Dates) or are immaterial to the Appraisal.

While we consider our Appraisal to be independent, a definition of "independence" is necessary to clarify ActMod's role in completing our assignment. For example, all of the data required to prepare our Appraisal was provided to ActMod by BCBSMT. ActMod reviewed this data for reasonableness but did not conduct a detailed review or audit. In addition, since future results depend upon current management plans and actions, the most critical assumptions required for our Appraisal were based on detailed discussions with BCBSMT management and technical personnel. Again, ActMod reviewed the ultimate assumptions for reasonableness but relied on BCBSMT's input for many of the key assumptions.

In our opinion, such reliance is not only appropriate but essential to our developing the most accurate Appraisal. This is similar to an investment analyst interviewing a company's management and considering the company's guidance with respect to evaluating expectations regarding the company's prospective financial results.

In addition, we believe such reliance is typical and universal when an external and independent actuary is asked to assist a company with complex actuarial issues – especially actuarial issues requiring the detailed review of a company's own data and/or the analysis of the impact of company management's actions.

Accordingly, we define an independent Appraisal as an Appraisal developed with material reliance on company personnel but with our conclusions and results reflective of our professional judgment and unbiased as to direction.

This Report identifies those instances for which we relied on the company and, in particular, we identify the following individuals upon whom we relied most heavily in gathering data and preparing our Appraisal:

Chief Financial Officer: Mark Burzynski, CPA
Chief Actuary: James Spencer, FSA, MAAA
Controller: Chris Manger, CPA

In preparing our Appraisal and this Report, ActMod specifically considered the following Actuarial Standards of Practice ("ASOP"):

A. ASOP No. 19: Appraisals of Casualty, Health, and Life Insurance Businesses; Revised Edition, Adopted June 2005, Updated May 1, 2011 (Doc. No. 137)

B. ASOP No. 23: Data Quality; Revised Edition, Adopted December 2004, Updated May 1, 2011 (Doc. No. 141)

C. ASOP No. 41: Actuarial Communications; Adopted December 2010 (Doc. No. 120)

III. METHODOLOGIES USED FOR THE ACTUARIAL APPRAISAL

To prepare our Appraisal, ActMod relied extensively on two of our proprietary actuarial health care models that we developed specifically for the purpose of evaluating both historical and projected financial results for short-term health care policies (i.e. the type of policies offered by the Modeled Business Segments that are the subject of this Report). The model that analyzes historical financial results is called the "Segmenter." The more complex model used to project and analyze future cash flows is called the "Optimizer."

In addition to a multitude of complex algorithms integral to both the Segmenter and the Optimizer, the models also require accurate detailed data and numerous reasonable input assumptions if the results produced from either model are to be credible. As previously noted, we reviewed the information for reasonableness but relied on the detailed data provided by BCBSMT and discussed all of the critical input assumptions with BCBSMT management and technical personnel. Following is a summary of the key steps ActMod followed to produce the Appraisal and the results discussed throughout this Report:

A. **Capture Historical Financial Information**: The critical driver of the Appraisal is the historical financial experience analyzed by the Segmenter that is used to develop the various "Starting Points" for the projections prepared by the Optimizer. In this regard, both BCBSMT and ActMod spent considerable time preparing the data to accommodate the Segmenter.

This required that BCBSMT provide ActMod with detailed month-by-month financial information for each of the Modeled Business Segments as well as the non-modeled Business Segments. The non-modeled Business Segments were required since this process required an aggregate reconciliation to BCBSMT's Statutory Financial Statements.

BCBSMT provided ActMod with 30 months of historical financial information (i.e. information from January 2010 through June 2012) in our requested format. In addition to reconciling the information to the 2010 and 2011 Annual Statutory Financial Statements ("STAT" Financial Statements), BCBSMT also provided ActMod with STAT-adjusted financial statements that this Report refers to as "Management GAAP" financials (i.e. financial statements prepared more consistent with Generally Accepted Accounting Principles). In addition to the Management GAAP "Reported" financials, ActMod was also provided with Management GAAP "Recast" financials. The "Recast" financials replace "Reported" actuarial claim liability estimates with "Recast" estimates based on claim information not available when the estimates were first reported (i.e. claims paid after the claim incurral dates, which is generally referred to as "claim runout"). The STAT to Management GAAP Recast adjustments were necessary for ActMod to have a more credible basis for financial analysis. For example, the three largest adjustments consisted of:

(1) Recast versus Reported Claim Liability Estimates: The Claim Liability Estimates in the Management GAAP Recast financials reflect the following three adjustments to the corresponding estimates in the Reported financials:

(a) Removal of Margin: BCBSMT includes a 20% margin for potential adverse deviation in its claim liability estimates. This is a relatively high margin percentage compared to industry norms which in ActMod's opinion is closer to an average of 5% to 10% (with smaller companies such as BCBSMT maintaining margins closer to the high end of this range). This margin was completely removed in the Management GAAP Recast financials provided to ActMod for review.

It is important to recognize that claim liability margins do not necessarily cause a material distortion to reported earnings in a financial statement. That is, reported earnings are impacted only by the **change** in the claim liability from the beginning of a reporting period to the end of a reporting period. Therefore if the margin is identical at the beginning and end of a reporting period, there is no impact on reported earnings.

(b) Removal of Seasonality Adjustment: The Reported financials include a seasonality reserve that attempts to smooth a claim pattern that BCBSMT indicated results in lower claims costs during the first part of a calendar year with claims costs increasing as the calendar year progresses. This is not an unusual pattern for a Managed Care Organization ("MCO") and is typically caused by calendar year deductibles. The contractual claim obligations of an MCO increases as Members satisfy their deductibles throughout a calendar year. The Management GAAP Recast financials remove this seasonality reserve.

This seasonality pattern is demonstrated in Exhibit 7(a), which shows the first and second half financial experience for calendar years 2010 and 2011. The first half medical loss ratios of 80.4% and 80.7% are materially lower than their second half counterparts of 83.8% and 84.5% for calendar years 2010 and 2011, respectively.

(c) Prior Period Corrections: The need for margin in a claim liability estimate is attributable to the fact that actual results will almost always differ from the liability estimate. The Management GAAP Recast financials replace prior period claim payment estimates with actual claim payments known at the time of the recast date. The Management GAAP Recast financials used for ActMod's Appraisal reflect all known claim payments through July 31, 2012.

(2) Accounting for Administrative Services Contract ("ASC") Fees and Expenses: The STAT financial statements include net amounts by subtracting the allocated expenses from the ASC Fees for the Self-Funded Business Segment. The break out of the netted amounts was necessary for ActMod to have a basis from which to independently project the ASC Fees and the allocated expenses for the Self-Funded Business Segment.

While FEP is technically a Fully Insured program and accounted for as such by the STAT statements, FEP actually operates as more of Self-Funded program for BCBSMT. In addition, FEP premiums are so large relative to the other Modeled Business Segments that ActMod was concerned that including FEP premiums would distort our analysis. Accordingly, our Appraisal treated FEP as if it were a Self-Funded program (i.e. the financial results are driven more by Admin Fees than actual Premium dollars).

Annualized Admin Fees amount to over $8 million for FEP and over $12 million for the Self-Funded Business Unit. Accounting for these amounts would have been masked had ActMod used the STAT versus Management GAAP financials for these two Business Segments.

(3) STAT Depreciation and Amortization: There was approximately $2.5 million of STAT Depreciation and Amortization expenses in the 2011 STAT statements that were not allocated to specific Modeled Business Segments for the Management GAAP financial information used for our analysis. Our analysis, however, includes an assumed fixed depreciation and amortization expense of $2 million for each projection year one through five and $1 million of fixed depreciation and amortization expenses for projection years six through twenty.

In addition to this annual fixed depreciation and amortization expense, BCBSMT also believes that the ACA impact on the health care industry will require additional capital expenditures essential to an MCO's long term financial and marketplace viability. This could include the need to invest in alliances and/or investments designed to improve medical care delivery while lowering administrative costs.

In addition, BCBSMT advised ActMod that recent financial challenges have prevented BCBSMT from making even more traditional capital expenditures such as those required for continuous improvements in administrative and claim processing systems.

Accordingly, the Appraisal assumes an additional $2 million per year for future initiatives for each of the 20 Projection Years. We note that this $2 million amounts to a relatively modest 0.3% to 0.4% of annual revenues projected for the Modeled Segments.

The 30-months of Management GAAP financial information (both Reported and Recast) that BCBSMT provided ActMod by Business Segment and used for our Appraisal included:

(1) Membership

(2) Earned Premium

(3) Admin Fees

(4) Incurred Claims: both Reported Incurred Claims and Recast Incurred Claims

(5) Administrative Expenses

(a) General Admin Expenses

(b) Commissions

(c) Montana Comprehensive Health Association ("MCHA") Assessments

The Montana Comprehensive Health Association (MCHA) is a program that offers individual health care policies to eligible Montana residents who are considered uninsurable due to medical conditions. The MCHA is also made available to certain persons for whom group coverage has been terminated. The MCHA is sometimes referred to as Montana's "high-risk" pool. BCBSMT pays a 1.1% MCHA Assessment Fee in lieu of the higher state premium tax rate of 2.75%.

B. **Populate the Optimizer**: The Optimizer was then populated with:

(1) The information discussed in item A above with the following adjustments:

(a) Commission rate levels for the entire projection period were assumed to be reduced from current levels by one percentage point from 5.59% to 4.59% for the Individual Business Segment and from 6.11% to 5.11% for the Small Group Business Segment. Commission rates for all the other Business Segments were assumed to equal commissions currently paid by BCBSMT.

In ActMod's opinion, this reduction in commissions is consistent with current industry actions for MCOs that must operate within the ACA-Defined minimum Medical Loss Ratios for the Individual and Small Group Business Segments.

(b) MCHA Assessments of 1.1% of premium were replaced with Montana's current premium tax rate of 2.75%. The reason for this revision is attributable to the assumption that a potential acquirer, depending on its corporate structure, may be subject to Montana's applicable premium tax rate in lieu of the lower MCHA Assessment fee currently paid by BCBSMT.

(2) Other assumptions as described in Section V below.

C. **Optimizer Modules and Algorithms**: Following are the critical modules and algorithms used by the Optimizer (the "Model") to prepare the Appraisal:

(1) **Core Projection Period**: The Core Projection Period is defined as the first five Projection Years. This is distinguished from the below described "Extended Projection Period", which is defined as Projection Years six through twenty.

The Core Projection Period consists of 60 month-by-month projections during which assumptions can generally vary by Projection Year and/or Projection Month (i.e. by renewal anniversary month).

For example, Medical Loss Ratios, Medical Trends, Member Lapses, Premium Rate Changes, ASC Fees, and administrative expense factors may all vary by Projection Year within the Core Projection Period.

(2) **Extended Projection Period**: The Extended Projection Period is defined as Projection Years six through twenty. In general, the Model maintains the Projection Year 5 factors (e.g. Medical Loss Ratios, Medical Trends, and Administrative Expense Ratios) throughout the Extended Projection Period.

The primary variable during the Extended Projection Period is the new sales assumption. For example, new sales are generally assumed to decrease from that assumed during the Core Projection Period.

It is ActMod's opinion that a potential acquirer will likely place a lesser value on new sales projected beyond a certain point but we have not attempted to model this unknown factor other than to assume what we consider to be a relatively modest reduction in New Sales during the Extended Projection Period.

(3) **Medical Cost Projections**: The Model requires annual Medical Trend assumptions for each Projection Year during the Core Projection Period. The Model applies the Medical Trends monthly throughout the Core Projection Period. Medical Trends during the Extended Projection Period are applied annually and are assumed to equal the annual Medical Trend rate assumed for Projection Year 5.

The Medical Trends assumed for Base Scenario 1 by Business Segment and Projection Year are shown in Exhibit 9(a). Since the valuation is much more sensitive to Medical Loss Ratio assumptions than Medical Trends, Medical Trends were not varied by Scenario.

It is important to discuss assumptions for calendar year 2014; the year when ACA first prohibits the underwriting of individuals or groups. The ACA addresses the expectation of significant Adverse Selection attributable to the elimination of underwriting via several "Risk Mitigation" initiatives. A very high level description of the Risk Mitigation programs mandated by the ACA follows:

(a) A Transition Period Reinsurance program for calendar years 2014 through 2016: The insurance industry (including MCOs and self-funded employer plans) will be assessed $20 billion during this three year period that will be available to companies for these three calendar years to cover claims in excess of defined amounts for Members enrolled in Individual Non-Grandfathered Benefit Plans. An additional $5 billion assessment for this three year period that will be retained by the U.S. Treasury in its general fund is also imposed on the insurance industry.

(b) Transition Risk Corridor protection for calendar years 2014 through 2016: The U.S. government will essentially participate in a risk corridor program covering Individual and Small Group benefit plans. Insurance companies (including MCOs) will assume 100% of the risk between an expected claim corridor (i.e. exclusive of Retention) of 97% and 103%. Insurers with total claim costs below the 97% threshold will make defined payments to the U.S. Government. Insurers with total claim costs in excess of the 103% threshold will receive defined payments from the U.S. Government.

(c) Risk-adjustment protocols: This is a permanent program to be defined by the U.S. Health and Human Services Department ("HHS") and administered by each State. All insurance companies (including MCOs but excluding self-funded plans) must participate. The program will transfer funds from insurers with Members below average risk characteristics to insurers with Members above average risk characteristics.

The collective impact of the above programs in conjunction with the underwriting prohibition effective January 1, 2014 has created a highly uncertain environment. ActMod believes that any industry consensus is largely restricted to the near certainty that the Individual and Small Group risk pools will experience material Adverse Selection.

Based on significant discussions with the BCBSMT Chief Actuary, our projection reflects the following simplified assumptions with respect to the 2014 uncertainties:

(a) That the Individual and Small Group Business Segments will experience substantial increases in Medical Trends; from 8.0% in 2013 to 25.0% in 2014 for the Individual Business Segment and from 8.0% in 2013 to 18.0% in 2014 for the Small Group Business Segment.

As can be seen in Exhibit 9(a), the high Medical Trend assumptions for 2014 revert to the more normal levels of 8.0% for each the Individual and Small Group Business Segments in 2015.

(b) That the MLRs for the Individual and Small Group Business Segments will be largely protected by the above noted ACA-mandated Risk Mitigation initiatives. Specifically, we have assumed the following:

(1) That the MLRs for the Individual Business Segment will be 83.0%, 85.0%, and 80% for calendar years 2013, 2014, and 2015, respectively. That is, that there will be a relatively modest deterioration of two percentage points in 2014 followed by a very favorable five percentage point improvement in 2015. The 2015 improvement is ascribed to both the Risk Mitigation initiatives and an understanding of the 2014 costs that will be reflected by BCBSMT in 2015 premium rates.

(2) That the MLRs for the Small Group Business Segment will be 79.8%, 79.5%, and 79.0% for calendar years 2013, 2014, and 2015, respectively. That is, that the ACA Risk Mitigation initiatives and BCBSMT pricing actions will be sufficient to prevent any MLR deterioration between calendar years 2013 and 2014.

(c) That industry activity (e.g. competition) and BCBSMT actions to protect its financial viability will materially and negatively impact new sales for the Individual and Small Group Business Segments. Consistent with recent history, new sales during the Core Period is generally assumed to replace 100% of Member lapses (i.e. a 100% Lapse Replacement Ratio attributable to new sales). For the 2014 calendar year, however, our projection assumes a Lapse Replacement Ratio of 75% for new sales for the Individual and Small Group Business Segments.

(4) **Premium and Medical Loss Ratio Projections**: Once Medical Costs are projected the current Premium Rates and the assumed Premium Rate Changes determine the Medical Loss Ratios. Alternatively and consistent with the algorithm used for our projections, the assumed Medical Loss Ratios and projected Medical Costs were used to determine the Premium Rate Changes. This Appraisal makes several simplifying assumptions to make the Appraisal more understandable and consistent with the assumptions that ActMod and BCBSMT agreed are reasonable. The simplifying assumptions are as follows:

(a) That all Members renew on January 1 of each calendar year (versus renewing on their actual renewal month during the calendar year).

(b) That all Members lapse on January 1 of each calendar year (versus most lapses occurring on their actual renewal month with lesser lapses occurring throughout the calendar year).

(c) That the target MLRs discussed in item (d) below and the assumed Medical Trends result in the assumed Premium Rate Changes. The Scenario 1 assumed Premium Rate Changes by Business Segment and Projection Year are shown in Exhibit 9(a).

(d) That target Medical Loss Ratios ("MLR") were defined for the Model by Business Segment and Projection Year. These defined MLRs were established after extensive review by ActMod of actual recent MLRs and discussions with BCBSMT management regarding future plans and expectations – including, of course, the potential impact of the Affordable Care Act ("ACA").

While both ActMod and BCBSMT's Chief Actuary believe that the MLRs used for ActMod's Base Scenario (i.e. Scenario 1), are reasonable, Exhibits 7(a) and 7(b) show the material improvement for the projected periods compared to recent historical experience. Please note that from this point forward, unless otherwise stated, financial results are based on "Management GAAP Recast" financials versus "Reported" or Statutory financial statements. Specifically, we note thee following:

(1) Exhibit 7(a) shows calendar year 2011 underwriting results as essentially break-even with underwriting gains of 0.1% of Premium; this is an improvement over the 2010 underwriting losses of 0.6% that is also shown in Exhibit 7(a).

(2) Exhibit 7(a) also shows underwriting results for the first six months of 2012 as being much closer to the corresponding period for calendar year 2010 than the more favorable results for calendar year 2011. Specifically the first six months of underwriting gains are 0.6%, 2.4%, and 0.9% for calendar years 2010, 2011, and the first six months of 2012, respectively.

    We also note that the MLR for the first six months of 2012 is materially higher than that for the corresponding period for both 2010 and 2011 (i.e. 83.2% for the first six months of 2012 versus 80.4% and 80.7% for 2010 and 2011, respectively).

    This suggests that the full 2012 calendar year will likely be another year with close to break-even or below financial results. With a relatively unfavorable MLR of 83.2% for the traditionally more favorable first six months of 2012, in the absence of material second half premium increases it appears likely that the MLR for the full 2012 calendar year will likely be in excess of 83.2%.

(3) Exhibit 7(b) compares the results for calendar year 2011 (the most recent full calendar year with actual experience), calendar year 2013 (the 1st Projection Year), and calendar year 2017 (the 5th Projection Year).

    ActMod believes the percentage comparisons of underwriting results are not terribly meaningful since 2011 was essentially a break-even year.

    The projected 1.0% decrease in the MLR from 82.6% in 2011 to 81.8% in 2013 may be challenging since as noted above, we expect that the 2012 MLR will likely be in excess of 83.2%. In addition, our Base Scenario 1 projects an additional 1.6% decrease in the MLR from 2013 to 2017 [80.5%/81.8% - 1.0]. Decreases in the MLR generally improve the financial results of an MCO since a greater proportion of the premium dollar is available to cover its administrative expenses and/or its contribution to surplus.

For the reasons noted above, we consider the MLRs assumed for our Base Scenario 1 as the "best case" for MLRs (i.e. with other assumptions held constant, the lower MLRs result in a higher Appraisal Value), and we did not prepare other scenarios with even lower MLR assumptions. We did prepare one scenario (Scenario 4) with MLRs for the Individual and Small Group Business Segments one percentage point higher for each projection year than those used for the Base Scenario 1. Of course the higher MLRs, with other assumptions held constant, result in a decrease in the Appraisal Value.

Section V below discusses additional and more detailed rationale for the assumptions used for each scenario. The Base Scenario 1 assumed MLRs by Business Segment and Projection Year are shown in Exhibit 9(a).

(5) **Administrative Expenses and Admin Fees**: In addition to covering Medical Costs, Premiums and/or Admin Fees must also cover Administrative Expenses and related costs. The specific non-Medical Cost expenditures considered for the Appraisal consist of:

(a) General Admin Expenses: We modeled these expenses by calculating the Per Member Per Month ("PMPM") General Admin Expense from the total administrative expenses and Member Months for the 6-month period ending 6/30/2012. For the Students Business Segment we used calendar year 2011 versus the 6-month period ending 6/30/2012 since the 6-month period did not accurately reflect expenses for this Business Segment.

(b) Commissions: As previously noted, commission rate levels for the entire projection period were assumed to be reduced from current levels by one percentage point from 5.59% to 4.59% for the Individual Business Segment and from 6.11% to 5.11% for the Small Group Business Segment. Commission rates for all the other Business Segments were assumed to equal commissions currently paid by BCBSMT. The commission rate assumed for each Business Segment is shown in Exhibit 9(b).

(c) Premium Taxes: As previously discussed in Section III. B. above, Montana's premium tax rate of 2.75% was used in lieu of the MCHA Assessments currently paid by BCBSMT.

(d) ACA Insurer Fees: Starting in calendar year 2014, the insurance industry (including MCOs) will be assessed an excise tax of $8 billion that, with the exception of calendar year 2016 where it is held at 2015 levels, increases annually. The amount paid by each MCO will be proportionate to the premiums written during the prior calendar year. The ACA Insurer Fee is not deductible for federal income taxes.

The BCBSMT Chief Actuary provided ActMod with an estimate of the ACA Insurer Fees that BCBSMT will be assessed (grossed up by an assumed federal income tax rate of 35% for the Net Income impact) for each of the first five projection years. The ACA Insurer Fee Impacts all Modeled Business Segments other than FEP and Self-Funded (i.e. government programs and self-funded plans are exempt from the ACA Insurer Fees).

The reason we used the standard corporate federal income tax rate of 35% for all of our analyses in lieu of the lower rate currently paid by BCBSMT is discussed in Section III. C. (6) (f) below.

The assumed ACA Insurer Fee assessment, grossed up for the federal income tax impact, by Business Segment and Projection Year is shown in Exhibit 9(b).

ACA will also impose a health insurance and self-funded policy fee of $1.00 Per Member Per Year ("PMPY") for policy years ending in 2013, increasing to $2.00 PMPY for policy years ending in 2014. This fee is increased by a health care index factor for years beyond 2014. These relatively modest fees of $.083 PMPM ($1.00/12) for 2013 and $.167 PMPM ($2.00/12) for 2014 were considered immaterial and not specifically included in our projections.

(6) **Appraisal Parameters**

(a) Net Income: This is the present value of the income stream generated by the Modeled Business Segments. The Net Income by Projection Year and the components that make up Net Income are shown in Exhibit 11.

The Net Income components shown in Exhibit 11 are largely self-explanatory with the exception of "Other Income." Other Income consists mostly of interest earnings on the claim liability estimates. Also included are much smaller negative amounts attributable to assumed interest losses from premiums due and unpaid and even smaller positive amounts for interest earnings on premiums received in advance.

Exhibit 11 shows the Net Income and its components for Scenario 1. Exhibits 11(a) and 11(b) show the Scenario 1 Net Income by Projection Year for Existing Business. Exhibits 11(c) and 11(d) show the Scenario 1 Net Income by Projection Year for New Business. Exhibits 11(e) and 11(f) show the Scenario 1 Net Income by Projection Year for the Total Business (i.e. Existing Business and New Business combined for all Modeled Segments).

(b) Divestiture Value: This is the present value of the estimated value of the Modeled Business Segments at the end of Projection Year 20 (i.e. the last calendar year for which the Model develops Net Income projections). The assumption is that the Divestiture Value at the end of Projection Year 20 will equal five times the Net Income for Projection Year 20 (i.e. the business has a "Price Earnings" multiple of 5 at Projection Year 20).

This five times multiple is an ActMod assumption that we believe is reasonable for short-term medical care policies based on projected results twenty years into the future.

(c) Cost of Capital: This is the present value of the "opportunity cost" attributable to the requirement that capital be maintained at a Target Surplus level.

The "opportunity cost" is defined as the difference between earnings at the assumed "Discount Rate(s)" for the Appraisal and the after-tax earnings on the Target Surplus (shown as the "RBC Target" in Exhibit 11) that must be maintained.

The Target Surplus level is defined as the capital an MCO must maintain for it to be able to meet its contractual obligations when financial experience deviates significantly from planned or expected. The National Association of Insurance Commissioners ("NAIC") has promulgated a Risk-Based Capital Model Bill ("RBC Model Bill") adopted by Montana that suggests or requires that the Montana CSI impose certain sanctions when an MCO's capital falls below various defined levels.

For example, when an MCO's "Total Adjusted Capital" (which is essentially BCBSMT's Statutory Surplus) falls below the capital defined by the RBC Model Bill as the Authorized Control Level ("ACL"), the CSI is authorized to seize control of the MCO.

The ratio of the Total Adjusted Capital to the capital defined by the ACL is referred to as the RBC Ratio. As previously noted and as can be seen in Exhibit 6, BCBSMT's RBC Ratio has deteriorated from 760% as of 12/31/2007 to 577% as of 12/31/2011.

For the "Cost of Capital" calculation, the Appraisal assumes a Target Surplus amount (i.e. an RBC Target) equal to the surplus required to maintain the RBC Ratio at 500% throughout the 20 Year Projection Period. ActMod determined that the dollar amount of capital equal to a 500% RBC Ratio for BCBSMT as of 12/31/2011 would equal approximately 31.9% of calendar year 2011 Medical Costs. Since the RBC Ratio is largely (but not completely) a function of Medical Costs, the Appraisal uses the 31.9% of Medical Costs factor to estimate the Target Surplus required to maintain the 500% RBC Ratio for the entire 20 Year Projection Period.

The Cost of Capital for each the Existing Business and New Business for each Projection Year is calculated as follows:

(1) Average Target Surplus for the Projection Year (calculated as the average of the year-end values for the current and prior Projection Year); Year-end Target Surplus is assumed to be the Capital level required to maintain a 500% RBC Ratio.

(2) Assumed after-tax "Interest on Surplus" rate; i.e. (100% – 35.0%) x 4.0% = 2.6%

(3) Assumed "Discount Rate"; i.e. varies by Scenario from 7% to 9% and 12% to 14% for Existing Business and New Business, respectively.

(4) Projection Year Cost of Capital = (1) x [(2) - (3)]

The Cost of Capital for the Appraisal is the present value of the Projection Year costs in item (4) above.

Please note that the Cost of Capital is a negative amount.

(d) Surplus: ActMod's Appraisal assumes that at point of transition to a potential acquirer all available Surplus will be retained by BCBSMT. Therefore the Appraisal ascribes no value to existing Surplus. ActMod understands that BCBSMT has engaged another third party to develop an independent estimate of the value of existing Surplus.

(e) Actuarial Claim Reserve Margins: As previously noted BCBSMT includes a 20% margin in its claim liability estimates. ActMod reviewed the actual margin in the claim reserve estimate for the Modeled Business Segments as of 12/31/2011.

ActMod noted that the Reported claim reserve estimate of $44.7 million as of 12/31/2011 exceeded BCBSMT's Recast claim reserve estimate (with claim information through 7/31/2012) of $38.5 million by $6.2 million, or by 16.1% ($6.2 / $38.5). Assuming a more typical margin for smaller MCOs of 8.5%, the $6.2 million would be $3.3 million (.085 x $38.5). If taxable earnings are consistent with Statutory earnings, this would release approximately $1.9 million of after-tax earnings to Surplus [.65 x ($6.2 - $3.3)].

ActMod did not include the potential value of the claim reserve margin in our Appraisal for the following reasons:

(1) Given recent unfavorable underwriting results at least partially attributable to large/catastrophic claims over the last several years, BCBSMT has decided to not reduce the margin percentage at this juncture. This is not unreasonable since catastrophic claims can materially challenge the accuracy of claim reserve estimates;

(2) The actual margin percentage will change from period to period; and

(3) Our Appraisal Value does not include initial Surplus,

We show the claim reserve margin here for consideration by parties who may have an interest in the Appraisal.

(f) Federal Income Taxes: BCBSMT benefits from a special deduction for Federal Income Taxes under Internal Revenue Code Section 833(b). This provides BCBSMT with an effective Federal Income Tax rate of about 20.0% versus the standard corporate rate of 35.0%. Since ActMod prepared our Appraisal with no knowledge of a specific potential acquirer and few potential acquirers would have the benefit of Section 833(b), we do not believe it would have been appropriate for our projections to assume a special Federal Income Tax rate. Accordingly, our projections and our Appraisal Values all assume the standard Federal Income Tax corporate rate of 35.0%.

To summarize, our Appraisal consists of the following:

(i) Present Value of Net Income; plus

(ii) Present Value of Divestiture Value; plus

(iii) Present Value of Cost of Capital (again, please note this is a negative value)

IV. SUMMARY OF RESULTS

Given the uncertainties of any projection, ActMod prepared five Scenarios to test for sensitivities. A summary of all five Scenarios are shown in the below Table A (assuming a 1/1/2013 Appraisal Date) and Table B (assuming a 6/30/2012 Appraisal Date) and also included as Exhibits 3(a) and 3(b), respectively. Also shown for each Table A and Table B is a "single unique Appraisal Value" calculated as the simple average of the Appraisal Values for Scenarios 1 through 4.

Table A
Summary of Appraisal Values ($000s)[1]
(January 1, 2013 Appraisal Date)

Scenario	Brief Description	Type of Business	Net Income	Cost of Capital	Divestiture Value	Appraisal Value[2]
Scenario 1	Base Scenario Discount Rates 8%/13%	Existing Bus.	$30,268	($26,652)	$1,692	$5,308
		New Bus.	$78,074	($71,887)	$12,541	$18,727
		Total Bus.	**$108,342**	**($98,540)**	**$14,233**	**$24,035**
Scenario 2	Discount Rates 7%/12%	Existing Bus.	$32,215	($22,579)	$2,029	$11,664
		New Bus.	$85,448	($70,447)	$14,914	$29,916
		Total Bus.	**$117,663**	**($93,026)**	**$16,943**	**$41,580**
Scenario 3	Discount Rates 9%/14%	Existing Bus.	$28,504	($30,433)	$1,414	($515)
		New Bus.	$71,519	($72,865)	$10,561	$9,215
		Total Bus.	**$100,023**	**($103,298)**	**$11,975**	**$8,700**
Scenario 4	MLRs +1% for: Individual & Small Group	Existing Bus.	$22,578	($26,651)	$1,298	($2,774)
		New Bus.	$64,234	($71,865)	$10,510	$2,879
		Total Bus.	**$86,812**	**($98,516)**	**$11,808**	**$105**
Scenario 5[3]	Hypothetical Scenario; assumes provider contracts are Assignable	Existing Bus.	$30,955	($26,652)	$1,769	$6,072
		New Bus.	$93,966	($85,737)	$14,467	$22,696
		Total Bus.	**$124,921**	**($112,389)**	**$16,236**	**$28,768**
	Average Scenarios 1 through 4	Existing Bus.	$28,391	($26,579)	$1,608	$3,421
		New Bus.	$74,819	($71,766)	$12,132	$15,184
		Total Bus.	**$103,210**	**($98,345)**	**$13,740**	**$18,605**

(1) May not add due to rounding

(2) Excludes value of initial Surplus and other assets

(3) "hypothetical" Scenario 5 is not meant to be considered an "Appraisal Value" scenario; Scenario 5 was prepared to provide a means to estimate the value of BCBSMT's provider contracts (i.e. Scenario 5 versus Scenario 1).

Table B
Summary of Appraisal Values ($000s)[1]
(Adjusted for June 30, 2012 Appraisal Date)

Scenario	Brief Description	Type of Business	Net Income	Cost of Capital	Divestiture Value	Appraisal Value[2]
Scenario 1	Base Scenario Discount Rates 8%/13%	Existing Bus.	$29,125	($25,646)	$1,628	$5,107
		New Bus.	$73,446	($67,626)	$11,798	$17,617
		Total Bus.	**$102,571**	**($93,272)**	**$13,426**	**$22,724**
Scenario 2	Discount Rates 7%/12%	Existing Bus.	$31,143	($21,828)	$1,961	$11,276
		New Bus.	$80,741	($66,566)	$14,093	$28,268
		Total Bus.	**$111,884**	**($88,394)**	**$16,054**	**$39,544**
Scenario 3	Discount Rates 9%/14%	Existing Bus.	$27,302	($29,149)	$1,354	($493)
		New Bus.	$66,984	($68,245)	$9,891	$8,630
		Total Bus.	**$94,286**	**($97,394)**	**$11,246**	**$8,137**
Scenario 4	MLRs +1% for: Individual & Small Group	Existing Bus.	$21,726	($25,645)	$1,249	($2,670)
		New Bus.	$60,426	($67,605)	$9,887	$2,709
		Total Bus.	**$82,152**	**($93,250)**	**$11,136**	**$39**
Scenario 5[3]	Hypothetical Scenario; assumes provider contracts are Assignable	Existing Bus.	$29,787	($25,646)	$1,702	$5,842
		New Bus.	$88,396	($80,654)	$13,609	$21,351
		Total Bus.	**$118,183**	**($106,300)**	**$15,311**	**$27,193**
	Average Scenarios 1 through 4	Existing Bus.	$27,324	($25,567)	$1,548	$3,305
		New Bus.	$70,399	($67,510)	$11,417	$14,306
		Total Bus.	**$97,723**	**($93,078)**	**$12,966**	**$17,611**

(1) May not add due to rounding

(2) Excludes value of initial Surplus and other assets

(3) "hypothetical" Scenario 5 is not meant to be considered an "Appraisal Value" scenario; Scenario 5 was prepared to provide a means to estimate the value of BCBSMT's provider contracts (i.e. Scenario 5 versus Scenario 1).

While we prepared the details of our Appraisal assuming a January 1, 2013 Appraisal Date, we were asked to adjust the Appraisal assuming an Appraisal Date of June 30, 2012. For each of five scenarios, the above Tables A and B [and Exhibits 3(a) and 3(b)] show the Appraisal Values as of January 1, 2013 and June 30, 2012, respectively.

Given the variables, uncertainties, and perhaps most importantly the different perspectives by which an Appraisal can be viewed, ActMod's strong preference is to present our Appraisal as a range of reasonable results. In fact, following is a quote for the definition of an Actuarial Appraisal as presented in Actuarial Standard of Practice No. 19 (Appraisals of Casualty, Health, and Life Insurance Businesses):

***Actuarial Appraisal*: An appraisal of an insurance business presenting a set of actuarial appraisal values. A set of actuarial appraisal values is based on a range of discount rates or a range of assumption sets but may in certain circumstances present a single unique value for the business.**

This definition clearly states an appraisal as consisting of a "set of actuarial appraisal values" and suggests the appropriateness of basing an appraisal on a range of assumptions. The definition also, however, allows for presenting an appraisal as a single unique value "in certain circumstances." In this regard, BCBSMT requested that ActMod present our Appraisal as a single unique value.

From the perspective of considering a single unique value, we believe a substantial case could be made for the reasonableness of each of the above Scenarios 1 through 4. The actual value of the business will ultimately be determined by the effectiveness with which future results can be enhanced as compared to the recent financial experience of the Modeled Business Segments.

In addition to assuming reliance on future enhancements, we also note the considerable uncertainty attributable to the fact that for each Scenario, the preponderance of the Actuarial Value is attributable to New Business. The proportion of the total Actuarial Value attributable to New Business as shown in Table B is 77.5% for Scenario 1 ($17,617 / $22,724) and 71.5% for Scenario 2 ($28,268 / $39,544). For Scenario 3 and Scenario 4 the proportion of the total Actuarial Value attributable to New Business is well over 100% since the Actuarial value of Existing Business is negative for these two Scenarios.

Based on the above uncertainties and our ambivalence with respect to selecting a "most reasonable" Scenario, we base our single unique value as a simple average of each of Scenarios 1 through 4. This results in the following Appraisal Values:

Appraisal Value with January 1, 2013 Appraisal Date: $18.6 million

Appraisal Value with June 30, 2012 Appraisal Date: $17.6 million

Since the above single unique Appraisal Values were developed by equally weighting the four Scenarios, we have effectively given a 75% weight to the Scenarios with the lower MLR assumptions (i.e. Scenarios 1 through 3) and a 25% weight to the Scenario with the higher MLR assumption (i.e. Scenario 4). Accordingly, and consistent with the discussions below regarding the MLR assumptions, the Appraisal Values effectively assume that management changes will be implemented such that future results will be materially more favorable than recent financial experience suggests.

We must also emphasize that while we prepared the various Scenarios to test for sensitivities, there can be no assurances that actual results will not fall materially outside the range of all five Scenarios.

A description of each of the five Scenarios follows:

Scenario 1: ActMod describes Scenario 1 as the "Base Scenario" not because we believe it is any more likely to be an accurate reflection of future results than the other scenarios but, rather, because all other Scenarios are defined by reference and in relation to Scenario 1.

(A) Discount Rates: The assumed Discount Rates are 8% for Existing Business and 13% for New Business. The Discount Rate assumptions for Scenario 1 are based on discussions with BCBSMT management and, while inherently subjective, should also reflect the underlying risk characteristics of the business being evaluated and accordingly reflect the following considerations:

(1) A reasonable relationship between the assumed Discount Rates and the assumed "risk free" rate of 4.0% used for Interest on Surplus (4.0% was also used for other interest credits such as the interest rate assumed in the calculation of interest earnings on claim reserves). The after-tax Discount Rate of 8.0% for Existing Business was considered reasonable in relation to the before-tax rate of 4.0% for Interest on Surplus. Investing in and operating a business in general and a health care company in particular as compared to making a passive risk free rate is both exponentially more risky and requires significant effort and ongoing investments.

(2) In ActMod's judgment, an 8% expected after-tax return is within and very possibly at the lower end of investor expectations with respect to the assumption of risk and potential earnings attributable to existing health care contracts (especially health care contracts with a challenging financial history).

In conjunction with the other assumptions used for Scenario 1 (e.g. MLRs that we believe, as described below, fall at the lower end of a reasonable range), we believe the 8% Discount Rate is reasonable to possibly at the lower end of a reasonable range for short-term health care contracts that must be resold annually.

An assumed Discount Rate at the lower end of a reasonable range, with other assumptions held constant, results in an Appraisal Value at the higher end of a reasonable range.

(3) The 13% Discount Rate assumption for New Business reflects the fact that the value of contracts not yet written has substantially less value than that for existing contracts. We also note that even with the higher Discount Rate for New Business versus Existing Business (a higher Discount Rate lowers the Appraisal Value), the New Business Appraisal Value of $17.6 million for Scenario 1 makes up about 78% of the Total Appraisal Value of $22.7 million [see Exhibit 3(b)].

Thus a potential acquirer of the Modeled Business Segments is paying much more for business to be written by itself than existing contracts written by BCBSMT.

(4) The projections assume that a substantial number of New Business contracts will be written throughout the 20 year projection period. Specifically, the Lapse Replacement Ratio (i.e. the proportion of lapsed business expected to be replaced by New Business) is maintained at 75% throughout the 15-year Extended Projection Period. This assumption is based on substantial input from BCBSMT management.

For the first five projection years, the Lapse Replacement Ratio (for other than the defined exceptions discussed in this Report) was maintained at the historical range of approximately 100%.

In ActMod's opinion the assumed 75% Lapse Replacement Ratio throughout the Extended Projection Period is a relatively high assumption for New Business for valuation purposes. Specifically, we believe it is somewhat unusual to assume that an acquirer will be agreeable to pay for such a high proportion of short term health care contracts written 10 or more years after an acquisition date.

As noted in item (5) below a substantial proportion of the Actuarial Appraisal is attributable to New Business that is assumed will be written 10 or more years after the assumed Appraisal Date.

In ActMod's opinion, the extent of New Business assumed to be written after the assumed transaction date of January 1, 2013 supports the spread between the assumed Existing Discount Rate and the assumed New Business Rate.

(5) Finally we note that the Appraisal Value for the New Business is largely attributable to the New Business projected for the last 10 years of the 20 year projection period. This is readily observable by comparing Exhibit 11(c) (results for the first 10 years for New Business) to Exhibit 11(d) (results for the second 10 years for New Business). Net Income for the first 10 years [Exhibit 11(c)] ranges from $0.4 million in projection year 1 to $16.8 million in projection year 10. For the second 10 Years [Exhibit 11(d)], Net Income ranges from $17.8 million in projection year 11 to $27.2 million in projection year 20.

The reliance of the Appraisal Value on New Business written well beyond the assumed transaction date of January 1, 2013 (i.e. the projection period and business type with the greatest uncertainty) further supports the assumed spread between the Existing and New Business Discount Rate assumptions.

We did test Scenario 1 for Discount Rate sensitivity as discussed below for Scenario 2 (assumed Discount Rates of 7% and 12% versus 8% and 13% for Scenario 1) and Scenario 3 (assumed Discount Rates of 9% and 14% versus 8% and 13% for Scenario 1).

(B) MLR Assumptions: Without a change in operational results or business strategy (e.g. more strict pricing discipline, improved provider contracts, more effective medical cost management, etc.), ActMod believes that the MLR assumptions for Scenario 1 fall within but at the lower end of a reasonable range. That is, without changes in current operations, we believe the probability is greater than 50% that the actual MLRs will be greater than the assumed MLRs. In this regard, we note that a higher MLR, with other assumptions held constant, decreases substantially the Appraisal Value. We base our belief that the actual MLRs, assuming no change in BCBSMT operations, have a greater probability of exceeding those assumed for Scenario 1 on the following:

(1) The favorable improvement in the assumed MLRs for the Core Projection Period as compared to the actual MLRs experienced for the 2010 and 2011 calendar years. This improvement is discussed in Section III. C. (4) (d) above. Also noted was the apparent deterioration in the MLR for the six-month period ending June 30, 2012.

(2) Our assumption that MLRs remain relatively flat in the uncertain year of 2014 while Medical Trends increase from 8.0% for each the Individual and Small Group Business Segments to 25.0% and 18.0%, respectively. As previously noted and shown in Exhibit 9(a), these high 2014 Medical Trends are assumed to return to the more normal level of 8.0% in 2015 for each the Individual and Small Group Business Segments.

(3) The material improvement in the MLR from 85.0% in 2014 to 80.0% in 2015 for the Individual Business Segment.

(4) From 2014 through 2017 all Business Segment MLRs are assumed to either decrease or remain the same.

On a more positive note, the BCBSMT Chief Actuary prepared an analysis of the ACA-Defined minimum MLRs for the Individual, Small Group, and Large Group Business Segments. The conclusion that was reviewed and concurred by ActMod was that BCBSMT would not be materially challenged by the minimum ACA-Defined minimum MLRs. This conclusion was based on the following definitional difference between an ACA-Defined MLR and what this Report refers to as a Traditional MLR:

Traditional MLR = Claims Incurred / Premiums Earned

ACA-Defined MLR = (Claims Incurred + Medical Management Eligible Expenses) / (Premiums Earned – Federal and State Taxes)

Please note the following with respect to the ACA-Defined MLR:

(1) Note 1: The above definition for the ACA-Defined MLR captures the basic elements of the ACA-Defined MLR. We note, however, that the Code of Federal Regulations (45 CFR Part 158) describing the detailed compliance requirements for the ACA-Defined MLR consists of a 71 page "Interim Final Rule" published in the Federal Register (Volume 75, No. 230, December 1, 2010) and a 78 page "Final Rule" published in the Federal Register on December 7, 2011.

(2) Note 2: Federal Taxes include income taxes, payroll taxes, Social Security Taxes, and federal regulatory fees.

(3) Note 3: Medical Management Eligible Expenses are defined as "activities that improve health care quality."

While not comprehensive, we believe the above definition and BCBSMT's analysis of the ACA-Defined MLRs is sufficiently accurate for the projections used for our Appraisal. In our opinion, the projected MLRs never fall below the minimum ACA-Defined MLRs that would require a rebate of Premiums Earned.

To test that projected MLRs never fall below levels that would require a rebate, BCBSMT provided ActMod with a year-by-year analysis of Traditional MLRs that correspond to minimum ACA-Defined MLRs for the Individual, Small Group, and Large Group Business Segments.

A "corresponding" Traditional MLR is defined as the Traditional MLR (i.e. Claims Incurred / Premiums Earned) that approximates an ACA-Defined MLR using the same value of Claims Incurred and Premiums Earned for each ratio. For example, assume the following:

(1) Premiums Earned = $1,000

(2) Claims Incurred = $770

(3) Medical Management Eligible Expenses = $15

(4) Federal Taxes = $25

(5) State Taxes = $20

Therefore:

ACA-Defined MLR = ($770+$15)/($1,000-$25-$20) = $785/$955 = 82.2%

Corresponding Traditional MLR = $770/$1000 = 77.0%

Using the above assumptions, a Traditional MLR of 77.0% corresponds to an ACA-Defined MLR of 82.2%. Accordingly, a Traditional MLR of 77.0% that corresponds to an ACA-Defined MLR of 82.2% exceeds the minimum ACA-Defined MLR of 80% and therefore would not trigger a mandated rebate of earned premiums.

A summary comparison of the minimum ACA-Defined MLRs, the corresponding minimum Traditional MLRs, and the projected Traditional MLRs for the Individual, Small Group, and Large Group Business Segments is shown in Exhibit 10.

The lowest percentage point difference between the projected Traditional MLR and the minimum Traditional MLR required to avoid a rebate is the 2.5 percent difference shown for calendar year 2017 for the Individual Business Segment.

The next lowest percentage point difference between the projected Traditional MLR and the minimum Traditional MLR required to avoid a rebate is the 2.9 percent difference shown for calendar year 2013 for Large Group.

Large Group, however, has an even greater margin than what is shown since Exhibit 10 excludes the FEP Business Segment. The FEP Business Segment would be included in the Large Group Segment for the actual minimum MLR test. Since the MLR for the FEP Business is substantially higher than the minimum MLR, it is virtually inconceivable that the actual MLR for the Large Group Segment would ever fall below the minimum MLR.

The percentage point differences between the projected Traditional MLRs and the minimum Traditional MLRs shown in Exhibit 10 suggest the ACA minimum MLRs should not be a significant concern to BCBSMT.

While the regulatory minimum MLRs may not be a significant concern, this does not suggest that BCBSMT has the ability to increase premiums to lower its MLRs without marketplace consequences. That is, the marketplace itself imposes an effective "minimum MLR" on companies. Companies that increase premiums above marketplace rates would almost certainly experience a loss of market share. The MLRs used for our projections are based on ActMod's discussions with BCBSMT that reflect BCBSMT's understanding of its marketplace and its competitive position.

(C) Medical Trends: ActMod reviewed and found reasonable the Medical Trend assumptions provided by the BCBSMT Chief Actuary. The Medical Trend assumptions by Projection Year and Business Segment are shown in Exhibit 9(a).

As previously noted, it is important to highlight the very high Medical Trends of 25.0% and 18.0% assumed for the Individual and Small Group Business Segments, respectively for the 2014 calendar year (but assumed to rapidly return to more normal levels for calendar years 2015 and later).

The 2014 Medical Trend assumptions reflect the ACA requirement that medical underwriting will be prohibited for the Individual, Small Group, and Large Group Business Segments effective 1/1/2014. Since medical underwriting is not generally applied to a material degree for Large Groups, we have assumed that the Large Group Business Segment will not be impacted by the underwriting prohibition.

Please see Section III. C. (3) above for a detailed discussion of the reasons for our calendar year 2014 Medical Trend and corresponding MLR projections.

(D) FEP and Self-Funded Business Segments: The aforementioned MLRs and Medical Trends, in conjunction with allocated administrative expenses, drive the Appraisal Value of the seven Modeled Segments that are insured by BCBSMT. The Appraisal Value of the remaining two Modeled Segments (i.e. FEP and Self-Funded) are driven by ASC Fees (i.e. the amounts received by BCBSMT to pay for administrative services) and allocated administrative expenses. The Model assumes that ASC Fees for both FEP and the Self-Funded Business Segments increase at an annualized rate of 3.0% for each of the 20 Projection Years.

General administrative expenses for all nine Business Segments are assumed to increase by 2% per year during the Core Projection Period. This may result in a misalignment of expenses within any particular Business Segment but we believe the aggregation of the projected expenses for all Business Segments combined is reasonable.

During the Extended Projection Period, the administrative expenses as a percentage of ASC Fees is held at Projection Year 5 levels for each the FEP and Self-Funded Business Segments (i.e. administrative expenses increase at the same 3% rate as that assumed for the corresponding ASC Fees).

Please see Section V below for a discussion of administrative expenses for all of the Modeled Segments.

(E) Lapse Rates:

When discussing Lapse Rates, it is first necessary to define what we mean by a "Lapse." Consistent with the information provided by BCBSMT, a Lapse occurs whenever a Member terminates coverage with BCBSMT. This is an important distinction for the Business Segments that consist of employer groups for which an alternative definition of a Lapse would be the termination of an employer group versus the termination of a Subscriber (and the family Members of the Subscriber) covered by the employer's health plan.

Accordingly, employee turnover within an employer group (i.e. replacing one employee with another employee) is treated by the Model as a Lapse and a "New Sale" (i.e. Lapse Replacement). Typical of most industry lapse studies, it was not possible for ActMod to distinguish between what might be called a Passive Lapse/Lapse Replacement and a Proactive Lapse/Lapse Replacement.

A Passive Lapse would involve no conscious effort by the Subscriber to lapse coverage provided by BCBSMT but would be driven, for example, as a consequence of the Subscriber leaving the employer group. Similarly, a Passive Lapse Replacement (i.e. New Sale) would occur when the employer group hires a replacement employee who becomes a BCBSMT Subscriber with little or no effort on the part of either the employee or BCBSMT.

A Proactive Lapse/Lapse Replacement would require a conscious effort by the Subscriber to lapse coverage provided by BCBSMT. This would occur, for example, when an Individual Business Segment Subscriber elects to terminate coverage with BCBSMT. Similarly, a Proactive Lapse Replacement would require a concerted sales effort on the part of BCBSMT to replace the lapsed Subscriber.

There are clearly many shades of gray with respect to Passive versus Proactive Lapses and Lapse Replacements. For example, employer groups may offer coverage from multiple MCOs with employees proactively choosing the MCO of his or her choice (the FEP program is perhaps the clearest illustration of employee choice).

Similarly, much of the lapse and sales activity within the Individual Business Segment that is driven by Subscriber movement in and out of the workforce or from one employer to another might be considered more Passive than Proactive.

The Business Segment-specific Lapse Rate assumptions reflect the following two items:

(1) Continuation of actual lapse rates that were derived from actual lapse experience and summarized in Exhibit 9(c).

(2) A one-time lapse of 12.68% of Individual, Small Group, and Large Group Members effective at the start of the projection period (i.e. effective January 1, 2013). None of these one-time lapses are assumed to be replaced by New Sales. This one-time lapse assumption was used as a proxy to evaluate the impact of the fact that BCBSMT's provider contracts are not assignable to a potential acquirer.

    The 12.68% assumes an acquirer will have to increase premiums by 16.9% due to the loss of provider discounts with each percent of premium increase causing a 0.75% lapse not replaced by New Sales.

    With non-assignable provider contracts, an acquirer either (i) will have no discounts at point of acquisition, (ii) will rent a network from a company offering national provider network discounts, or (iii) will incur expenses to develop its own provider network.

    ActMod discussed with BCBSMT possible alternatives that might preserve the existing provider contracts and discounts (e.g. 100% Assumption Reinsurance) but we were advised that the provider contracts will not survive a transfer of the Modeled Segments to another party.

    The approach used by ActMod to evaluate the impact on the Appraisal Value of having non-assignable provider contracts was based on the assumed provider contract discounts. ActMod did not conduct an evaluation of BCBSMT's provider discounts but relied on the following stipulations by BCBSMT's Chief Financial Officer:

    (a) Professional Fees: Discount of 34.3% with Professional Fees making up 38.3% of billed charges.

    (b) Hospital/Other than Rx: Discount of 16.7% with Hospital/Other than Rx making up 51.0% of billed charges.

    (c) Rx: Discount of 54.5% with Rx making up 10.7% of billed charges.

    Per discussions with BCBSMT, ActMod decided to assume a discount deterioration for a potential acquirer of 50% effective January 1, 2013 for the Professional Fees and the Hospital/Other than Rx Medical Costs. For Rx, which are generally nationally negotiated contracts that are more consistent across MCOs, we assumed that the discount would deteriorate by 25% effective January 1, 2013.

    The above assumptions were used to develop the assumed 16.9% loss of discount and the corresponding one-time lapse of 12.68% as follows:

BCBSMT current payments as a percent of billed charges = 0.383 x (1.0 - .343) + 0.510 x (1.0 - .167) + 0.107 x (1.0 - .545) = 72.51%

Percent of billed charges effective January 1, 2013 (i.e. assuming discount deterioration) = 0.383 x (1.0 – 50% x .343) + 0.51 x (1.0 – 50% x .167) + 0.107 x (1.0 – 75% x .545) = 84.80%

Therefore premiums will have to be increased by 16.9% to offset the discount deterioration (i.e. 84.80% / 72.51% - 1.0). The one-time lapse due to the required increase in premiums is assumed to be 75% x 16.9% = 12.68%.

The attrition of the business during the projection period (primarily during the Extended Projection Period) is driven by the Model's Lapse Rates and the New Sales Lapse Replacement Ratio assumptions.

The distribution of the business between Existing Business and New Business during the projection period is also driven by both the assumed Lapse Rates and the assumed New Sales Lapse Replacement Ratios discussed in Section (F) below.

(F) New Business Assumptions:

(1) Core Projection Period: Consistent with recent experience, the Appraisal assumes that most lapses during the Core Projection Period are replaced with New Sales. The annual lapse rate assumption for each Business Segment and the corresponding New Sales Lapse Replacement Ratios are shown in Exhibit 9(c). The New Sales Lapse Replacement Ratios are assumed to be 100% for each Business Segment and each Core Projection Year with the following exceptions:

(a) The New Sales Lapse Replacement Ratios for 2013 for the Individual, Small Group, and Large Group Business Segments (i.e. the 44.9%, 49.3%, and 49.3% Ratios) produce the above noted 12.68% lapse assumption attributable to the non-assignable provider contracts.

(b) The New Sales Lapse Replacement Ratio for the Individual and Small Group Business Segments is assumed to be 75% for the 2014 calendar year.

(c) The Students Business Segment is being materially restructured during the latter half of the 2012 calendar year to address its extremely unfavorable financial results (i.e. the MLR for calendar year 2011 and the first six months of 2012 are well in excess of 100%).

Accordingly, the New Sales Lapse Replacement Ratio was assumed to be 0% for Students for the 2013 calendar year. With a 30% Lapse Rate as shown in Exhibit 9(c), the number of Members in the Student Business Segment will drop by 30% effective 1/1/2013 with no new sale replacements.

The New Sales Lapse Replacement Ratio for the Students Business Segment was assumed to be 80% in 2014 and then increasing to 100% for calendar years 2015 through 2017.

(2) Extended Projection Period: The New Sales Lapse Replacement Ratio was assumed to be 75% during the Extended Projection Period for all Business Segments. ActMod believes that the reasonableness of this assumption will likely depend on the perspective of the party considering the valuation. For example, an acquirer may not attribute significant value for business written beyond some defined time period.

(G) Administrative Expenses: The assumptions for Total Administrative Expenses as a percentage of premiums for the seven insured Modeled Segments are shown in Exhibit 9(b). All scenarios assume what ActMod refers to as Standard Administrative Expense assumptions (for General Admin Expenses, Commissions, Premium Taxes, ACA Insurer Fees, Fixed Annual Expenses, and inflation factors). The details of the administrative expense assumptions for all nine Modeled Segments are discussed in Section V below.

(H) General Modeling Assumptions: General Modeling Assumptions (i.e. assumptions not specific to a particular Business Segment) are shown in Exhibit 8 and discussed in Section V below.

Scenario 2: Scenario 2 is identical to Scenario 1 with the only difference being a one percentage point reduction in the assumed Discount Rates. Scenario 1 assumes Discount Rates of 8% and 13% while this Scenario 2 assumes Discount Rates of 7% and 12% for Existing Business and New Business, respectively. Scenarios 1 through 3 show the significance of the assumed Discount Rates.

The June 30, 2012 Appraisal Value of $39.5 million for Scenario 2 with only a one percentage point decrease in the assumed Discount Rates from Scenario 1 is over 70% greater than the June 30, 2012 Scenario 1 Appraisal Value of $22.7 million.

Scenario 3: Scenario 3 is identical to Scenario 1 with the only difference being a one percentage point increase in the assumed Discount Rates. Scenario 3 assumes Discount Rates of 9% and 14% for Existing Business and New Business, respectively.

The June 30, 2012 Appraisal Value of $8.1 million for Scenario 3 with only a one percentage point increase in the assumed Discount Rates from Scenario 1 reduces the Scenario 1 Appraisal Value of $22.7 million by over 60%.

Scenario 4: Scenario 4 is identical to Scenario 1 with the only difference being that the assumed MLRs for the Individual and Small Group Business Segments were increased by one percentage point for all projection years. ActMod believes that this is an important scenario to show given our view that the MLRs in Scenario 1 fall at the lower end of a reasonable range for MLR assumptions. As previously noted, with other assumptions held constant, lower MLRs increase the Appraisal Value and higher MLRs decrease the Appraisal Value.

The June 30, 2012 Appraisal Value of $39 thousand for Scenario 4 with slightly higher MLRs than Scenario 1 for only the Individual and Small Group Business Segments can essentially be considered a break-even Scenario when compared to the June 30, 2012 Scenario 1 Appraisal Value of $22.7 million.

Scenario 5: "Hypothetical" Scenario 5 is identical to Scenario 1 with the only difference being the removal of the assumed 12.68% one-time lapse that was used as a proxy to evaluate the impact of the non-assignability of BCBSMT's provider contracts. Scenario 5 is labeled "hypothetical" since it is not meant to be considered as an "Appraisal Value" scenario. Rather, it is included in our Report to show the value ascribed to the value of BCBSMT's provider network that will not be made available to a potential acquirer. This value can be estimated as the difference between the Appraisal Values shown in Exhibit 3(b) between this Scenario 5 and Scenario 1 (i.e. $27.2 million less $22.7 million = $4.5 million).

V. ASSUMPTIONS

A. **General Modeling Assumptions**: Unless otherwise stated the General Modeling Assumptions are the same for all five scenarios discussed in Section IV above and summarized in Exhibit 3. The General Modeling Assumptions are those not specific to a particular Business Segment and include those shown below and summarized in Exhibit 8:

(1) Valuation Date: We prepared Appraisal Values assuming valuation dates of January 1, 2013 [consistent with our projection model assumptions and summarized in Exhibit 3(a) and Table A in Section IV above] and June 30, 2012. The June 30, 2012 Appraisal Values [summarized in Exhibit 3(b) and Table B in Section IV above] are identical to the January 1, 2013 Appraisal Values discounted by six months of Discount Rates for each the Existing Business and New Business Appraisal Values. The implicit assumptions are that (i) the Net Income is zero for the six-month period from July 1, 2012 to December 31, 2012 and (ii) any change in the Divestiture Value and Cost of Capital is reasonably estimated via the application of the six-month Discount Rate adjustment. We discussed these assumptions with the BCBSMT Chief Actuary and believe that they are reasonable with respect to adjusting the valuation for this six-month period.

(2) Interest on Surplus and Operating Funds: The Interest on Surplus and operating funds (i.e. claim reserves, premiums received in advance, and premiums due and unpaid) was assumed to be 4.0%. ActMod understands that this may be a challenging number in the current "near zero" interest rate environment, but we believe it was more important to prepare our Appraisal assuming a more normalized interest rate.

We also note that the calculation of the Cost of Capital drives the Model's results to being more sensitive to the spread between the assumed Interest on Surplus and the assumed Discount Rates than the absolute value of the Interest on Surplus assumption.

Surplus was assumed to be zero at inception of the projection period (i.e. January 1, 2013) and increased or decreased throughout the projection period as the accumulation of Net Income.

Operating Funds consist of the following three items:

(a) Claim Reserves: ActMod reviewed the recast claim reserve estimate as of 12/31/2011 provided by BCBSMT's Chief Actuary and the Loss Adjustment Expense Reserve included in the 2011 Statutory Financial Statements. From this information and a calculation of average claims paid per month, we developed a "Months in Claims Reserves" estimate of 1.57 months (i.e. an assumption that claims reserves equal 1.57 months of prior period incurred claims).

The Model uses this 1.57 month assumption and the 4.0% Interest on Operating Funds assumption to estimate interest on claim reserves earned throughout the projection period.

(b) Premiums Due and Unpaid: ActMod reviewed the Premiums Due and Unpaid balance sheet item in the 2011 Statutory Financial Statements and the corresponding Large Group Business Segment premiums (under the assumption that large groups are the typical source of Premiums Due and Unpaid). From this information we developed an assumed 38 "Days of Receivables" for the Large Group Business Segment. The Model uses this 38 days assumption and the 4.0% Interest on Operating Funds assumption to estimate interest losses for the Large Group Business Segment throughout the projection period.

(c) Premiums Received in Advance: ActMod reviewed the Premiums Received in Advance balance sheet item in the 2011 Statutory Financial Statements and the corresponding premiums for the Individual, Small Group, Medicare Supplement, Part D, and Student Business Segment premiums (under the assumption that these segments are the typical "Source Segments" of Premiums Paid in Advance). From this information we developed an assumed 18 "Days of Payables" for the Source Segments. The Model uses this 18 days assumption and the 4.0% Interest on Operating Funds assumption to estimate interest earnings for the Source Segments throughout the projection period.

An area of potential conservatism (i.e. understatement) for our Appraisal Values is the treatment of what we call "Excess Surplus." We define Excess Surplus as the amount of Accumulated Surplus in excess of the Target Surplus Level [see Section III. C. (6) (c)]. As can be seen in Exhibit 11(f) the Accumulated Surplus exceeds the "RBC Target" (i.e. another name for the Target Surplus Level) for projection years 12 through 20. In fact, by projection year 20 the Accumulated Surplus is more than two times the RBC Target.

An argument could be made that the Excess Surplus should be credited with interest rates substantially greater than the assumed 4.0% Interest on Surplus assumption. ActMod considered doing so but rejected the concept since we believe these values in the latter period of our projections have the least credibility and crediting with the 4.0% Interest on Surplus is sufficient for the Actuarial Appraisal. In our opinion applying a materially higher interest rate on these Excess Surplus funds would produce unreasonable results.

(3) Discount Rates: The Model's Discount Rate assumptions distinguish between Existing Business and New Business under the assumption that existing contracts are materially more valuable to a potential acquirer and offer greater certitude of cash flow than do potential contracts not yet written. We also note that by definition New Business will be written by and will be more attributable to the efforts of the potential BCBSMT successor than to BCBSMT itself.

For perspective, we again note that with all other assumptions held constant a lower Discount Rate will increase the Appraisal Value and a higher Discount Rate will decrease the Appraisal Value.

As discussed in Section IV, the Base Scenario 1 assumes Discount Rates of 8% and 13% for Existing and New Business, respectively. In ActMod's opinion, 8% is at the lower end of a range of Discount Rates that would generally be considered acceptable by an acquirer. We consider the 5% spread between the Discount Rates for Existing and New Business reasonable – especially given the risk a potential acquirer of the Modeled Segments would be accepting.

As also discussed in Section IV, we prepared Scenarios 2 and 3 to test the sensitivity of the Model's results to changes in the Discount Rates. Specifically, Scenario 2 lowers each Discount Rate by one percentage point and Scenario 3 increases each Discount Rate by one percentage point. The results are shown in Exhibit 3 and in the summary tables in Section IV.

(4) Federal Income Taxes: The Model assumes that a potential acquirer will have an effective marginal Federal Income Tax rate of 35.0%.

Section III. C. (6) (f) discusses BCBSMT's current special deduction for Federal Income Taxes attributable to Internal Revenue Code Section 833(b) and why ActMod assumed the standard 35% federal income tax rate for all our projections and Appraisal Values.

(5) Risk-Based Capital: Risk-Based Capital and the Model's assumption is discussed in Section III. C. (6) (c) as one of the critical Appraisal Parameters.

The Cost of Capital is the opportunity cost attributable to the requirement that a substantial amount of capital must be held to provide Subscribers with assurances that the business enterprise will be able to meet its contractual obligations during potentially adverse circumstances.

We have assumed that an acquirer would maintain capital levels at that required to maintain a Risk-Based Capital Ratio of 500.0%. We based our assumed capital requirements on the risk characteristics of BCBSMT's calendar year 2011 book of business as measured by the Risk-Based Capital model promulgated by the NAIC. Specifically, the Model assumes that capital equal to 31.9% of the prior 12-months of incurred claims would maintain the Risk-Based Capital Ratio at 500.0% throughout the projection period.

(6) Divestiture Value: The portion of the Appraisal attributable to the Divestiture Value of the business remaining at the end of the Model's 20 year projection period is discussed in Section III. C. (6) (b) above. The assumption is that the Divestiture Value at the end of Projection Year 20 will equal five times the Net Income for Projection Year 20.

B. Medical Loss Ratio Assumptions: The Medical Loss Ratio Assumptions vary significantly by Business Segment and Projection Year as shown in Attachment 9(a) for Scenario 1. As discussed in Section IV (A) above, without definitive changes from current practices in operational results and/or business strategy, ActMod believes that the MLRs assumed for Scenario 1 fall within but at the lower end of a reasonable range. The Appraisal Value is very sensitive to MLR assumptions with lower MLRs, with all other assumptions held constant, resulting in a substantial increase in the Appraisal Value.

Scenario 4 is identical to Scenario 1 but with MLRs for the Individual and Small Group Business Segments increased by one percentage point for each projection year. We believe that this Scenario is more representative of BCBSMT's current operational results than Scenario 1. The higher MLR assumptions for Scenario 4 result in a materially lower Appraisal Value.

C. Medical Trend Assumptions: As with our Medical Loss Ratio assumptions, our Medical Trend Assumptions also vary significantly by Business Segment and Projection Year. Our Medical Trend Assumptions are discussed in detail in Section III. C. (3) above.

D. Starting Point Assumptions: Our Starting Point Assumptions (i.e. assumptions at inception of the projection period on January 1, 2013) are based on the following:

(1) Starting point Members by Business Segment were set equal to the Members in force on June 30, 2012

(2) Starting point Premium and ASC Fee PMPMs by Business Segment were derived from the three-month period ending June 30, 2012. The Premium PMPM for the Students Business Segment was increased consistent with seasonal Premium PMPMs for this Business Segment.

(3) Starting point Medical Loss Ratios by Business Segment were based on a review of recent MLRs prior to January 1, 2013 and discussions with the BCBSMT Chief Actuary.

(4) Starting Point Medical Cost PMPMs by Business Segment are derived from the assumed starting points for MLRs and Premium PMPMs.

(5) Starting Point Administrative Expenses by Business Segment were obtained from the detailed Management GAAP financial statements developed by both the BCBSMT Chief Actuary and the BCBSMT Controller. We note that BCBSMT advised ActMod that the expense allocation by Business Segment, as is typical in the industry and inherent in any allocation process, involves substantial judgment and subjectivity. We were advised and advise the reader of this Report to focus on the aggregate expenses for all Business Segments combined and view the expense allocations for any particular Business Segment with caution.

E. Premium Rate Change Assumptions: The Premium Rate Change Assumptions by projection year were derived from the MLR and Medical Trend assumptions by Business Segment and projection year.

F. ASC Fees Assumptions: The ASC Fees for the FEP and Self-Funded Business Segments were set equal to the prior year's ASC Fees increased by 3.0%.

As previously noted, a simplified assumption is made that general administrative expenses for all nine Business Segments (including the administrative expenses allocated to FEP and Self-Funded) are assumed to increase by 2% per year during the Core Projection Period. This may result in a misalignment of expenses within any particular Business Segment.

For example, this results in annual improvement in the relationship of general administrative expenses to ASC Fees for the FEP and Self-Funded Business Segments (i.e. ASC Fees increase slightly faster than the allocated administrative expenses). This is reasonable for the Self-Funded Business Segment but for the FEP Business Segment this may not accurately reflect the relationship of administrative expenses to fees since it is our understanding that they generally move in tandem for FEP. But BCBSMT has noted and ActMod concurs that the aggregation of the projected expenses for all Business Segments combined is reasonable. Accordingly, the Actuarial Appraisal is not adversely impacted by relatively minor misaligned allocated expenses across Business Segments.

During the Extended Projection Period, both ASC Fees and general administrative expenses were assumed to increase at the same rate of 3.0% per year, thus maintaining a constant ratio of administrative expenses to ASC Fees for each the FEP and Self-Funded Business Segments.

G. Annual Lapse Rates: As shown in Exhibit 9(c), the Annual Lapse Rates vary significantly by Business Segment but remain constant for all projection years. As discussed in Section IV. (E), the Model assumes a one-time shock lapse of 12.68% for the Individual, Small Group, and Large Group Business Segments at inception of the projection period due to the non-assignability of BCBSMT provider contracts.

H. New Business (i.e. Lapse Replacements): The Model defines New Business by the Business Segment-specific Lapse Replacement Ratios shown in Exhibit 9(c) and discussed in Section IV. (F) above. While some MCOs reflect differences between Existing and New Business with respect to certain administrative expense assumptions (e.g. commissions and other sales expenses), BCBSMT makes no such distinctions. Accordingly the assumption parameters are identical for Existing and New Business. In addition, MLRs for each Business Segment were assumed to be the same for Existing and New Business (i.e. no positive or negative selection was assumed for New versus Existing Business) regardless of duration from initial enrollment.

I. Administrative Expenses

(1) General Administrative Expenses: ActMod used the detailed Management GAAP Financial Statements provided by BCBSMT to develop the Starting Point General Admin Expense PMPMs for each Business Segment. The General Admin Expense PMPM Starting Point assumption was developed by applying a 2.0% annual inflation factor for General Admin Expense PMPMs for the nine month period from the midpoint of the 6-month period ending June 30, 2012 to January 1, 2013.

As for the Model's MLR assumptions, administrative expenses may be another area where a potential acquirer of the Modeled Segments may be able to enhance future financial results when compared to the historical financials. For example, the economies of scale and possibly existing infrastructure enjoyed by large MCOs may enable the absorption of the Modeled Business Segments with minimal additional expense while improving ongoing efficiencies and financial performance.

ActMod is not an efficiency or administrative expense expert. Accordingly, we relied on the BCBSMT Chief Financial Officer and the BCBSMT Controller for our administrative expense assumptions and limited our review to the reasonableness compared to BCBSMT's existing administrative expenses. In our opinion, the projected administrative expenses are reasonable and consistent when compared to the information we were provided for the historical administrative expenses of BCBSMT. We made no assumptions regarding the infrastructure of a potential acquirer or any potential improvements that may or may not be possible.

(2) Commissions: As discussed in Section III. B. (1) (a) above, commission rate levels for the entire projection period were assumed to be reduced from current levels by one percentage point from 5.49% to 4.49% for the Individual Business Segment and from 6.11% to 5.11% for the Small Group Business Segment. Commission rates for all the other Business Segments were assumed to equal the commission rates currently paid by BCBSMT. The commission rates used by the Model for each Business Segment are shown in Exhibit 9(b).

(3) Premium Taxes: As discussed in Section III. B. (1) (b) above, BCBSMT currently pays a MCHA Assessment fee of 1.1% of premium. Our projections assume that the MCHA Assessment Fee is replaced with Montana's current premium tax rate of 2.75% as shown in Exhibit 9(c). The reason for this revision is attributable to the assumption that a potential acquirer, depending on its corporate structure, may be subject to Montana's applicable premium tax rate in lieu of the lower MCHA Assessment fee currently paid by BCBSMT.

(4) ACA Insurer Fees: The ACA Insurer Fees are discussed in Section III. C. (5) (d) above and shown in Exhibit 9(b). As also previously discussed, the ACA-imposed health insurance and self-funded policy fee (e.g. $.083 PMPM for policy years ending in 2013 and $.167 PMPM for policy years ending in 2014) was considered immaterial and not included in our projections.

(5) Fixed Annual Administrative Expenses: As discussed in Section III. A. (3) above, the 2011 Statutory Financial Statements included approximately $2.5 million of Depreciation and Amortization expenses that are not included in the above General Administrative Expenses.

Accordingly, per our discussions with the BCBSMT Chief Financial Officer and the BCBSMT Controller, our projections include an assumed annual fixed depreciation and amortization expense of $2 million for each projection year one through five and $1 million of such fixed depreciation and amortization expenses for projection years six through twenty.

In addition to this annual fixed depreciation and amortization expense, BCBSMT also believes that the current environment and certain driving factors attributable to the ACA will necessitate investments over and above historical expenditures. ActMod was advised that this is especially true for the past several financially challenging years that have prevented BCBSMT from making the capital expenditures required for its longer term marketplace viability.

Accordingly, the Appraisal assumes $2 million per year for each of the 20 Projection Years for future initiatives over and above BCBSMT's recent capital expenditures. We note that this $2 million annual capital expenditure amounts to a relatively modest 0.3% to 0.4% of annual revenues projected for the Modeled Segments.

J. Core Projection Period versus Extended Projection Period: The Model prepares detailed month-by-month projections for the Core Projection Period (i.e. calendar years 2013 through 2017). The assumptions during this Core Projection Period are as described throughout this Report and summarized in the various Exhibits.

In general, the further out the projection year the greater the uncertainty and the less reliable the projection. Due to this uncertainty, many projection models limit the projection period to three to five projection years for short term medical care business segments such as those discussed in this Report. Short term projection periods for medical care business segments are almost always the rule when projection models are used for business planning purposes since the visibility horizon rarely extends beyond a three to five year horizon – especially given changing regulations and the inherent dynamic nature of the medical care industry.

The Extended Projection Period is used by the Model for valuation purposes (i.e. when preparing an Actuarial Appraisal Value). This is not to suggest, however, that the credibility of these extended projection years is any greater when used for developing an Actuarial Appraisal than when the Model is used for business planning purposes.

Rather, in ActMod's opinion, the Extended Projection Period provides for a more accurate valuation than would be the case if the Model were truncated after four or five years.

Rather than applying detailed assumptions specific to the Extended Projection Period (i.e. Projection Years 6 through 20) to develop values that would suggest greater credibility than what ActMod believes would be realistic, the Model effectively assumes that the annual projections during the Extended Projection Period are in large measure mirror images of Projection Year 5. Following are the assumptions that drive the results during the Extended Projection Period for both the Existing Business and the New Business:

(1) Membership: Membership is assumed to start decreasing during the Extended Projection Period. We believe that this is appropriate when the Model is used for an Actuarial Appraisal for consideration of the type of transaction contemplated by BCBSMT (i.e. a potential sale or transfer of certain Business Segments). That is, in ActMod's opinion a potential acquirer will ascribe limited value to business written at some point prior to a 20-year projection horizon. This can range from as little as a 12-month horizon (i.e. the willingness to pay for the runout of business until the next renewal date) to some multiple of years that may extend well beyond the immediate renewal horizon.

For each of the Scenarios summarized in Section IV of this Report and shown in Exhibit 3, the projections assume that 75% of Lapses during the Extended Projection Period will be replaced by New Sales. This effectively assumes that the Lapse Rates shown in Exhibit 9(c) for the Existing plus New Business combined is 25% of the Lapse Rates shown. For example, the annual lapse rate for the Individual Business Segment will be 5.75% (i.e. 25% x 23.0%) for each year during the Extended Projection Period.

While based on extensive discussions with BCBSMT management, in ActMod's opinion the proportion of lapses assumed to be replaced by New Sales for such an extended period is an aggressive assumption for an Actuarial Appraisal. That is, we believe the reliance on New Sales written long after the Appraisal Date results in an Appraisal Value within but at the higher end of a reasonable range – especially from the perspective of a potential acquirer.

(2) Premium and ASC Fees: Both Premium PMPMs and ASC Fee PMPMs are projected to increase at the same rate of change as occurred for Projection Year 5 when compared to Projection Year 4.

(3) Other Income: Other Income is comprised of interest on claim reserves, interest losses on Premiums Due and Unpaid, and interest earnings on Premiums Paid in Advance [see V. A. (2)]. Other Income during the Extended Projection Period is maintained at the same percentage of Premium as was the case for Projection Year 5. For the Business Segments defined by ASC Fees versus Premiums (i.e. FEP and Self-Funded), the Other Income is zero for both the Core and Extended Projection Periods.

(4) Medical Costs: The Medical Loss Ratio (i.e. Medical Cost as a percentage of Premium) for each year during the Extended Projection Period is assumed to be the same as that for Projection Year 5 for each Business Segment.

(5) Administrative Expenses:

(a) Total Administrative Expenses exclusive of Annual Fixed Expenses:

(1) Business Segments Defined by Premiums: The expenses for these Business Segments are assumed to be the same percentage of Premium for each year during the Extended Projection Period as was the case for Projection Year 5.

(2) Business Segments Defined by ASC Fees (i.e. FEP and Self-Funded): Both the ASC Fee PMPMs and corresponding Administrative Expense PMPMs for these Business Segments were assumed to increase at the same rate of 3.0% per year (i.e. the same rate that ASC Fees increased from Projection Year 4 to Projection Year 5). This also maintained the same relationship of ASC Expenses to ASC Fees during the Extended Projection Period as was the case for Projection Year 5.

(b) Annual Fixed Expenses: As discussed in Section III. A. (3), the Model assumes an annual fixed depreciation and amortization expense of $1 million for each projection year during the Extended Projection Period. This is a decrease from the $2 million of annual fixed depreciation and amortization assumed for each projection year during the Core Projection Period.

In addition to the annual fixed depreciation and amortization expense, an additional $2 million per year is assumed for future initiatives during both the Core Projection Period and the Extended Projection Period.

VI. QUALIFICATIONS, RELIANCES, AND LIMITATIONS

James P. Galasso, President & Consulting Actuary for ActMod, a Fellow in the Society of Actuaries and a Member of the American Academy of Actuaries prepared this Report. Mr. Galasso has over thirty years' experience in actuarial work related to health care, has served as the Chief Actuary and Chief Financial Officer of large managed care organizations, and has provided actuarial consulting services to the health care industry.

In these various capacities, Mr. Galasso has addressed the areas discussed in this Report on numerous occasions and meets the Qualification Standards for *Actuaries Issuing Statements of Actuarial Opinion in the United States* to issue the opinions contained herein.

Mr. Galasso applied the appropriate actuarial standards in the preparation of this Actuarial Appraisal.

Various files provided to ActMod by BCBSMT and discussed in this Report enabled us to reach the opinions presented in this Report. The scope of this engagement included either a detailed independent review of these files or, where noted, reliance on the BCBSMT employees identified in Section E of this Report.

The estimates and projections included in this Report, of necessity, are inexact, may be subjective in nature, and many include projections of events that have not yet taken place (e.g. premiums to be received, claims to be paid, and expenses to be incurred beyond the date for which information was available). While ActMod used accepted actuarial procedures in preparing our projections, there can be no assurances that the ultimate actual results will not differ materially from our projections.

In addition to the historical data provided by BCBSMT employees, many of the projection assumptions were discussed with and/or provided by BCBSMT. This Report identifies those areas upon which we relied on BCBSMT for the projections presented and/or discussed.

In addition the accuracy of any projections presented or discussed in this Report are dependent upon the availability and quality of the data received.

The detailed data (e.g. premium rates, claim records, membership files, and expense allocations) that were required to prepare this Report were accepted as accurate and valid by ActMod without audit or detailed verification. Accordingly, ActMod is not able to provide assurances in this Report concerning the integrity of such information used in our analyses and on which our findings are based.

ActMod did review all data and information provided for general reasonableness. We have no reason to believe that any of the data or information provided is not accurate. Additionally, we believe our review addressed the appropriate issues and our conclusions presented herein are reasonable, given the information provided.

The scope of this engagement does not constitute a rendering by ActMod, its employees, or its agents of any legal advice, and because our engagement is limited in nature and scope, it cannot be assumed to provide all analyses that may have importance to BCBSMT or others in this matter.

Unless legally required to do so, this Report may not be copied, reproduced, or distributed to others at any time without the prior written consent of both ActMod and BCBSMT. This Report may contain certain nonpublic information, and, accordingly, recipients shall treat this Report, and any nonpublic information made available hereunder, as confidential. Distribution of this Report must be in its entirety, including any Attachments, Exhibits, or Appendices.

Nothing included in this Report may be included in any filing with the Securities and Exchange Commission.

Any reader of this Report must possess a substantial level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions used in the analysis, and the impact of the assumptions on the illustrated results.

I thank BCBSMT for the opportunity to prepare this Report and would be pleased to respond to any questions or supplement the Report as may be deemed necessary.

Respectfully submitted,

James P. Galasso, FSA, MAAA, CERA
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Exhibits

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Jim Galasso is a Fellow in the Society of Actuaries, a Member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst. He has over 30 years' experience in health care, serving in the capacity of Chief Financial Officer, Chief Actuary, and as an Actuarial Consultant. Prior to incorporating and serving as the President & Actuarial Consultant for Actuarial Modeling, Mr. Galasso served as a Partner with Ernst & Young LLP, managing E&Y's southeast actuarial healthcare practice.

Mr. Galasso has performed various actuarial services for numerous Commercial Insurance Carriers, Blue Cross Blue Shield Plans, Health Maintenance Organizations, Governmental Entities, Health Care Providers, and Large Employers. Such services include but are not limited to:

(1) Actuarial & Financial Due Diligence
(2) Actuarial Reserve Reviews (including IBNR and Premium Deficiency Reserves)
(3) Actuarial Valuations
(4) Group Health Employee Benefit Programs
(5) Pricing Medical Care Benefit Plans
(6) Reviewing Prescription Drug Programs [including Pharmacy Benefit Managers (PBM)]
(7) Risk-Based Capital Reviews
(8) Health plan organization realignments
(9) Predictive Risk Modeling / Health Risk Adjusters
(10) Underwriting policy and procedure reviews
(11) Rate filing preparations and testimony
(12) Provider contracting and network management
(13) Risk assessments for Provider Sponsored Organizations
(14) Merger and Acquisition engagements
(15) Medicare Supplement Products
(16) Medicare and Medicaid managed care programs
(17) Blue Cross and Blue Shield audits and actuarial consulting
(18) HMO and PSO audits and actuarial consulting
(19) Behavioral health audits and actuarial consulting
(20) Expert Witness Testimony
(21) Serving on Arbitration Panels

Professional Experience

Mr. Galasso has developed a comprehensive package of actuarial and financial reporting tools consisting of, but not limited to, the following:

(1) An "Incurred But Not Reported" (IBNR) estimation software model
(2) A medical cost & premium development software model for healthcare companies
(3) An aggregate and specific stop loss rating software model
(4) A MediGap pricing software model that accommodates both 1990 and 2010 standard plans
(5) A large group underwriting software model
(6) A physician fee evaluation software model
(7) A hospital reimbursement evaluation software model
(8) A prescription drug evaluation software model
(9) A financial projection software model for healthcare companies
(10) A market segment reporting and trend monitoring software model
(11) A capital management and risk-based capital analysis software model

Qualifications

Mr. Galasso maintains his standing as a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst by pursuing continuing education credits and frequently speaking at various actuarial conferences.

Seminars and Training

Mr. Galasso attends and/or speaks at various seminars and conferences sponsored by the Society of Actuaries, the Southeastern Actuaries Conference, and other industry conferences.

Education

Mr. Galasso graduated with honors from the State University of New York at Stony Brook with majors in both Theoretical and Applied Mathematics. His post graduate activities included studying for and successfully completing the series of examinations offered by the Society of Actuaries, culminating in Mr. Galasso's obtaining his Fellowship in the Society of Actuaries.

1. Actuarial Appraisal: An appraisal of an insurance business presenting a set of Actuarial Appraisal Values. A set of Actuarial Appraisal Values is based on a range of Discount Rates or a range of assumption sets but may in certain circumstances present a single unique value for the business.

2. Actuarial Appraisal Value: The present value, calculated as of the Appraisal Date, of projected distributable earnings of an insurance business where the distributable earnings are based on a set of assumptions.

3. Administrative Services Contract ("ASC"): A health care administration contract for which the policyholder (e.g. an employer) assumes the financial responsibility for claim payments with an administrator (e.g. a Managed Care Organization) assuming the administrative duties such as processing claims, medical management, and member services.

   Managed Care Organization revenues for ASC contracts consist of ASC Fees (i.e. charges to administer the health care contract) versus Premiums for Fully Insured Contracts.

   While there may be a technical distinction related to the ultimate claim payment responsibility, ASC contracts may also be referred to Administrative Services Only ("ASO") contracts.

4. Appraisal Date: The date as of which an Appraisal Value is assessed.

5. Affordable Care Act ("ACA"): The two health care reform bills enacted into law on March 23, 2010 called the "Patient Protection and Affordable Care Act" and the "Health Care and Education Affordability Reconciliation Act of 2010" are collectively referred to as the "Affordable Care Act".

6. Allowed Claims (or, Allowed Charges): Allowed Claims represent the amount a health care provider bills a managed care organization **after** the application of contractual discounts negotiated with the managed care organization and **after** benefit coverage provisions are considered but **before** member cost sharing provisions are considered.

7. Anniversary (or, Renewal) Month: Individuals and small employer groups generally receive rate changes on a regular basis (e.g. every 6-months or annually). The rate change month is usually called an "Anniversary Month", or a "Renewal Month".

8. Assumption Reinsurance: Reinsurance of an entire business, part of a business, or a block of policies under an arrangement whereby a purchasing company becomes solely liable to the policyholders on the contracts transferred from another company.

9. Base Period (also referred to as Experience Period): This is a term used by actuaries when they must project future medical costs and related data (e.g. members and premiums) for a defined purpose. The Base Period is derived from a recent subset of the Experience Data. The actuary often uses the Base Period to project future expected experience (e.g. for a defined Rating Period).

10. Base Rate (also referred to as Manual Rate): The Base Rate for a defined population is determined by applying the demographic characteristics of the population to a company's Rate Tables. The actual morbidity of the population is not considered (see Experience Rate and Rate Basis).

11. Billed Claims (or, Billed Charges): Billed Claims represent the amount a health care provider bills a managed care organization **before** the application of contractual discounts negotiated with the managed care organization and **before** member cost sharing and benefit coverage provisions are considered (see Covered Claims).

12. Closed Product Line: A Product Line that is no longer being marketed (i.e. the Product Line is no longer available to new Members).

13. Cost Sharing: Cost Sharing refers to the amount of Allowed Charges that a Member must pay for health care services over and above that paid by a health care plan. The most common cost sharing provisions consist of deductibles, copayments, and coinsurance amounts. Benefit limitations such as calendar year limits may also result in Cost Sharing.

14. Covered Claims: Covered Claims are the same as Billed Claims with the exception that claims not covered by a benefit plan are excluded.

15. Deterred or Induced Utilization: In addition to Adverse Selection and the dollars paid by Members due to the Cost Sharing provisions of a benefit plan, the impact on the cost of a benefit plan attributable to the Deterred or Induced Utilization must also be estimated. In general and all else being equal, benefit plans with higher Cost Sharing provisions will almost always experience higher Medical Costs than benefit plans with lower Cost Sharing provisions. This is attributable to both Adverse Selection and the following generally accepted and proven assumptions:

    (a) That a Member assuming a greater proportion of Medical Costs due to higher Cost Sharing provisions will generally be "deterred" from utilizing medical services (i.e. the "Deterrent" effect attributable to Cost Sharing provisions); and

    (b) Conversely, that a Member assuming a relatively modest proportion of Medical Costs due to low or generous Cost Sharing provisions will not be deterred from utilizing medical services and may even be "induced" to seek such services (i.e. the "Induced Utilization" effect attributable to nominal Cost Sharing provisions).

16. Discount Rate: The rate used to discount projected earnings to determine a present value used in an Appraisal. The assumed level of the Discount Rate reflects an assumed after-tax yield consistent with the purpose of the Appraisal (e.g. an after-tax yield assumed to be acceptable to a hypothetical purchaser of the business being appraised).

17. Employee Contribution: This is the amount an employee must pay to participate in an employer sponsored health insurance plan. The employee contribution may be expressed as a dollar amount (often the employee's required monthly contribution) or a percentage of the benefit plans total premium.

18. Employee Participation: This is defined as the percentage of employees that actually enroll in an employer sponsored health insurance plan.

19. Experience Data: This is a term used by actuaries to define the data (e.g. members, premium, and medical claims) that is often used for projection purposes. The data used for a defined Base Period is generally a subset of the Experience Data.

20. Experience Rate: This is the premium rate for a defined population that reflects the underlying morbidity characteristics of the population. This contrasts with the Base Rate for a population (see also Rate Basis).

21. Family Tier: This is an industry term that is used to describe a Member's family type rating classification (e.g. Single Subscriber, Subscriber and one Dependent, Family).

22. Fully Insured Contracts: Fully Insured Contracts are contracts for which the policyholder (i.e. either an individual or an employer) is responsible for paying a predetermined premium in exchange for the insurer or Managed Care Organization accepting full responsibility for paying for all claims incurred in accordance with the contractual terms.

23. Grandfathered Benefit Plans ("GF" Benefit Plans): Policy Forms sold prior to March 23, 2010 do not have to conform with all of the ACA-mandated benefits as long as the benefits and cost sharing provisions are not materially changed. These Policy Forms are referred to as Grandfathered ("GF") Benefit Plans (see also Non-Grandfathered Benefit Plans).

24. Guaranteed Issue: Regulations may require that Managed Care Organizations offer health coverage to all individuals or small employers requesting such coverage, subject to certain provisions (e.g. for small employers a health care plan may establish, within limits, minimum Employee Contribution and minimum Employee Participation requirements). This requirement is generally referred to as "Guaranteed Issue".

25. Guaranteed Renewability: Regulations may require that Managed Care Organizations be required to renew the health policies of individuals or small employers for other than certain limited and defined reasons (e.g. the nonpayment of required premiums).

26. Lapse Rate: A Lapse Rate is an industry term used to measure the termination rate of Members and/or Groups. When specifically measured, the Lapse Rate is generally expressed as a monthly or annual percentage.

27. Managed Care Organization ("MCO") : Third party health care payers that negotiate contracts with health care providers to provide services to its Members are often referred to as Managed Care Organizations.

28. Medical Costs: This is an industry term that is used to refer to medical claim payments plus other medical costs and/or credits (i.e. capitation payments to providers or provider organizations, provider risk sharing payments or receivables, Rx Rebates, medical management expenses properly classified as medical expenses, etc.).

29. Medical Loss Ratio ("MLR"): While the subject of multiple definitions, in its most basic form (and, unless otherwise stated, as used in this Report), an MLR is defined as Incurred Medical Costs divided by Earned Premiums for a defined period of time. The ACA-defined MLR differs and is defined by the following:

    (c) Numerator = Medical Costs (inclusive of medical management expenses that improve the quality of medical care) plus the impact of Policy Contract Reserves (also known as Active Life Reserves), if any.

    (d) Denominator = Earned Premium less State and Federal Taxes

30. Medical Loss Ratio Durational Factors: Health care companies generally review and consider an applicant's medical history prior to issuing an individually underwritten health care policy (see Underwriting Tier). Accordingly, the claims costs and/or MLR of policies during the initial years following issuance can be expected to be materially lower than the claims costs and/or MLR for longer duration policies. That is, the policies remaining in force several years after issue reflect several factors which cause their claims cost and/or MLR to be greater than that of more recently issued policies – even for policyholders of the same age and other demographic characteristics. The factors used to measure this phenomenon (i.e. the relationship of the MLR for a given duration to the MLR for a defined normative duration) are called MLR Durational Factors.

31. Medical Loss Ratio Durational Wear-Off Factor: The change in the MLR Durational Factors from one period to a subsequent period is generally referred to as the MLR Durational Wear-Off Factor (or, the Underwriting Wear-Off Factor).

32. Medical Trend (Claims Cost Trends, Claims Trend, or Claims Trend Factor): The actual and/or expected change in claims cost (the claims costs are generally expressed on a Per Member Per Month, or "PMPM" basis) over a defined period of time (the change, or Medical Trend, is generally expressed as a percentage in annualized terms).

33. Medical Trend Leverage: The mathematical phenomenon that causes Medical Trends to be higher for benefit plans with fixed cost sharing provisions such as calendar year deductibles or fixed copays (e.g. all else being equal, a benefit plan will experience higher medical cost trends to the extent it has a fixed calendar year deductible that is higher than that of another similar benefit plan). This is due to the fixed cost sharing provisions offsetting a smaller proportion of a total benefit plan's claims cost as overall costs increase but the fixed cost sharing provisions remain fixed.

34. Medical Underwriting: The selection process that MCOs often use to review the medical history of an applicant for a health care plan to determine the health status of the applicant. After evaluating the applicant's health status, the MCO will generally assign the applicant (or, group of applicants for a group health care plan) to an Underwriting Tier.

35. Member: Member is the term most commonly used to describe any participant in a health care plan, whether that participant be a Subscriber or a dependent of a Subscriber.

36. Member Months: The average number of Members covered during a defined time period multiplied by the number of months in that time period. Member Months is also used to describe the average number of Members covered for each day within a given month.

37. Minimum Premium Plan: Minimum Premium Plans are contracts that are essentially a hybrid of an ASC contract and a Fully Insured Contract. For Minimum Premium Plans, the employer is contractually responsible for paying all claims up to a defined "Stop Loss" level, with the insurer or Managed Care Organization ("MCO") responsible for the excess. The insurer or MCO is usually responsible for processing claims and providing other administrative and provider network services. As the name implies the premium paid to the insurer or MCO is generally "minimum" and much closer to an ASC fee than a Fully Insured Premium.

38. Non-Grandfathered Benefit Plans ("NGF" Benefit Plans): Policy Forms sold after March 23, 2010 are required to comply with the ACA-mandated benefits by the later of (i) the policy effective date and (ii) the first renewal/rate change date after September 23, 2010. These Policy Forms are referred to as Non-Grandfathered ("NGF") Benefit Plans (see also Grandfathered Benefit Plans).

39. Open Product Line: A Product Line that is actively marketed (i.e. the Product Line is made available to new members).

40. Paid Claims: Unless otherwise stated this Report refers to Paid Claims as the amount a health care provider bills a managed care organization **after** the application of contractual discounts negotiated with the managed care organization, **after** benefit coverage provisions are considered, and **after** member cost sharing provisions are considered. Paid Claims must often be distinguished from Incurred Claims but unless otherwise stated, this Report will use the terms Paid Claims and Incurred Claims interchangeably to distinguish them from Allowed Claims (see Definition above). Paid Claims generally refers to claims actual paid by a managed care organization. Incurred Claims refers to claims paid plus claims incurred but not yet paid (i.e. Paid Claims plus a liability estimate for claims incurred but not yet paid).

41. Per Member Per Month ("PMPM") : Dollar values in the managed care industry are often expressed on a Per Member Per Month ("PMPM") basis. For example, the average premium and Medical Costs for Members for one month or for a series of months (such as the Experience Period or the Rating Period) are often expressed as PMPMs, which is calculated by dividing the total dollars for the period in the form of Medical Costs or premiums paid by the total number of Member Months that generated those dollars.

42. Pharmacy Benefit Manager ("PBM"): A PBM is a company that administers the prescription drug benefit program for many large employers and most Managed Care Organizations. They are responsible for creating, negotiating, and updating a health plan's prescription drug formulary (i.e. a list of generic and/or brand name drugs that often comprise what an MCO may offer as its "Preferred" list of drugs with lower Member copayments).

    The PBM also typically receives Prescription Drug Rebates from Prescription Drug Manufacturers. The Rebates generally vary based on the PBM's formularies, the utilization of specific brand name prescription drugs, and contractual agreements between the parties. Negotiations between the PBM and an MCO will also generally result in a portion of the Rebates being passed through to the MCO.

43. Policy Form (or, "Plan Family", or "Product Line"): The terms Policy Form, Plan Family, or Product Line are often used to define a group of benefit plans that may have similar but not identical cost sharing provisions. Sometimes Product Line is used to describe a subset of a Policy Form (i.e. Product Line may include benefit plans with cost sharing provisions at a more granular level than the Policy Form or Plan Family).

44. Provider Network: The medical care providers (e.g. Hospitals, Physicians, other health care professionals) and service organizations (e.g. pharmacy benefit managers, laboratories, radiology centers) that have contracted with a MCO to provide medical services to the MCO's Members.

45. Quota Share Reinsurance: Reinsurance in which the reinsurer accepts an agreed percentage of every risk it reinsures for the defined block of business subject to the reinsurance agreement. For example, 75.00% Quota Share Reinsurance describes an arrangement in which the reinsurer is paid 75.00% of all premiums (after commissions and negotiated expenses) and pays 75.00% of all claims.

46. Rating Characteristics: This term refers to the various rating categories that may impact the particular rate of a Subscriber. Permissible Rating Characteristics often include: Age, Gender, Health Status (i.e. Underwriting Tier), Benefit Plan, Geographic Area, and Family Tier.

47. Rating Period: This is a term used by actuaries to define the time period for which future medical costs are to be projected for premium rating purposes.

48. Retention: Retention is an industry term that is used to describe the portion of the premium dollar estimated to provide for all items other than Medical Costs. Examples of Retention items include: Administrative Expenses, Selling Expenses, Premium Taxes, and Profits. Retention is generally expressed as either a percentage of premiums or a fixed dollar amount PMPM. When expressed as percentages of premiums, the total of all Retention items is equal to the complement of the basic MLR (i.e. 100% minus the MLR = Retention).

49. Risk-Based Capital ("RBC"): Most states have adopted the RBC model bill released by the National Association of Insurance Commissioners ("NAIC") that establishes minimum capital standards for health insurance companies and managed care organizations. For states that adopt the RBC Model Bill, various defined levels of capital precipitate various regulatory sanctions that reflect the deviation from minimum standards. For example, the basic measure that defines what is generally called the RBC Ratio is called the Authorized Control Level ("ACL"). When a company's capital falls below the ACL, a regulator is **authorized** to seize control of the company. When a company's capital falls below the Mandatory Control Level ("MCL"), a regulator is **required** to seize control of the company. No regulatory actions are generally required for companies that maintain their capital above the Company Action Level ("CAL").

    Meeting contractual obligations to Members, maintaining corporate financial viability, avoiding strict regulatory sanctions, avoiding adverse public and customer perceptions of companies subjected to RBC regulatory sanctions, and historically significant industry fluctuations in capital levels, are all strong incentives for companies to maintain their capital levels comfortably above minimum standards.

50. Risk Adjusting: This is an actuarial term used to describe a system that is designed to neutralize within or across companies the financial impact of servicing a more or less favorable population with respect to the population's health status. The companies or entities involved might include, for example, MCOs, providers, or classes of employees of a large employer.

51. Seasonality: This is the term used to describe the phenomenon that medical claims costs often vary by calendar month. This is especially true for benefit plans with high calendar year deductibles since claim payments for these plans are generally lower in the early months of a calendar year and increase in the latter months of a calendar year. That is, in the early months of a calendar year, a greater portion of claims are subject to the benefit plan deductibles that are the responsibility of the Member.

52. Subscriber: This is a term that is often used to describe the purchaser of a health care policy. The health care policy itself may cover only the Subscriber (i.e. a "Single" policy) or the Subscriber and his or her dependents (i.e. a "Family" policy).

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of January 1, 2013

Summary of Scenarios

Scenario	Brief Description[2]		Present Values ($000s)[1] Net Income	Cost of Capital	Divestiture Value	Total Appraisal[3]
Scenario 1	8%/13% Discount Rates	Existing Business	$30,268	($26,652)	$1,692	$5,308
	75% 2014 Indiv/SmGp Lapse Replace	New Business	$78,074	($71,887)	$12,541	$18,727
	75% Ext'd Period Lapse Replace	**Total Business**	**$108,342**	**($98,540)**	**$14,233**	**$24,035**
	Low Ind/SmGp MLRs; comm Reduced 1 pt					
Scenario 2	Same as Scenario 1 except	Existing Business	$32,215	($22,579)	$2,029	$11,664
	Discount Rates 7%/12%	New Business	$85,448	($70,447)	$14,914	$29,916
		Total Business	**$117,663**	**($93,026)**	**$16,943**	**$41,580**
Scenario 3	Same as Scenario 1 except	Existing Business	$28,504	($30,433)	$1,414	($515)
	Discount Rates 9%/14%	New Business	$71,519	($72,865)	$10,561	$9,215
		Total Business	**$100,023**	**($103,298)**	**$11,975**	**$8,700**
Scenario 4	Same as Scenario 1 except:	Existing Business	$22,578	($26,651)	$1,298	($2,774)
	Ind/SmGp MLRs +1 percentage point	New Business	$64,234	($71,865)	$10,510	$2,879
		Total Business	**$86,812**	**($98,516)**	**$11,808**	**$105**
Scenario 5[4] (Hypothetical)	Same as Scen 1 except:	Existing Business	$30,955	($26,652)	$1,769	$6,072
	Removed Shock Lapses	New Business	$93,966	($85,737)	$14,467	$22,696
	due to Non-Assignable provider	**Total Business**	**$124,921**	**($112,389)**	**$16,236**	**$28,768**
	contracts					
	Average Scenarios 1 thrugh 4	Existing Business	$28,391	($26,579)	$1,608	$3,421
		New Business	$74,819	($71,766)	$12,132	$15,184
		Total Business	**$103,210**	**($98,345)**	**$13,740**	**$18,605**

[1] May not add due to rounding

[2] See Report for more detailed description of Scenarios

[3] Excludes value of initial Surplus and other assets (see Report for description)

[4] Scenario 5 shown only to value impact of Non-Assignable contracts; not for independent Appraisal Value assessment

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of June 30, 2012

Summary of Scenarios

Scenario	Brief Description[2]		Present Values ($000s)[1] Net Income	Cost of Capital	Divestiture Value	Total Appraisal[3]
Scenario 1	8%/13% Discount Rates	Existing Business	$29,125	($25,646)	$1,628	$5,107
	75% 2014 Indiv/SmGp Lapse Replace	New Business	$73,446	($67,626)	$11,798	$17,617
	75% Ext'd Period Lapse Replace	**Total Business**	**$102,571**	**($93,272)**	**$13,426**	**$22,724**
	Low Ind/SmGp MLRs; comm Reduced 1 pt					
Scenario 2	Same as Scenario 1 except	Existing Business	$31,143	($21,828)	$1,961	$11,276
	Discount Rates 7%/12%	New Business	$80,741	($66,566)	$14,093	$28,268
		Total Business	**$111,884**	**($88,394)**	**$16,054**	**$39,544**
Scenario 3	Same as Scenario 1 except	Existing Business	$27,302	($29,149)	$1,354	($493)
	Discount Rates 9%/14%	New Business	$66,984	($68,245)	$9,891	$8,630
		Total Business	**$94,286**	**($97,394)**	**$11,246**	**$8,137**
Scenario 4	Same as Scenario 1 except:	Existing Business	$21,726	($25,645)	$1,249	($2,670)
	Ind/SmGp MLRs +1 percentage point	New Business	$60,426	($67,605)	$9,887	$2,709
		Total Business	**$82,152**	**($93,250)**	**$11,136**	**$39**
Scenario 5[4] (Hypothetical)	Same as Scen 1 except:	Existing Business	$29,787	($25,646)	$1,702	$5,842
	Removed Shock Lapses	New Business	$88,396	($80,654)	$13,609	$21,351
	due to Non-Assignable provider	**Total Business**	**$118,183**	**($106,300)**	**$15,311**	**$27,193**
	contracts					
	Average Scenarios 1 thrugh 4	Existing Business	$27,324	($25,567)	$1,548	$3,305
		New Business	$70,399	($67,510)	$11,417	$14,306
		Total Business	**$97,723**	**($93,078)**	**$12,966**	**$17,611**

[1]May not add due to rounding

[2]See Report for more detailed description of Scenarios

[3]Excludes value of initial Surplus and other assets (see Report for description)

[4]Scenario 5 shown only to value impact of Non-Assignable contracts; not for independent Appraisal Value assessment

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of January 1, 2013

Distribution of Modeled Business Segments

Business Segment	Distribution for 6-month Period Ending 6/30/2012			
	Average Members		Premiums/Fees Earned	
	Number	%	$000s	%
Individual	31,808	12.0%	$40,482	17.2%
Small Group	33,730	12.7%	$67,512	28.8%
Large Group	41,241	15.6%	$88,179	37.6%
Medicare Supp	14,978	5.7%	$16,751	7.1%
Medicare Part D	9,222	3.5%	$4,679	2.0%
FEP[1]	32,379	12.2%	$4,136	1.8%
Students	8,377	3.2%	$5,197	2.2%
Self-Funded[1]	72,732	27.4%	$6,336	2.7%
Stop Loss	20,565	7.8%	$1,493	0.6%
Total	**265,031**	**100.0%**	**$234,766**	**100.0%**

[1]Admin Fees vs Premiums for these Business Segments

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of January 1, 2013

Underwriting Results (Statutory)[a]
($000s)

		2007	2008	2009	2010	2011
(1)	Premium Income	$508,999	$516,240	$503,272	$529,301	$562,275
(2)	Total Medical & Hospital Benefits	$412,863	$432,742	$436,992	$459,111	$488,966
(3)	Total Admin Expenses	$89,341	$84,319	$83,889	$76,379	$78,696
(4)	**Net Underwriting Gain (Loss) = (1)-(2)-(3)**	**$6,794**	**($820)**	**($17,609)**	**($6,189)**	**($5,388)**

(a) Excerpts from BCBSMT's Statutory Statements of Operations

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of January 1, 2013

Historical Risk-Based Capital ("RBC")[a]
($000s)

		Calendar Year				
		2007	2008	2009	2010	2011
(1)	Authorized Contol Level RBC	$19,076	$18,293	$19,821	$21,164	$22,654
(2)	Total Adjusted Capital	$144,987	$118,010	$122,556	$138,428	$130,776
(3)	RBC Ratio = (2) / (1)	760.1%	645.1%	618.3%	654.1%	577.3%

[a] From 2011 Annual Statutory Financial Statements (Five-Year Historical Data)

Blue Cross Blue Shield of Montana
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Underwriting Results (Management GAAP Recast Financials)
($000s)

Scenario 1

		Historical							Projection[a]
		2010			2011			2012	2013
		1st Half	2nd Half	CY	1st Half	2nd Half	CY	1st Half	CY
(1)	Member Months	1,384,003	1,414,302	2,798,305	1,434,165	1,464,584	2,898,749	1,590,188	3,001,455
(2)	Premium	$190,318	$208,738	$399,056	$206,133	$215,228	$421,361	$224,294	$444,213
(3)	Fees	$7,369	$7,626	$14,995	$7,769	$8,452	$16,221	$10,471	$19,760
(4)	**Prem + Fees = (2)+(3)**	**$197,687**	**$216,364**	**$414,051**	**$213,902**	**$223,680**	**$437,583**	**$234,766**	**$463,973**
(5)	Medical Costs	$152,980	$175,002	$327,982	$166,252	$181,775	$348,027	$186,539	$363,351
(6)	Admin Expenses	$43,525	$45,003	$88,529	$42,646	$46,612	$89,258	$46,286	$97,938
(7)	**Und Results = (4)-(5)-(6)**	**$1,182**	**($3,642)**	**($2,460)**	**$5,004**	**($4,707)**	**$298**	**$1,941**	**$2,684**
	Key Ratios (as % of Prem)								
	Medical Loss Ratio	80.4%	83.8%	82.2%	80.7%	84.5%	82.6%	83.2%	81.8%
	Admin Loss Ratio[b]	22.9%	21.6%	22.2%	20.7%	21.7%	21.2%	20.6%	22.0%
	Und Results Ratio	0.6%	(1.7%)	(0.6%)	2.4%	(2.2%)	0.1%	0.9%	0.6%

(a) First Projection Year for Scenario 1

(b) See Report for Historical vs Projection Admin components
Admin Loss Ratio overstated by about one percentage point (includes all admin; prem excludes "Fees")

Blue Cross Blue Shield of Montana
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Projected Improvement in Underwriting Results
($000s)

Scenario 1

		Actual	1st Projection Year		5th Projection Year	
		2011	2013	% change from 2011	2017	% change from 2013
(1)	Member Months	2,898,749	3,001,455	3.5%	2,955,398	(1.5%)
(2)	Premium	$421,361	$444,213	5.4%	$533,848	20.2%
(3)	Fees	$16,221	$19,760	21.8%	$20,963	6.1%
(4)	**Prem + Fees = (2)+(3)**	**$437,583**	**$463,973**	**6.0%**	**$554,811**	**19.6%**
(5)	Medical Costs	$348,027	$363,351	4.4%	$429,726	18.3%
(6)	Admin Expenses	$89,258	$97,938	9.7%	$118,010	20.5%
(7)	**Und Results = (4)-(5)-(6)**	**$298**	**$2,684**	801.7%	**$7,075**	163.6%
	Key Ratios (as % of Prem)					
	Medical Loss Ratio	82.6%	81.8%	(1.0%)	80.5%	(1.6%)
	Admin Loss Ratio[a]	21.2%	22.0%	4.1%	22.1%	0.3%
	Und Results Ratio	0.1%	0.6%	755.3%	1.3%	119.4%

[a] Admin Loss Ratio overstated by about one percentage point (includes all admin; prem excludes "Fees")

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General Modeling Assumptions

	Scenario 1	
Initial Surplus[1]	$0	
Interest on Accumulated Surplus	4.0%	
Risk-Based Capital Target[2]	500.0%	
Federal Income Tax Rate	35.0%	
Months of Claim Reserves[3]	1.57	
Divestiture Multiple[4]	5.00	
	Existing Business	New Business
Discount Rates	8.0%	13.0%

[1] Value of actual initial surplus excluded from the Appraisa
[2] Expressed as a percentage of the Authorized Control Leve
[3] Interest credited at same rate as interest on accumulated surplus
[4] Multiple of Net Income in Projection Year 20

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Business Segment Assumptions

Scenario 1

Medical Loss Ratios

		2013	2014	2015	2016	2017
1.	Individual	83.0%	85.0%	80.0%	77.5%	77.0%
2.	Small Group	79.8%	79.5%	79.0%	78.5%	77.5%
3.	Large Group	83.9%	83.1%	83.0%	83.0%	83.0%
4.	Medicare Supp	74.8%	75.0%	75.0%	75.0%	75.0%
5.	Medicare Part D	74.0%	74.6%	74.6%	74.6%	74.6%
6.	FEP	N/A	N/A	N/A	N/A	N/A
7.	Students	97.1%	92.0%	89.5%	88.5%	88.0%
8.	Self-Funded	N/A	N/A	N/A	N/A	N/A
9.	Stop Loss	70.0%	70.0%	70.0%	70.0%	70.0%
	Total	**81.8%**	**81.7%**	**80.5%**	**79.8%**	**79.4%**

Medical Trends

		2013	2014	2015	2016	2017
1.	Individual	8.0%	25.0%	8.0%	7.5%	7.0%
2.	Small Group	8.0%	18.0%	8.0%	7.5%	7.0%
3.	Large Group	8.0%	7.5%	7.0%	6.5%	6.0%
4.	Medicare Supp	5.0%	5.0%	5.0%	5.0%	5.0%
5.	Medicare Part D	5.0%	5.0%	5.0%	5.0%	5.0%
6.	FEP	N/A	N/A	N/A	N/A	N/A
7.	Students	8.0%	8.0%	8.0%	7.5%	7.0%
8.	Self-Funded	N/A	N/A	N/A	N/A	N/A
9.	Stop Loss	10.0%	10.0%	10.0%	10.0%	10.0%

Premium Rate Changes

		2013	2014	2015	2016	2017
1.	Individual	15.3%	14.4%	22.5%	11.2%	7.9%
2.	Small Group	9.2%	13.8%	13.1%	8.4%	8.6%
3.	Large Group	9.2%	8.9%	7.3%	6.7%	6.2%
4.	Medicare Supp	5.2%	4.8%	5.0%	5.0%	5.0%
5.	Medicare Part D	9.0%	4.2%	4.9%	5.0%	5.0%
6.	FEP	0.0%	0.0%	0.0%	0.0%	0.0%
7.	Students	16.1%	14.0%	11.0%	8.9%	7.8%
8.	Self-Funded	0.0%	0.0%	0.0%	0.0%	0.0%
9.	Stop Loss	26.8%	10.0%	10.0%	10.0%	10.0%

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Business Segment Assumptions

Scenario 1

Total Admin Expense Ratios (as % of Premium)

		2013	2014	2015	2016	2017
1.	Individual	14.8%	15.9%	15.5%	14.8%	15.0%
2.	Small Group	19.6%	20.3%	20.0%	19.2%	19.1%
3.	Large Group	13.9%	15.3%	15.6%	15.0%	15.2%
4.	Medicare Supp	26.6%	26.1%	25.6%	25.0%	24.5%
5.	Medicare Part D	19.3%	20.8%	21.0%	20.3%	20.3%
6.	FEP	N/A	N/A	N/A	N/A	N/A
7.	Students	15.6%	16.1%	15.9%	15.0%	14.9%
8.	Self-Funded	N/A	N/A	N/A	N/A	N/A
9.	Stop Loss	37.4%	37.0%	35.4%	33.2%	31.8%

Commissions (included in above "Total Admin Expense Ratios"

		Same for All Projection Years
1.	Individual	4.49%
2.	Small Group	5.11%
3.	Large Group	2.62%
4.	Medicare Supp	4.57%
5.	Medicare Part D	1.37%
6.	FEP	0.00%
7.	Students	0.00%
8.	Self-Funded	0.00%
9.	Stop Loss	3.80%

ACA Fees (included in above "Total Admin Expense Ratios")

		2013	2014	2015	2016	2017
1.	Individual	0.00%	1.90%	2.60%	2.40%	2.90%
2.	Small Group	0.00%	1.90%	2.60%	2.40%	2.90%
3.	Large Group	0.00%	1.90%	2.60%	2.40%	2.90%
4.	Medicare Supp	0.00%	0.00%	0.00%	0.00%	0.00%
5.	Medicare Part D	0.00%	1.90%	2.60%	2.40%	2.90%
6.	FEP	0.00%	0.00%	0.00%	0.00%	0.00%
7.	Students	0.00%	1.90%	2.60%	2.40%	2.90%
8.	Self-Funded	0.00%	0.00%	0.00%	0.00%	0.00%
9.	Stop Loss	0.00%	1.90%	2.60%	2.40%	2.90%

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Business Segment Assumptions

Scenario 1

Same for all Projection Years

		Lapase Rates	Prem Taxes
1.	Individual	23.0%	2.75%
2.	Small Group	25.0%	2.75%
3.	Large Group	25.0%	2.75%
4.	Medicare Supp	7.0%	2.75%
5.	Medicare Part D	7.0%	0.00%
6.	FEP	6.0%	0.00%
7.	Students	30.0%	2.75%
8.	Self-Funded	24.0%	0.00%
9.	Stop Loss	30.0%	2.75%

New Business (as "Lapse Replacement Ratio")

		2013	2014	2015	2016	2017
1.	Individual	44.9%	75.0%	100.0%	100.0%	100.0%
2.	Small Group	49.3%	75.0%	100.0%	100.0%	100.0%
3.	Large Group	49.3%	100.0%	100.0%	100.0%	100.0%
4.	Medicare Supp	100.0%	100.0%	100.0%	100.0%	100.0%
5.	Medicare Part D	100.0%	100.0%	100.0%	100.0%	100.0%
6.	FEP	100.0%	100.0%	100.0%	100.0%	100.0%
7.	Students	0.0%	80.0%	100.0%	100.0%	100.0%
8.	Self-Funded	100.0%	100.0%	100.0%	100.0%	100.0%
9.	Stop Loss	100.0%	100.0%	100.0%	100.0%	100.0%

Blue Cross Blue Shield of Montana
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Minimum ACA-Defined Medical Loss Ratios

Scenario 1

ACA-Defined Minimum MLR	
Individual	80.0%
Small Group	80.0%
Large Group	85.0%

Medical Loss Ratios

	2013	2014	2015	2016	2017
	Minimum "Traditional" MLRs[1]				
Individual	76.0%	75.0%	74.7%	74.8%	74.5%
Small Group	76.0%	75.0%	74.7%	74.8%	74.5%
Large Group	81.0%	80.0%	79.6%	79.7%	79.4%
	MLRs (Projection Assumptions)				
Individual	83.0%	85.0%	80.0%	77.5%	77.0%
Small Group	79.8%	79.5%	79.0%	78.5%	77.5%
Large Group	83.9%	83.1%	83.0%	83.0%	83.0%
	Excess of Projection MLR over Minimum MLR[2]				
Individual	7.0%	10.0%	5.3%	2.7%	2.5%
Small Group	3.8%	4.5%	4.3%	3.7%	3.0%
Large Group	2.9%	3.1%	3.4%	3.3%	3.6%

[1] Traditional MLRs (i.e. Claims/Premium) that correspond to ACA-Defined Minimum MLRs
[2] Percentage point difference between Projection MLRs and Minimum Traditional MLRs

NET INCOME PROJECTIONS: EXISTING BUSINESS
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Core Projection Period					Extended Projection Period				
	Proj. Year	1	2	3	4	5	6	7	8	9	10
	FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(1)	Member Months	2,523	2,012	1,621	1,322	1,090	910	769	658	569	498
(2)	Prem Earned	$387,680	$331,824	$287,023	$241,043	$201,901	$170,084	$144,185	$123,069	$105,822	$91,706
(3)	Fees	$16,458	$14,278	$12,528	$11,114	$9,966	$9,027	$8,253	$7,609	$7,069	$6,611
(4)	Other Income	$1,553	$1,354	$1,199	$1,019	$867	$745	$645	$563	$494	$438
(5)	**Revenue**	**$405,691**	**$347,456**	**$300,750**	**$253,177**	**$212,734**	**$179,857**	**$153,083**	**$131,241**	**$113,385**	**$98,755**
(6)	Benefits Incurred	$317,193	$270,618	$230,127	$191,153	$158,964	$133,597	$112,970	$96,170	$82,465	$71,261
(7)	Total Admin	$84,611	$75,896	$65,535	$54,300	$46,458	$39,939	$34,914	$30,795	$27,408	$24,612
(8)	**Pre-Tax Op G/L**	**$3,887**	**$942**	**$5,088**	**$7,724**	**$7,312**	**$6,320**	**$5,199**	**$4,275**	**$3,512**	**$2,881**
(9)	Interest on Surplus	$103	$189	$235	$401	$599	$815	$978	$1,120	$1,245	$1,356
(10)	F.I.T.	$1,396	$396	$1,863	$2,844	$2,769	$2,497	$2,162	$1,888	$1,665	$1,483
(11)	**Net Income**	**$2,593**	**$735**	**$3,460**	**$5,281**	**$5,142**	**$4,638**	**$4,015**	**$3,507**	**$3,092**	**$2,754**
(12)	Accumulated Surplus	$2,593	$3,329	$6,789	$12,070	$17,212	$21,849	$25,865	$29,372	$32,464	$35,218
(13)	RBC Target	$101,185	$86,327	$73,410	$60,978	$50,710	$42,618	$36,037	$30,678	$26,306	$22,732
(14)	**Cost of Capital**	**($6,023)**	**($5,063)**	**($4,313)**	**($3,628)**	**($3,016)**	**($2,520)**	**($2,124)**	**($1,801)**	**($1,539)**	**($1,324)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$160.80	$172.71	$185.49	$191.56	$195.13	$197.58	$198.98	$199.46	$199.21	$198.45
(16)	Benefits Incurred	$125.72	$134.52	$141.93	$144.63	$145.81	$146.76	$146.84	$146.16	$144.88	$143.20
(17)	Total Admin	$33.54	$37.73	$40.42	$41.08	$42.61	$43.88	$45.38	$46.80	$48.15	$49.46
(18)	Pre-Tax Op G/L	$1.54	$0.47	$3.14	$5.84	$6.71	$6.94	$6.76	$6.50	$6.17	$5.79
	% of Revenue										
(19)	Benefits Incurred	78.2%	77.9%	76.5%	75.5%	74.7%	74.3%	73.8%	73.3%	72.7%	72.2%
(20)	Total Admin	20.9%	21.8%	21.8%	21.4%	21.8%	22.2%	22.8%	23.5%	24.2%	24.9%
(21)	Pre-Tax Op G/L	1.0%	0.3%	1.7%	3.1%	3.4%	3.5%	3.4%	3.3%	3.1%	2.9%

NET INCOME PROJECTIONS: EXISTING BUSINESS
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Extended Projection Period					Extended Projection Period				
	Proj. Year	11	12	13	14	15	16	17	18	19	20
	FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
(1)	Member Months	439	391	351	318	289	264	242	223	206	191
(2)	Prem Earned	$80,127	$70,604	$62,747	$56,245	$50,841	$46,332	$42,551	$39,363	$36,660	$34,352
(3)	Fees	$6,218	$5,877	$5,578	$5,313	$5,075	$4,860	$4,664	$4,482	$4,314	$4,157
(4)	Other Income	$391	$351	$318	$291	$267	$247	$230	$216	$203	$192
(5)	**Revenue**	**$86,735**	**$76,832**	**$68,644**	**$61,848**	**$56,184**	**$51,440**	**$47,445**	**$44,061**	**$41,177**	**$38,700**
(6)	Benefits Incurred	$62,083	$54,544	$48,335	$43,203	$38,947	$35,401	$32,433	$29,937	$27,824	$26,025
(7)	Total Admin	$22,294	$20,363	$18,745	$17,381	$16,225	$15,237	$14,387	$13,650	$13,005	$12,436
(8)	**Pre-Tax Op G/L**	**$2,358**	**$1,925**	**$1,564**	**$1,263**	**$1,012**	**$801**	**$624**	**$474**	**$347**	**$239**
(9)	Interest on Surplus	$1,456	$1,546	$1,629	$1,706	$1,779	$1,847	$1,912	$1,975	$2,036	$2,096
(10)	F.I.T.	$1,335	$1,215	$1,118	$1,039	$977	$927	$888	$857	$834	$817
(11)	**Net Income**	**$2,479**	**$2,256**	**$2,076**	**$1,930**	**$1,814**	**$1,721**	**$1,649**	**$1,592**	**$1,549**	**$1,518**
(12)	Accumulated Surplus	$37,697	$39,954	$42,029	$43,960	$45,774	$47,495	$49,144	$50,736	$52,286	$53,804
(13)	RBC Target	$19,804	$17,400	$15,419	$13,782	$12,424	$11,293	$10,346	$9,550	$8,876	$8,302
(14)	**Cost of Capital**	**($1,148)**	**($1,005)**	**($886)**	**($788)**	**($708)**	**($640)**	**($584)**	**($537)**	**($497)**	**($464)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$197.41	$196.33	$195.39	$194.77	$194.59	$194.97	$195.95	$197.59	$199.90	$202.89
(16)	Benefits Incurred	$141.30	$139.38	$137.58	$136.05	$134.89	$134.18	$133.95	$134.25	$135.08	$136.44
(17)	Total Admin	$50.74	$52.03	$53.36	$54.74	$56.20	$57.75	$59.42	$61.21	$63.13	$65.20
(18)	Pre-Tax Op G/L	$5.37	$4.92	$4.45	$3.98	$3.51	$3.04	$2.58	$2.13	$1.69	$1.25
	% of Revenue										
(19)	Benefits Incurred	71.6%	71.0%	70.4%	69.9%	69.3%	68.8%	68.4%	67.9%	67.6%	67.2%
(20)	Total Admin	25.7%	26.5%	27.3%	28.1%	28.9%	29.6%	30.3%	31.0%	31.6%	32.1%
(21)	Pre-Tax Op G/L	2.7%	2.5%	2.3%	2.0%	1.8%	1.6%	1.3%	1.1%	0.8%	0.6%

NET INCOME PROJECTIONS: NEW BUSINESS
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Core Projection Period					Extended Projection Period				
	Proj. Year	1	2	3	4	5	6	7	8	9	10
	FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(1)	Member Months	478	944	1,334	1,634	1,865	1,892	1,889	1,865	1,827	1,778
(2)	Prem Earned	$56,534	$145,947	$246,824	$335,873	$416,850	$455,216	$487,826	$515,818	$540,109	$561,442
(3)	Fees	$3,302	$6,074	$8,436	$10,478	$12,274	$12,923	$13,423	$13,807	$14,102	$14,330
(4)	Other Income	$186	$478	$868	$1,211	$1,525	$1,686	$1,828	$1,953	$2,066	$2,169
(5)	**Revenue**	**$60,022**	**$152,499**	**$256,129**	**$347,562**	**$430,649**	**$469,825**	**$503,076**	**$531,578**	**$556,278**	**$577,941**
(6)	Benefits Incurred	$46,158	$119,654	$199,599	$269,166	$332,068	$362,392	$388,100	$410,107	$429,149	$445,821
(7)	Total Admin	$13,327	$32,485	$52,475	$67,902	$83,722	$90,199	$96,228	$101,398	$105,883	$109,824
(8)	**Pre-Tax Op G/L**	**$536**	**$360**	**$4,055**	**$10,495**	**$14,859**	**$17,235**	**$18,748**	**$20,073**	**$21,246**	**$22,296**
(9)	Interest on Surplus	$14	$51	$110	$312	$656	$1,162	$1,671	$2,228	$2,832	$3,479
(10)	F.I.T.	$193	$144	$1,458	$3,782	$5,430	$6,439	$7,147	$7,805	$8,427	$9,021
(11)	**Net Income**	**$358**	**$267**	**$2,707**	**$7,025**	**$10,085**	**$11,958**	**$13,272**	**$14,496**	**$15,651**	**$16,753**
(12)	Accumulated Surplus	$358	$625	$3,332	$10,357	$20,442	$32,400	$45,672	$60,168	$75,818	$92,572
(13)	RBC Target	$14,724	$38,170	$63,672	$85,864	$105,930	$115,603	$123,804	$130,824	$136,898	$142,217
(14)	**Cost of Capital**	**($766)**	**($2,750)**	**($5,296)**	**($7,776)**	**($9,973)**	**($11,520)**	**($12,449)**	**($13,241)**	**($13,922)**	**($14,514)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$125.44	$161.61	$192.00	$212.74	$230.89	$248.31	$266.29	$285.00	$304.53	$324.97
(16)	Benefits Incurred	$96.47	$126.81	$149.62	$164.76	$178.04	$191.53	$205.43	$219.87	$234.93	$250.68
(17)	Total Admin	$27.85	$34.43	$39.34	$41.56	$44.89	$47.67	$50.94	$54.36	$57.96	$61.75
(18)	Pre-Tax Op G/L	$1.12	$0.38	$3.04	$6.42	$7.97	$9.11	$9.92	$10.76	$11.63	$12.54
	% of Revenue										
(19)	Benefits Incurred	76.9%	78.5%	77.9%	77.4%	77.1%	77.1%	77.1%	77.1%	77.1%	77.1%
(20)	Total Admin	22.2%	21.3%	20.5%	19.5%	19.4%	19.2%	19.1%	19.1%	19.0%	19.0%
(21)	Pre-Tax Op G/L	0.9%	0.2%	1.6%	3.0%	3.5%	3.7%	3.7%	3.8%	3.8%	3.9%

NET INCOME PROJECTIONS: NEW BUSINESS
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Extended Projection Period					Extended Projection Period				
	Proj. Year	11	12	13	14	15	16	17	18	19	20
	FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
(1)	Member Months	1,724	1,666	1,606	1,545	1,486	1,427	1,370	1,315	1,262	1,211
(2)	Prem Earned	$580,416	$597,514	$613,130	$627,581	$641,126	$653,974	$666,295	$678,230	$689,891	$701,373
(3)	Fees	$14,506	$14,643	$14,751	$14,838	$14,911	$14,973	$15,028	$15,080	$15,130	$15,180
(4)	Other Income	$2,264	$2,352	$2,435	$2,514	$2,589	$2,663	$2,735	$2,806	$2,876	$2,946
(5)	**Revenue**	**$597,185**	**$614,509**	**$630,316**	**$644,933**	**$658,626**	**$671,609**	**$684,058**	**$696,115**	**$707,897**	**$719,499**
(6)	Benefits Incurred	$460,603	$473,884	$485,977	$497,137	$507,569	$517,441	$526,889	$536,023	$544,935	$553,699
(7)	Total Admin	$113,336	$116,508	$119,416	$122,118	$124,663	$127,090	$129,430	$131,709	$133,948	$136,164
(8)	**Pre-Tax Op G/L**	**$23,246**	**$24,116**	**$24,923**	**$25,678**	**$26,394**	**$27,079**	**$27,739**	**$28,383**	**$29,014**	**$29,636**
(9)	Interest on Surplus	$4,168	$4,898	$5,668	$6,479	$7,329	$8,220	$9,151	$10,123	$11,137	$12,193
(10)	F.I.T.	$9,595	$10,155	$10,707	$11,255	$11,803	$12,354	$12,912	$13,477	$14,053	$14,640
(11)	**Net Income**	**$17,819**	**$18,859**	**$19,884**	**$20,902**	**$21,920**	**$22,944**	**$23,979**	**$25,029**	**$26,098**	**$27,189**
(12)	Accumulated Surplus	$110,391	$129,250	$149,134	$170,036	$191,956	$214,900	$238,879	$263,907	$290,005	$317,194
(13)	RBC Target	$146,932	$151,169	$155,027	$158,587	$161,914	$165,064	$168,077	$170,991	$173,834	$176,630
(14)	**Cost of Capital**	**($15,036)**	**($15,501)**	**($15,922)**	**($16,308)**	**($16,666)**	**($17,003)**	**($17,323)**	**($17,632)**	**($17,931)**	**($18,224)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$346.41	$368.90	$392.51	$417.30	$443.34	$470.67	$499.37	$529.48	$561.08	$594.22
(16)	Benefits Incurred	$267.18	$284.48	$302.63	$321.67	$341.66	$362.63	$384.63	$407.71	$431.92	$457.29
(17)	Total Admin	$65.74	$69.94	$74.36	$79.02	$83.91	$89.07	$94.48	$100.18	$106.17	$112.45
(18)	Pre-Tax Op G/L	$13.48	$14.48	$15.52	$16.62	$17.77	$18.98	$20.25	$21.59	$23.00	$24.48
	% of Revenue										
(19)	Benefits Incurred	77.1%	77.1%	77.1%	77.1%	77.1%	77.0%	77.0%	77.0%	77.0%	77.0%
(20)	Total Admin	19.0%	19.0%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%
(21)	Pre-Tax Op G/L	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%	4.1%	4.1%	4.1%	4.1%

NET INCOME PROJECTIONS: TOTAL BUSINESS (EXISTING + NEW)
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Core Projection Period					Extended Projection Period				
	Proj. Year	1	2	3	4	5	6	7	8	9	10
	FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(1)	Member Months	3,001	2,955	2,955	2,955	2,955	2,802	2,659	2,523	2,396	2,276
(2)	Prem Earned	$444,213	$477,771	$533,848	$576,917	$618,751	$625,300	$632,010	$638,886	$645,931	$653,149
(3)	Fees	$19,760	$20,353	$20,963	$21,592	$22,240	$21,950	$21,676	$21,416	$21,171	$20,940
(4)	Other Income	$1,739	$1,831	$2,068	$2,230	$2,392	$2,432	$2,473	$2,516	$2,561	$2,607
(5)	**Revenue**	**$465,712**	**$499,955**	**$556,879**	**$600,739**	**$643,383**	**$649,682**	**$656,159**	**$662,819**	**$669,663**	**$676,696**
(6)	Benefits Incurred	$363,351	$390,272	$429,726	$460,319	$491,032	$495,989	$501,070	$506,277	$511,613	$517,082
(7)	Total Admin	$97,938	$108,381	$118,010	$122,202	$130,180	$130,138	$131,142	$132,193	$133,291	$134,437
(8)	**Pre-Tax Op G/L**	**$4,423**	**$1,302**	**$9,143**	**$18,219**	**$22,171**	**$23,555**	**$23,947**	**$24,348**	**$24,758**	**$25,177**
(9)	Interest on Surplus	$117	$240	$345	$713	$1,255	$1,977	$2,649	$3,348	$4,077	$4,835
(10)	F.I.T.	$1,589	$540	$3,321	$6,626	$8,199	$8,936	$9,309	$9,694	$10,092	$10,504
(11)	**Net Income**	**$2,951**	**$1,003**	**$6,167**	**$12,305**	**$15,227**	**$16,596**	**$17,287**	**$18,003**	**$18,743**	**$19,508**
(12)	Accumulated Surplus	$2,951	$3,954	$10,121	$22,426	$37,653	$54,249	$71,536	$89,539	$108,282	$127,790
(13)	RBC Target	$115,909	$124,497	$137,083	$146,842	$156,639	$158,221	$159,841	$161,502	$163,205	$164,949
(14)	**Cost of Capital**	**($6,788)**	**($7,813)**	**($9,609)**	**($11,404)**	**($12,989)**	**($14,040)**	**($14,573)**	**($15,042)**	**($15,460)**	**($15,838)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$155.16	$169.17	$188.43	$203.27	$217.70	$231.83	$246.81	$262.69	$279.51	$297.31
(16)	Benefits Incurred	$121.06	$132.05	$145.40	$155.76	$166.15	$176.99	$188.48	$200.65	$213.54	$227.18
(17)	Total Admin	$32.63	$36.67	$39.93	$41.35	$44.05	$46.44	$49.33	$52.39	$55.63	$59.07
(18)	Pre-Tax Op G/L	$1.47	$0.44	$3.09	$6.16	$7.50	$8.41	$9.01	$9.65	$10.33	$11.06
	% of Revenue										
(19)	Benefits Incurred	78.0%	78.1%	77.2%	76.6%	76.3%	76.3%	76.4%	76.4%	76.4%	76.4%
(20)	Total Admin	21.0%	21.7%	21.2%	20.3%	20.2%	20.0%	20.0%	19.9%	19.9%	19.9%
(21)	Pre-Tax Op G/L	0.9%	0.3%	1.6%	3.0%	3.4%	3.6%	3.6%	3.7%	3.7%	3.7%

NET INCOME PROJECTIONS: TOTAL BUSINESS (EXISTING + NEW)
($s AND MEMBER MONTHS IN THOUSANDS)

Scenario 1

		Extended Projection Period					Extended Projection Period				
	Proj. Year	11	12	13	14	15	16	17	18	19	20
	FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
(1)	Member Months	2,163	2,057	1,957	1,863	1,774	1,691	1,612	1,538	1,468	1,402
(2)	Prem Earned	$660,543	$668,118	$675,877	$683,826	$691,967	$700,306	$708,846	$717,593	$726,551	$735,724
(3)	Fees	$20,723	$20,520	$20,329	$20,151	$19,986	$19,833	$19,692	$19,562	$19,444	$19,336
(4)	Other Income	$2,654	$2,703	$2,753	$2,804	$2,857	$2,910	$2,965	$3,022	$3,079	$3,138
(5)	**Revenue**	**$683,920**	**$691,340**	**$698,959**	**$706,781**	**$714,810**	**$723,049**	**$731,503**	**$740,177**	**$749,074**	**$758,199**
(6)	Benefits Incurred	$522,686	$528,429	$534,312	$540,340	$546,515	$552,841	$559,322	$565,960	$572,760	$579,724
(7)	Total Admin	$135,630	$136,871	$138,161	$139,500	$140,889	$142,328	$143,818	$145,359	$146,953	$148,600
(8)	**Pre-Tax Op G/L**	**$25,604**	**$26,041**	**$26,487**	**$26,942**	**$27,406**	**$27,880**	**$28,364**	**$28,857**	**$29,361**	**$29,875**
(9)	Interest on Surplus	$5,624	$6,444	$7,298	$8,185	$9,108	$10,067	$11,063	$12,098	$13,173	$14,289
(10)	F.I.T.	$10,930	$11,370	$11,825	$12,294	$12,780	$13,281	$13,799	$14,334	$14,887	$15,457
(11)	**Net Income**	**$20,298**	**$21,115**	**$21,960**	**$22,833**	**$23,734**	**$24,665**	**$25,627**	**$26,621**	**$27,647**	**$28,707**
(12)	Accumulated Surplus	$148,088	$169,203	$191,163	$213,996	$237,730	$262,395	$288,023	$314,644	$342,291	$370,997
(13)	RBC Target	$166,737	$168,569	$170,446	$172,368	$174,338	$176,356	$178,424	$180,541	$182,710	$184,932
(14)	**Cost of Capital**	**($16,184)**	**($16,506)**	**($16,808)**	**($17,096)**	**($17,374)**	**($17,643)**	**($17,908)**	**($18,169)**	**($18,428)**	**($18,688)**
	Key Indicators										
	$PMPM's										
(15)	Revenue	$316.15	$336.07	$357.13	$379.37	$402.86	$427.65	$453.79	$481.35	$510.39	$540.96
(16)	Benefits Incurred	$241.62	$256.88	$273.00	$290.03	$308.01	$326.98	$346.98	$368.06	$390.25	$413.62
(17)	Total Admin	$62.70	$66.53	$70.59	$74.88	$79.40	$84.18	$89.22	$94.53	$100.13	$106.02
(18)	Pre-Tax Op G/L	$11.84	$12.66	$13.53	$14.46	$15.45	$16.49	$17.60	$18.77	$20.01	$21.32
	% of Revenue										
(19)	Benefits Incurred	76.4%	76.4%	76.4%	76.5%	76.5%	76.5%	76.5%	76.5%	76.5%	76.5%
(20)	Total Admin	19.8%	19.8%	19.8%	19.7%	19.7%	19.7%	19.7%	19.6%	19.6%	19.6%
(21)	Pre-Tax Op G/L	3.7%	3.8%	3.8%	3.8%	3.8%	3.9%	3.9%	3.9%	3.9%	3.9%

Blue Cross Blue Shield of Montana
Actuarial Appraisal
Appraisal Date of January 1, 2013

Industry Leading Public Health Care Companies
(Size Advantage)

	CY 2011 Revenue ($Millions)		Employees	
	Public Co.	Multiple of BCBSMT	Public Co.	Multiple of BCBSMT
UnitedHealth Group	$101,862	181.2	99,000	185.4
WellPoint	$60,711	108.0	37,700	70.6
Humana	$36,832	65.5	40,000	74.9
Aetna	$33,780	60.1	33,300	62.4
Cigna	$21,998	39.1	31,400	58.8
Coventry Health Care [1]	$12,187	21.7	14,400	27.0
Health Net	$11,901	21.2	7,411	13.9
Amerigroup [2]	$6,318	11.2	5,100	9.6
WellCare Health Plans	$6,107	10.9	3,990	7.5
Centene	$5,341	9.5	5,300	9.9
Molina Healthcare	$4,770	8.5	5,200	9.7

	CY 2011 Revenue	Employees
BCBSMT	$562	534

[1] Coventry being acquired by Aetna
[2] Amerigroup being acquired by WellPoint

NERA
ECONOMIC CONSULTING

ANTITRUST REPORT

Proposed Alliance of Blue Cross and Blue Shield of Montana, Inc. with Health Care Service Corporation

November 10, 2012

Project Team

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I. Introduction

Blue Cross and Blue Shield of Montana, Inc. (BCBSMT) is a health insurance company that operates almost entirely in Montana. It holds the Blue Cross and Blue Shield marks for Montana. It offers a variety of fully-insured and self-funded health insurance products (e.g., PPO, HDHP, Medicare Advantage, and Medicare supplement, as well as third-party administrator services) in Montana. It also offers some specialty insurance products (e.g., dental and vision). In addition, it contracts with a number of different providers (e.g., hospitals and physicians) in Montana to treat its members who require health care services. As of December 31, 2011, BCBSMT had 208,209 commercial health members, 15,602 Medicare health members, and 21,535 dental members who reside in Montana.[1]

Health Care Service Corporation (HCSC) is a health insurance company that operates primarily in Illinois, Texas, Oklahoma, and New Mexico.[2] It holds the Blue Cross and Blue Shield marks in those states. It offers a variety of fully-insured and self-funded health insurance products in those states as well as a dental specialty insurance product.[3] HCSC also provides health and dental insurance for a relatively small number of members who reside in Montana. Most of these are national account members whose parent companies are headquartered in Illinois, Texas, Oklahoma, or New Mexico. HCSC has no active sales presence in Montana for its primary health insurance products. HCSC also does not contract with any of the providers in Montana. Instead, it utilizes the BCBSMT provider network if any of its members require health care services. As of December 31, 2011, HCSC had 13,280 commercial health members, 31 Medicare health members, and 5,202 dental members who reside in Montana.[4]

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[1] Information from BCBSMT. The commercial health members are mutually exclusive from the Medicare health members. That is, a member can purchase either a commercial health product or a Medicare health product but not both. However, many of the dental members are duplicative of the health members. That is, a member can purchase both a health product and a dental product. The Medicare members include the Medicare Advantage and Medicare Supplement members only; they do not include the Medicare Part D members.

[2] HCSC also operates several other subsidiaries that provide health related services, including two accident and health insurance companies that do some business in Montana: Colorado Bankers Life Insurance Company and Dearborn National Life Insurance Company. However, the vast majority of HCSC revenues are generated from its four health insurance operating divisions that sell health insurance outside of Montana.

[3] HCSC does not sell a vision specialty product.

[4] Information from HCSC. The 13,280 commercial health members consisted of 812 fully-insured members and 12,468 self-insured members.

BCBSMT is proposing to enter into an alliance with HCSC.[5] Counsel for HCSC and BCBSMT have asked Dr. Thomas R. McCarthy and Dr. Scott J. Thomas of NERA Economic Consulting to perform an antitrust analysis of the proposed alliance.[6] Specifically, counsel has asked us to evaluate whether the proposed alliance is likely to lead to a lessening of competition in any of the various lines of business for health insurance, dental insurance, or provider services in Montana. It is our understanding that BCBSMT will continue to operate in the state under that name as a division of HCSC after the alliance has been completed.

In performing our work in this matter, we have reviewed a number of materials provided to us by the two parties, including planning documents discussing the proposed alliance and enrollment data for their members who reside in and outside of Montana. We have also reviewed a number of publicly available materials, including National Association of Insurance Commissioners (NAIC) premium data, Centers for Medicare & Medicaid Services (CMS) enrollment data, U.S. Census Bureau population data, and Bureau of Labor Statistics data on the number of uninsured in Montana. In addition, we have conducted a number of interviews with senior management of the two parties and with a producer located in Billings.[7]

Based on the work that we have performed, it is our conclusion that the proposed alliance will *not* lead to a lessening of competition in any market in Montana. HCSC provides health and dental insurance for only a relatively small number of members who reside in Montana. Because the vast majority of these HCSC members are insured under national contracts that are sold and competed for in states other than Montana, BCBSMT does not compete for those members. In addition, HCSC does not contract with any of the providers in Montana and BCBSMT already counts the HCSC members who reside in Montana as part of its volume when negotiating with the Montana providers. Thus, there will be no change in the structure of the provider markets where BCBSMT buys provider services. In the remainder of this report, we will explain in more detail the basis for our conclusion that the proposed alliance will have no adverse effect on

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[5] The proposed alliance is described in greater detail in the Application for Approval of Conversion and Alliance.

[6] Appendix A contains a brief description of NERA Economic Consulting as well as the curriculum vitae for Dr. McCarthy and Dr. Thomas.

[7] The producers are also often referred to as agents.

competition in any market in Montana in which the two parties now operate or will operate in the future.

II. The Proposed Alliance Will Not Increase Premiums

There are several markets in Montana that could potentially be impacted by the proposed alliance. They consist of the markets for health insurance, dental insurance, and provider services. In antitrust terms, these markets are referred to as "relevant markets" since they are the markets where the proposed alliance could potentially lessen competition.

BCBSMT competes on the selling side of the relevant markets for health insurance and dental insurance in Montana. The typical antitrust concern in this situation is that the proposed alliance could create or enhance monopoly power in these markets for BCBSMT by possibly removing an important competitor that has been constraining the premiums that BCBSMT has been charging for its products. Such a lessening of competition might then allow BCBSMT to profitably increase the premiums for its commercial health and dental products above current, competitive levels.[8] However, there are two reasons to believe that this would not be the case.

First, HCSC provides health and dental insurance for only a relatively small number of members who reside in Montana. Even if we assume that HCSC is an active competitor in Montana (it is not), adding the HCSC membership to the BCBSMT membership will have a very small impact on BCBSMT's share of the commercial health and dental markets in Montana. For example, using information from the U.S. Census Bureau, Bureau of Labor Statistics, and CMS, we estimate there were 546,117 Montana residents covered by commercial health insurance in 2011. [See Table 1.] This means that HCSC had only about a 2.4 percent share of the commercial health insurance market in Montana as measured by lives in 2011.[9] Thus, post-alliance, there will still be several alternative health insurance companies (including CIGNA/Allegiance, UnitedHealthcare, PacificSource, and Assurant) and third party administrators (TPAs) that the BCBSMT members and their employers can utilize for their

[8] The focus is typically on the commercial products since the price for the government products (i.e., the Medicare and Medicaid products) is generally controlled by the government.

[9] 2.4 percent = (13,279 / 546,117) * 100.

health insurance and dental insurance needs should they be charged too much or served poorly.[10] Moreover, several of these alternative health insurance companies and TPAs have been expanding in Montana, which make them even stronger substitutes.[11]

Table 1: Commercially Insured Population in Montana, 2011

Total Population Estimate		998,199
Less	Medicare Eligibles	180,517
Less	Medicaid Eligibles	111,082
Add	County Dual Eligibles	20,511
Less	Uninsured	180,994
Commercially Insured Population		**546,117**

Sources: U.S. Census Bureau, Population Estimates, "Annual Resident Population Estimates, Estimated Components of Resident Population Change, and Rates of the Components of Resident Population Change for States and Counties: April 1, 2010 to July 1, 2011."
Centers for Medicare and Medicaid (CMS), "State County Penetration Data for Medicare Advantage," July 2012.
CMS. "Medicaid Managed Care Enrollment as of December 31, 2010."
CMS, "Dual Eligible Enrollment as of December 31, 2010."
Bureau of Labor Statistics and the Census Bureau, Current Population Survey (CPS), Table 05, "Health Insurance Coverage Status and Type of Coverage by State and Age for All People: 2010."

The presence of these alternative health insurance companies is also the reason why the alliance will not allow BCBSMT to increase its premiums even if it must start paying a premium

[10] PacificSource is the entity that recently purchased a portion the New West Health Services business from BCBSMT. [www.pacificsource.com/_template/t_newsRelease.aspx?id=5680]

[11] For example, over the past five years, Cigna has significantly increased its fully-insured group presence through its wholly-owned subsidiary, Allegiance Life & Health Insurance Co., which is based in Missoula, Montana. [sao.mt.gov/legal/insurance/pdf/108_Alliegance.pdf] Likewise, Cigna just won a three-year contract for the State of Montana employee account, which BCBSMT previously held. This account represents around 28,000 members and is expected to shift up to $4.5 million in annual administrative service fee revenue from BCBSMT to Cigna in 2013. [Information from BCBSMT] In addition, UnitedHealth just won the contract to administer TriCare benefits for active and retired service members and their families, effective March 2013. [www.ama-assn.org/amednews/2012/04/02/bise0404.htm] BCBSMT had a share of the previous contract. TriCare is fairly large in Montana. [Information from BCBSMT] Further, Employee Benefit Management Services, Inc. (EBMS), a large TPA, recently won the Automobile Dealers Association business, previously held by BCBSMT. [Interview with a producer located in Billings] Finally, a new statewide health co-op in Montana is expected to be up and running next October as a result of the Affordable Care Act. [www.mhc.coop/] It is our understanding that this co-op has already received $57 million in funding and will compete for the individual and small group business in Montana.

tax as a result of the transaction.[12] That is, since CIGNA, UnitedHealthcare, and others are already paying premium taxes, and since those premium taxes are already built into their premiums, BCBSMT would not be able to increase its premiums in an effort to pass the tax on to its members without losing a significant amount of its commercial members to these rival insurers. These other insurers would undercut BCBSMT since they already have the premium tax built into their premiums.[13] Of course, the threat of losing a significant amount of its commercial members would keep BCBSMT from increasing its premiums. Post-alliance, BCBSMT will have strong incentives to keep premiums down and will look for efficiencies and costs savings from HCSC to do so.

The second and more important reason why the proposed alliance will not lead to a lessening of competition is that the two companies do not directly compete with each other currently—that is, there is no competitive overlap that will be lost as a result of the alliance and no material change in the structure of the health and dental insurance markets. First, HCSC has no active sales presence in Montana. Moreover, it is not allowed under the Blue Cross Blue Shield Association rules to sell a Blue branded product in another state outside the licensed service area. That is, HCSC is not trying to sell health-related insurance services to Montanans and cannot do so through an active sales presence in Montana. Second, most of the HCSC members who reside in Montana reflect national account members sold by HCSC to employers headquartered outside of Montana that are buying health insurance for all their employees, even those who might live in Montana. BCBSMT does not compete for these members since BCBSMT does not submit bids to companies in other states. Therefore, the proposed alliance will not impact competition for those members since the decision of who wins or loses the bids for those members is determined by competition in other states, not Montana.

Even though most of the HCSC national accounts business represents self-insured business that BCBSMT does not compete for,[14] we performed an NAIC Form E analysis to

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[12] This may occur because HCSC is currently not licensed as a health service corporation in Montana, but its status may change in the future.

[13] In addition, PacificSource would undercut BCBSMT since its premiums would remain unchanged since it does not have to pay a premium tax. [Information from BCBSMT]

[14] For example, 12,468 of the 13,280 commercial health members that HCSC has in Montana represent self-insured national accounts members. It should be noted that not all self-insured business in Montana is national accounts

confirm that the proposed alliance will not cause an antitrust problem. The NAIC Form E analysis is based on the premiums that each insurer has written for each of its lines of business in Montana and therefore represents fully-insured business only.[15] This approach is used as a screening device by many state departments of insurance to determine whether there is *prima facie* evidence that there might be a lessening of competition.[16] If that *prima facie* threshold is crossed, further analysis of the possible competitive effects of the alliance would be indicated. Since NAIC collects its written premiums data separately for health insurance companies and for accident and health insurance companies, and since some of the health premiums are included in the accident and health data only, we performed the analysis two different ways: (1) using the health insurance data only and (2) including some categories of the accident and health insurance data.[17]

Table 2 summarizes the results of the NAIC Form E analysis based on using the health insurance data only, which contains written premiums for nine lines of business.[18] The table shows that HCSC had a zero percent share for 4 of the 9 lines of business in Montana for each year during the period 2007 through 2011. This is because HCSC did not have any written premiums in Montana for the "Vision Only," "Federal Employees Health Benefits Plan," "Title XVIII Medicare," and "Other" lines of business during those years. Table 2 also shows that for the five lines of business where both BCBSMT and HCSC both had written premiums, HCSC had less than a 1 percent share on average during the period 2007 through 2011. For example, the table shows that HCSC had on average only a 0.1 percent share, 0.5 percent share, 0.2 percent share, 0.5 percent share, and, 0.3 percent share, respectively, of the "Individual," "Group," "Medicare Supplement," "Dental Only," and "Total" lines of business. According to

business. Many Montana employers buy self-insured coverage for their employees, which Montana insurers compete to serve.

[15] 2011 NAIC Model #450, pp. 450-27 – 450-28 and 2011 NAIC Model #440 Section 3, pp. 440-11 – 440-13.

[16] Although the Montana Department of Insurance has not adopted the NAIC Form E analysis, we have performed this analysis since it is used in many other states.

[17] Not all of the written premiums for the accident and health insurance companies represent health premiums. Therefore, we have only included those written premiums for the three categories that overlap with the health insurance companies, i.e., individual, group, and federal employees.

[18] The backup tables for this analysis are included in Appendix B. Also, we have excluded the "Title XIX Medicaid" line of business from the analysis since neither BCBSMT nor HCSC had any written premiums in Montana for that line of business.

the NAIC Model 440 Form E guidelines, these very low shares (i.e., less than 1 percent) mean that the proposed alliance would not cause a *prima facie* antitrust violation.[19] Thus, there is no need for further antitrust concern, even just based on the share numbers.

Table 2: Summary of NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data Only, 2007-2011

	Premiums Written					
Line of Business	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Individual						
HCSC	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
BCBSMT	92.5	93.1	90.2	88.5	90.0	90.8
Group						
HCSC	0.3 %	0.4 %	0.4 %	0.8 %	0.6 %	0.5 %
BCBSMT	81.0	74.5	69.1	66.8	65.9	71.0
Medicare Supplement						
HCSC	0.2 %	0.2 %	0.2 %	0.2 %	0.2 %	0.2 %
BCBSMT	74.5	74.7	74.5	74.3	71.0	73.7
Vision Only						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	48.9	42.1	37.1	31.9	30.6	38.3
Dental Only						
HCSC	1.1 %	0.7 %	0.4 %	0.4 %	0.5 %	0.5 %
BCBSMT	86.8	81.2	32.1	25.4	26.1	40.2
Federal Employees Health Benefits Plan						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	97.4	97.5	97.1	97.0	97.3	97.2
Title XVIII Medicare						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	8.6	6.6	4.4	4.4	6.8	5.9
Other						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	72.0	69.1	64.5	59.8	56.2	64.0
Total						
HCSC	0.2 %	0.2 %	0.2 %	0.4 %	0.3 %	0.3 %
BCBSMT	78.3	73.4	67.9	65.7	64.7	69.5

Source: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

[19] 2011 NAIC Model #440 Section 3, p. 440-11.

The results of the NAIC Form E analysis based on also including some of the accident and health insurance data is summarized in Table 3. Since the lines of business in the accident and health insurance data are somewhat different than the lines of business in the health insurance data, since there are only 3 categories out of 12 in the accident and health insurance data that overlap with the categories in the health insurance data, and since the "Federal Employees Health Benefits Program" line of business is typically considered to be part of the commercial line of business, we aggregated the individual, group, and federal employees categories from both datasets into a single "commercial" line of business.[20] We then included all of the other six lines of business for the health insurance category, as reported in Table 2. This means all of those other lines of business, except for the "Total," reflect the health insurance data only. The "Total" line of business reflects all of the health insurance data in Table 2 as well as the portion of the accident and health data reflected in the "commercial" line of business in Table 3.

Table 3, which contains written premiums for seven lines of business, shows that HCSC had a zero percent share for 3 of the 7 lines of business for each year during the period 2007 through 2011 since HCSC did not have any written premiums in Montana for those lines of business. The table also shows that for the four lines of business where both BCBSMT and HCSC had written premiums (including the aggregated "commercial" line of business), HCSC again had less than a 1 percent share on average during the period 2007 through 2011. For example, Table 3 shows that HCSC had on average only a 0.5 percent share, 0.2 percent share, 0.5 percent share, and 0.4 percent share, respectively, of the "Commercial," "Medicare Supplement," "Dental Only," and "Total" lines of business. Again, according to the NAIC Model 440 Form E guidelines, this means that the proposed alliance would <u>not</u> cause a *prima facie* antitrust violation.

[20] The accident and health data include two lines of business that cover individual and group policies: "Group" and "Credit (Group and Individual)." As such, it is not possible to break these two categories out separately. In contrast, the health data include these two categories as separate lines of business.

Table 3: Summary of NAIC Form E Analysis for Health Insurance Business in Montana, (Based on Health Data and Accident & Health Data Combined, 2007-2011

	Premiums Written					
Line of Business	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Commercial						
HCSC	0.5 %	0.5 %	0.4 %	0.6 %	0.5 %	0.5 %
BCBSMT	61.9	60.4	59.1	58.9	59.5	59.9
Medicare Supplement						
HCSC	0.2 %	0.2 %	0.2 %	0.2 %	0.2 %	0.2 %
BCBSMT	74.5	74.7	74.5	74.3	71.0	73.7
Vision Only						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	48.9	42.1	37.1	31.9	30.6	38.3
Dental Only						
HCSC	1.1 %	0.7 %	0.4 %	0.4 %	0.5 %	0.5 %
BCBSMT	86.8	81.2	32.1	25.4	26.1	40.2
Title XVIII Medicare						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	8.6	6.6	4.4	4.4	6.8	5.9
Other						
HCSC	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
BCBSMT	72.0	69.1	64.5	59.8	56.2	64.0
Total						
HCSC	0.5 %	0.4 %	0.4 %	0.5 %	0.4 %	0.4 %
BCBSMT	59.9	57.3	54.7	53.9	53.9	55.8

Note: HCSC includes HCSC Insurance Service Company, Colorado Bankers Life Insurance Company, and Dearborn National Life Insurance Company

Sources. NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011. NAIC, Life, Accident and Health Annual Statements Blanks, "Accident and Health Insurance," 2007-2011

Based on this analysis alone, we see no basis for concluding that the proposed alliance will cause any lessening of competition in any market or line of business in Montana. There is no meaningful level of competition between the aligning parties. More importantly, these very low shares for HCSC reflect a larger competitive truth—that is, the HCSC shares are very low because the two companies do not compete. The vast majority of the covered lives making up HCSC's share are national account lives which do not involve any competition in Montana. Further, as discussed elsewhere, the proposed alliance will offer substantial efficiencies and financial stability for BCBSMT. Thus, we conclude that the proposed alliance will not lessen

competition in the sale of various health-related insurance products but will offer real benefits to Montanans if allowed to proceed.

III. The Proposed Alliance Will Not Reduce Reimbursement Rates

BCBSMT also competes on the buying side of the relevant markets for provider services in Montana. These markets include both hospital service markets and physician service markets. The typical antitrust concern in this situation is that the proposed alliance could create or enhance BCBSMT's buying power, also known as monopsony power, in these markets, which could lead to a lessening of competition by allowing BCBSMT to decrease the reimbursement rates for provider services below competitive levels.[21] However, this concern is not an issue for this alliance.

The Blue Cross Blue Shield Association has a program called the BlueCard program. This program allows a Blue plan with members located in or traveling in another state where it does not hold the Blue Cross or Blue Shield marks (such as HCSC in Montana) to access the provider network of the Blue plan that holds the Blue Cross or Blue Shield mark in that state (such as BCBSMT in Montana). The purpose of the BlueCard program is to allow nationwide access to all kinds of providers for all BCBS members at reasonable reimbursement rates, which allows the Blue plans to better compete for the national accounts business with companies that have employees located in multiple states.

HCSC does not contract with the Montana providers. Instead, it uses the BCBSMT provider network. Moreover, through our interviews we learned that Montana providers are aware of both BCBSMT's volume and the BlueCard volume when negotiating managed care contracts with BCBSMT. Therefore, the proposed alliance will have no impact on reimbursement rates for provider services in Montana since BCBSMT already counts the HCSC members who reside in Montana as part of its description of the volume of patients it can provide when negotiating with the Montana providers. Contract negotiations with providers will be unchanged.

[21] Monopsony power also requires a reduction in the number of provider services offered, not just a finding that reimbursement rates might be lower than rates paid by some other health plan. Lower rates allow insurers to keep premiums low.

Again, based on this analysis, we see no change in the buying side of the provider services markets. As described in NERA's accompanying Financial and Community Impact Report, the proposed alliance is expected to provide a benefit to the providers by increasing the speed at which their claims are processed and allowing them to enter into more advanced payment methodologies. Thus, we do not find any basis for concluding that competition in these markets will be lessened in any way as a result of the proposed alliance.

APPENDIX A: Background Information

A-1: Overview of NERA Economic Consulting

A-2: Thomas R. McCarthy Vitae

A-3: Scott J. Thomas Vitae

A-1: Overview of NERA Economic Consulting

NERA Economic Consulting

- Founded in 1961 as National Economic Research Associates; acquires by Marsh & McLennan Companies in 1983
- Core Purpose: Provide clear and credible expert analyses that have an impact on important decisions through the application of microeconomics and related disciplines
- We provide economic analysis and advice in litigation and regulation, as well as advisory services that help shape business strategies
- Clients include all of the *American Lawyer* Global 100 and 87 of the *Fortune* 100; we have served clients in 120 countries
- ~210 senior consulting staff, most with PhDs
- ~500 total staff in 25 offices across North America, Europe, and Asia Pacific
- 4 global practices: Antitrust; Energy, Environment, Network Industries; Intellectual Property; Securities & Finance

A-2: Thomas R McCarthy Vitae

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THOMAS R. MCCARTHY
Senior Vice President

Dr. McCarthy received a B.A. in Economics from Assumption College in Worcester, Massachusetts and Master's and Ph.D. degrees in Economics from the University of Maryland under a National Defense Education Act Fellowship. After teaching microeconomic theory and urban economics at the University of Maryland, Dr. McCarthy joined the faculty of the School of Economics and Management of Oakland University in Michigan. There he taught graduate and undergraduate microeconomics as well as health economics, his area of special interest.

Dr. McCarthy joined NERA in 1983 and now directs NERA's health care practice, a practice that specializes in the economic analysis of regulatory, public policy, and litigation matters in health care markets. His own projects include analyzing the competitive effects of many health care industry mergers, including evaluating the horizontal and vertical issues created by mergers of hospitals, hospital systems, health insurers, physician groups, physician practice management companies, imaging and other medical device manufacturers, and home health care companies. In a variety of health care antitrust liability and damages cases, he has analyzed exclusive contracts, physician staff privileges issues, exclusions from managed care panels, GPO contracting, alleged foreclosures due to shifting referral patterns and exclusive contracting (e.g., the *PeaceHealth* case), bundling, joint ventures, hospital and physician monopolization cases, monopsony, and state action immunity issues involving certificates of public advantage covering hospital mergers in Montana and South Carolina. He has also analyzed class certification and liability issues in health care class action cases, including serving as a liability expert in the Miami MDL brought by physicians against ten national HMOs. In the pharmaceuticals area, he recently served as the liability witness on behalf of Lundbeck in the *FTC v. Lundbeck (Ovation)* case. As part of his policy work, Dr. McCarthy has analyzed the competitive effects of a "Blues" conversion to for-profit status and Medicare prescription drug proposals. He is also co-editor and a principal author of a year-long, two-volume study of health care reform in 12 industrialized countries, published by Kluwer.

Another area of specialization for Dr. McCarthy has been the economics of intellectual property protection, including the estimation of contract, trade dress, trade secret and patent damages, often for medical equipment and devices but also including computer hardware, CD-Rs, supermarket equipment, satellites, and agricultural products. He has also worked on antitrust damages or class certification matters involving the pharmaceutical, medical devices, soft drink, agriculture, candy, ice cream, auto parts, oil, video distribution, and newspaper industries. Other major projects include the competitive analysis of revenue sharing agreements used by supermarkets during a recent labor strike, the development of affirmative action plans, and the estimation of damages resulting from a major oil spill.

Prior to joining NERA, Dr. McCarthy was a staff economist with the Federal Trade Commission conducting studies of regulation and competition in health care markets. One such study examined the competitive effects of certificate-of-need regulation in the hospital market.

Dr. McCarthy has written several papers analyzing competition and antitrust damages in health care. These include an article in the *Journal of Health Economics* on competition in the physician services market and articles in ABA monographs on hospital merger efficiencies, monopoly and monopsony issues between payers and providers, antitrust damages, and defining geographic markets in hospital mergers. Other research activities include presentations at professional meetings and his serving as an invited panelist or moderator for various ABA and health care policy conferences. He was also invited by the Federal Trade Commission and the Antitrust Division of the Department of Justice to testify at three different sessions about monopoly and monopsony issues in health care at their joint hearings on Health Care and Competition Law and Policy. He has testified as an economic expert in federal and state court, as well as before arbitration panels, state insurance agencies, and the International Trade Commission.

Dr. McCarthy is a member of the American Economic Association and an associate member of both the American Health Lawyers Association and the American Bar Association's Section of Antitrust Law, including membership with the Section's Health Care Committee. He also served on the American Bar Association's Task Force on Hospital Mergers.

NERA
ECONOMIC CONSULTING

Education

University of Maryland
Ph.D., Economics, 1980
M.A., Economics, 1973

Assumption College
B.A., Economics, 1971

Canisius College
1967-1969

Professional Experience

	NERA Economic Consulting
1996-	Senior Vice President
1989-1996	Vice President
1986-1989	Senior Consultant and Project Director
1983-1986	Senior Analyst
	Federal Trade Commission
1982-1983	Staff Economist, Division of Regulatory Analysis, Bureau of Economics
	Oakland University
1978-1983	Assistant Professor, School of Economics and Management
	Blue Cross/Blue Shield of Michigan
1980-1982	Consultant
	Department of Health, Education and Welfare
1978-1980	Sole-source Contractor, Health Care Financing Administration
	General Electric Tempo
1975-1978	Consultant, Center for Advanced Studies

	University of Maryland
1975-1978	Instructor, Department of Economics
1975	Teaching Assistant, Department of Economics
1971-1973	National Defense Education Act Teaching Fellow

Honors and Professional Activities

Wall Street Journal Award for Outstanding Achievement in Economics, Assumption College, 1971

Graduate Assistantship, University of Maryland, 1974-1975

National Defense Education Act Fellowship, University of Maryland, 1971-1974

Outstanding Faculty Award, Oakland University Chapter of the Golden Key National Honor Society, 1981

Member, American Economic Association

Member, American Health Lawyers Association

Associate Member, American Bar Association, including membership in Section of Antitrust Law and Health Care Committee

Member, ABA Task Force on Hospital Mergers

Publications

"Revenue Sharing Agreements: Do They Restrict Competition?" (with Elizabeth Newlon and Kristin Terris), *ABA Antitrust Law, Economics Committee Newsletter*, Vol. 10, No. 1 (Summer 2010).

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American Health Advisors and William Phillips v. The University of Texas System, et al., (District Court of Travis County, Texas, 261st Judicial District), November 23, 1993.

Gil N. Mileikowsky, M.D. v. Sheldon L. Schein, M.D., et al., (Superior Court of the State of California, County of Los Angeles), October 25, 1993.

Dan A. Morgenstern, M.D. v. Charles S. Wilson, M.D., et al., (U.S. District Court, District of Nebraska), December 9-10, 1991 and September 8-10, 1992.

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Testimony Provided to State Legislative Committee

"The Mission Health System COPA," testimony and presentation to the North Carolina House Select Committee on the Certificate Of Need Process and Related Hospital Issues, Fletcher, North Carolina, October 20, 2011.

Testimony Provided to Federal Agencies

"Health Insurance Monopsony – Competitive Effects," testimony and presentation to The Federal Trade Commission and The Department of Justice Antitrust Division, Hearings on Health Care and Competition Law and Policy, Washington, DC, April 25, 2003.

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"Contracting Practices," testimony and presentation to The Federal Trade Commission and The Department of Justice Antitrust Division, Hearings on Health Care and Competition Law and Policy, Washington, DC, March 27, 2003.

Certificate of Need Hearing Testimony

Fact-finding hearing before Virginia State Department of Health on behalf of Brandermill Active Retirement Village, Inc. – Evaluation of the Virginia State Department of Health nursing home bed need methodology, October 9, 1986.

Conference Papers and Presentations

"Agreements Among Competitors to Share Revenues During a Labor Dispute under *California v. Safeway, Inc.*," invited speech to the *Los Angeles County Bar Association*, Los Angeles, CA, February 9, 2012.

"*FTC v. Lundbeck* (Ovation): A Retrospective Merger Review," invited speech to the *Antitrust Committee of the New York City Bar Association*, New York, NY, October 21, 2010.

"Unmasking the Wolf: The Universal Applicability of Antitrust Law and Economics?," *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 11, 2009.

"Bundling: Does *PeaceHealth* Tie It All Together?," Moderator, *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 3, 2008.

"When Does the Flow of Competitively Sensitive Information Create Antitrust Concerns?," presentation to *American Health Lawyers Association's Antitrust in Healthcare Conference*, Washington, DC, September 17, 2007.

"How Buying at Low Prices Can Violate the Antitrust Laws: Monopsony Lessons from Healthcare Antitrust Cases," presentation to the *American Bar Association, Section of Antitrust Law Meetings*, Washington, DC, April 19, 2007.

"Health Care Quality and the Measurement of Market Power," invited panelist at *Antitrust and Health Care: Assessing Issues in California and the United States*, a UC-Berkeley conference sponsored by the *Nicholas C. Petris Center on Health Care Markets and Consumer Welfare*, April 30 – May 1, 2004.

"Economics v. Daubert: Roundtable and Moot Hearing," Moderator, *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 6, 2002.

"Leadership in Challenging Times," Directors' Roundtable speech and discussion with the Honorable Timothy Muris, Chairman of the Federal Trade Commission, Los Angeles, CA, April 18, 2002.

"Antitrust Issues Affecting Payors," presentation and paper to conference on "Antitrust in Healthcare," sponsored by the *ABA Section of Antitrust Law, the ABA Health Law Section, and the American Health Lawyers Association*, Washington, DC, May 17-18, 2001.

"Why Tobacco II: What Changes Do Plaintiffs Want in the Use of Financial Incentives in the Managed Care Industry?" Moderator and panelist at *Marsh Health Spectrum Forum on Managed Care Organization Enterprise Risk*, New Orleans, LA, July 13, 2000.

"Use of Economists – Help or Hindrance?" Workshop presentation at *American Health Lawyers' Association Conference* on "Antitrust in the Healthcare Field," Arlington, VA, February 17, 2000.

"Aetna's Acquisition of Prudential Health Care," presentation at *DC Bar Association Luncheon*, Washington, DC, December 14, 1999.

"Restructuring and Competition in the Health Insurance Industry," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 10, 1999.

"Efficiencies Analysis in Hospital Mergers," speech at the *ABA Conference on Antitrust Issues in Health Care*, sponsored by the *ABA Section of Antitrust Law and the Section of Health Law*, in New Orleans, LA, October 16, 1998.

"Restructuring and Competition in the Health Care Industry," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 11, 1998.

"Overview of International Health Care Systems," presentation to the *Eli Lilly and UCLA Anderson School of Business' 1998 Global Health Care Conference* on "Managing Evolving Health Care," Los Angeles, CA, June 26, 1998.

"Current Antitrust Issues for Health Plans," presented to the *American Association of Health Plans' 8th Annual Managed Care Law Conference*, San Diego, CA, April 27-29, 1997.

"Certificates of Public Advantage: The Example of a Great Falls Hospital Merger," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 4, 1996.

"Hospital Mergers and State Action Immunity," speech before the State Action/Noerr Doctrine Committee at the *American Bar Association meetings of the Section of Antitrust Law*, Washington, DC, March 27, 1996.

"The Economics of Vertical Mergers," presented to *Preston, Gates & Ellis Conference* on "Antitrust: Does the Tiger Again Have Teeth?" Seattle, WA, May 5, 1995.

"Analyzing Damages in a Health Care Antitrust Case," presented at *American Bar Association Conference on Antitrust and Health Care*, co-sponsored by the Section of Antitrust Law and the American Bar Association Forum on Health Care, New Orleans, LA, October 7, 1994.

"Health Care Reforms Worldwide," presented at *William M. Mercer International Conference*, New York, NY, September 29, 1994.

"Employer Mandates in Health Care Reform," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 7, 1994.

"Health Care Reforms – Are They Answering the Right Questions?" Speech to the Financial Times World Pharmaceuticals Conference, *Adapting a Global Industry to the New Health Care Environment*, London, U.K., March 23, 1994.

"Establishing the Relevant Market in Health Care Cases," presented at the *National Health Lawyers Association meetings on Antitrust in the Health Care Field*, Washington, DC, February 18, 1994.

"Cost Crisis in Health Care: A Global Convergence Toward Market-Based Solutions," sponsored by The Center for Strategic and International Studies. The results of NERA's 16-volume study of health care reform in 12 industrialized countries were presented to Congressional staffs on September 15, 1993 in the Senate's Hart Building, Washington, DC (with U. Hoffmeyer and R. Rapp).

"The Implications of Health Care Reform for Antitrust Litigation," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 10, 1993.

"Health Care Funding: It's Impact on the Balance of Supply, Demand and the Meeting of Needs," presented at the *Annual Conference of the European Federation of Pharmaceutical Industries' Associations*, Salzburg, Austria, May 25, 1993.

"Health Care Reform and the European Economic Community," presentation to representatives of various Directorates General of the European Commission, including Mr. Fernand Saur, in charge of pharmaceutical policy for the EC, Brussels, Belgium, May 13, 1993.

"Financing Health Care, with Particular Reference to Medicines," presentation of year long study to CEOs of 35 R&D based pharmaceutical companies, Washington, DC, April 1, 1993.

Discussant, "The Proposed Dutch Health Care System: Moving Away from Employer Based Health Insurance," by Warren Greenberg, *American Economic Association Meetings*, Anaheim, CA, January 7, 1993.

"Effective Use of Economists in Health Care Litigation," presented at the *National Health Lawyers Association meetings on Antitrust in the Health Care Field*. Washington, DC, January 29-31, 1992.

"Calculating Damages For Lost Earnings," presented at *NERA Seminar on Calculating Economic Damages in Employment Cases*, Los Angeles, CA, March 26, 1991.

"Valuing Intangibles in Transfer Pricing Cases," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 7, 1990.

"Estimating Patent Infringement Damages," *NERA Seminar on New Developments in the Economics of Patent Infringement Litigation*, San Francisco, CA, and Los Angeles, CA, December 5 and 6, 1989.

"Competition and Cooperation in the Provision of Health Care," presented at *NERA Seminar on Contracting in the NHS*, London, UK, September 11, 1989.

"A Comparison of the Cluster of Services Approach with the Product Line Approach in Analyzing Hospital Mergers and Acquisitions," presented at *NERA Seminar on Antitrust and Trade Regulation*, Santa Fe, NM, July 1987 and *Young Partners Luncheon Series*, New York, NY, October 5, 1987.

"The Application of Franchising Concepts in the Health Care Industry," workshop presented to the *Ninth Annual American Bar Association's Forum Committee on Franchising*, San Antonio, TX, October 23-24, 1986.

"Misuse and Confiscation of Intellectual Property," presented at a *NERA Seminar on Patents: The New Economics (Infringement, Misuse and Damages)*, New York, NY, April 17, 1986.

"Calculating Economic Damages in Wrongful Termination Cases," presented at the *First Annual Employment Litigation Workshop*, sponsored by the *Employee Relations Law Journal*, Williamsburg, VA, September 18-20, 1985.

"An Economic Analysis of Certificate of Need Laws" (with David Kass), presented at the *American Economic Association Meetings*, San Francisco, CA, December 1983.

"Medical, Legal, and Economic Ramifications of Changes in the Health Care System," panelist at the *American Enterprise Institute Conference* on "Restructuring the Health Care Financing System: Policies and Programs" Washington, DC, January 26-27, 1983.

"A Reexamination of Medical Society Control of Blue Shield Plans," discussant of Arnould and Debrock paper at the *Eastern Economic Association Meetings*, Washington, DC, April 29, 1982.

"Public Policy Toward the Health Care Sector," presented to the *Detroit Chapter of the National Association of Health Services Executives*, Pontiac, MI, June 15, 1982.

Reviewer of four papers on "Regulation – Can It Improve Incentives?" at the *American Enterprise Institute Conference* on "Health Care – Professional Ethics, Government Regulation, or Markets?" Washington, DC, September 25-26, 1980.

"A Model of the Primary Care Physician Firm," presented at the *Eastern Economic Association Meetings*, Montreal, Canada, May 8-10, 1980.

Moderator, *Conference on Physician Manpower Issues – Health Economists' Views* (Reinhardt, Sloan), Oakland University Health Education Program, Rochester, MI, October 16, 1979.

March 2012

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Dr. Thomas received a B.A. *cum laude* in Economics from the University of California, Los Angeles, and M.A. and Ph.D. degrees in Economics from the University of California, Irvine. While in graduate school, he specialized in public choice, industrial organization, and econometrics. His graduate honors included a Regent's Dissertation Fellowship and an Outstanding Graduate Scholar Award.

At NERA, Dr. Thomas has worked on a variety of health care antitrust matters involving hospitals, physicians, insurers, trauma centers, home health providers, skilled nursing centers, laboratories, medical equipment distributors, ambulance companies, and pharmaceutical manufacturers. He has studied relevant markets, monopoly pricing, predatory practices, price discrimination, tying, vertical restraints, mergers and acquisitions, antitrust damages, and class certification issues. Dr. Thomas has also specialized in intellectual property matters involving the medical equipment and pharmaceutical industries. He has focused on the valuation of patents and trade secrets and the calculation of damages resulting from infringement.

In addition, Dr. Thomas has worked on a number of health care commercial damage matters involving hospitals, physicians, laboratories, and pharmaceutical manufacturers. He has applied econometric techniques and financial analysis to calculate damages for tortious interference, breach of contract, and wrongful injury/termination cases. Finally, Dr. Thomas has performed valuations of various businesses, including hospitals and physician practices. He has used strategic projections, financial statements, and stock price data to assess the market value of these entities.

Before joining NERA, Dr. Thomas served on the faculty at the University of California, Irvine. He taught introductory macroeconomics, intermediate macroeconomics, and intermediate microeconomics. His research focused on information and advertising: bill sponsors as voting

cues, stock market reaction to unanticipated legislation, and negative advertisements and voter turnout.

Dr. Thomas has published several papers in the areas of public choice and industrial organization. His article, "Determinants of Legislative Success in House Committees," appeared in the journal *Public Choice*. Another article, "Geographic Market Issues in Hospital Mergers," appeared in a handbook on health care mergers and acquisitions published by the American Bar Association.

He is a member of the American Economic Association and Western Economic Association and an associate member of the American Bar Association's Antitrust, Intellectual Property, and Health Law Sections.

Education

UNIVERSITY OF CALIFORNIA, IRVINE
Ph.D., Economics, 1989
M.A., Economics, 1987
Areas of Concentration: Public Choice
Industrial Organization
Econometrics
Honors: Outstanding Graduate Scholar Award, 1989
Regent's Dissertation Fellowship, 1988-1989

UNIVERSITY OF CALIFORNIA, LOS ANGELES
B.A., Economics, 1979
Honors: Graduated *Cum Laude*

Professional Experience

National Economic Research Associates, Inc.

1999-present Vice President

1993-1999 Senior Consultant

1990-1993 Senior Analyst

University of California, Irvine

1989-1990 Visiting Assistant Professor. Lectured approximately 150 students per quarter in intermediate macroeconomics and intermediate microeconomics.

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1989 Teaching Associate. Lectured 266 students in introductory macroeconomics.

1986-1988 Teaching Assistant. Taught discussion sections for econometrics, intermediate macroeconomics, and intermediate microeconomics.

Crain & Thomas

1979-1985 Senior Partner. Analyzed cement industry structure and performance for a class action antitrust case. Designed campaign contributing strategies for corporate political action committees. Compiled national election statistics by district to determine the effect of congressional redistricting.

Professional Activities

American Bar Association
American Economic Association
Western Economic Association

Publications

"Analyzing Exclusionary Practices in Health Care Matters," prepared for the ABA-AHLA Antitrust in Healthcare Meeting, Washington DC, May 24-25, 2010.

"Analyzing Monopsony in Health Care Matters," prepared for the ABA Antitrust Spring Meeting, Washington DC, April 18-20, 2007.

"Do Not-For-Profit Firms Behave Differently?," *Antitrust Insights*, New York: NERA Economic Consulting, September/October 2005.

"Geographic Market Issues in Hospital Mergers," in Douglas C. Ross and Mark J. Horoschak, *Health Care Mergers and Acquisitions Handbook,* Chicago: American Bar Association, 2003.

"Antitrust Issues Between Payers and Providers," prepared for the ABA-AHLA Health Care Antitrust Meeting, Washington DC, May 17-18, 2001. (Reprinted in two parts in *Antitrust Health Care Chronicle*, Chicago: American Bar Association, Spring 2002 and Summer 2002.)

"Efficiencies Analysis in Hospital Mergers," *Antitrust Health Care Chronicle*, Chicago: American Bar Association, Spring 1999. (Reprinted in Howard Feller, *Antitrust and Healthcare Insights into Analysis and Enforcement*, Chicago: American Bar Association, Spring 1999.)
"Hypothetical Expert Report on Damages," in Laurence H. Pretty, James L. Ewing, IV, and Tom Arnold, *Patent Litigation 1997*, Vol. 2, New York: Practising Law Institute, 1997.

"Analyzing Damages in Health Care Antitrust Cases," in Howard Feller, *Antitrust Developments in Evolving Health Care Markets*, Chicago: American Bar Association, 1996.

"The Effects of Congressional Rules About Bill Cosponsorship on Duplicate Bills: Changing Incentives for Credit Claiming," *Public Choice*, Vol. 75, No. 1, January 1993.

"Determinants of Legislative Success in House Committees," *Public Choice*, Vol. 74, No. 2, September 1992.

"A Negative Advertising Theory of Campaign Expenditures," in W. Mark Crain and Robert D. Tollison, *Predicting Politics*, Ann Arbor: University of Michigan Press, 1990.

"Do Incumbent Campaign Expenditures Matter?," *Journal of Politics*, Vol. 51, No. 4, November 1989.

Speeches

"Analyzing Exclusionary Practices in Health Care," presented at the ABA-AHLA *Antitrust in Healthcare Conference*, Arlington, Virginia, May 25, 2010.

"Analyzing Collusive Monopsony," presented at the NERA *Twenty-Seventh Annual Antitrust & Trade Regulation Seminar*, Santa Fe, New Mexico, July 7, 2006.

"What Approach Should You Use for Calculating Patent Damages: Lost Profits, Reasonable Royalties, or Both?," presented at NERA seminar series on *Intellectual Property Matters*, Newport Beach, California, February 7, 2000 and Los Angeles, California, February 8, 2000.

"Diagnosing Monopoly Pricing," presented at the NERA *Nineteenth Annual Antitrust & Trade Regulation Seminar*, Santa Fe, New Mexico, July 11, 1998.

"Direct and Cross-Examination of a Damages Expert – Demonstrations and Panel Critique," presented at the Practising Law Institute conference on *Patent Litigation 1997*, Beverly Hills, California, September 26, 1997.

"Health Care Business Problems Commonly Analyzed by Economists," presented at the Healthcare Financial Managers Association, Lone Star Chapter, *Spring Symposium*, Dallas, Texas, March 27, 1997.

"Recent Antitrust Developments in the Hospital Industry," presented at the Annual Meeting of Catholic Healthcare West Hospital CFOs, Santa Cruz, California, June 7, 1996.

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Consulting Reports

Interrogatory Response filed on behalf of defendant, in connection with *Richard A. Hynes, M.D., et al. v. Health First, Inc.* in the Circuit Court for Eighteenth Judicial Circuit in and for Brevard County, Florida, Case No. 05-2007-CA-19182. June 15, 2012.

Supplemental Expert Report submitted on behalf of defendants in the United States District Court for the District of Nevada, *Virgin Valley Water District v. Vanguard Piping Systems, et al.*, Case No. 2:09-cv-00309, June 29, 2010.

Rebuttal Expert Report submitted on behalf of defendants in the United States District Court for the District of Nevada, *Virgin Valley Water District v. Vanguard Piping Systems, et al.*, Case No. 2:09-cv-00309, June 28, 2010.

Rebuttal Expert Report submitted on behalf of counterclaimant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), November 13, 2009.

Preliminary Expert Report submitted on behalf of counterclaimant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), July 9, 2009.

Supplemental Expert Report submitted on behalf of defendants in the United States District Court for the Northern District of Oklahoma, *George S. Cohlmia, Jr., M.D., et al. v. Ardent Health Services, LLC, et al.*, Case No. 05-CV-0384 JHP-PJC, March 21, 2009.

Expert Report submitted on behalf of defendants in the United States District Court for the Northern District of Oklahoma, *George S. Cohlmia, Jr., M.D., et al. v. Ardent Health Services, LLC, et al.*, Case No. 05-CV-0384 JHP-PJC, August 14, 2008.

"Supplement to Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Alaska," prepared for Premera Blue Cross, March 8, 2004. (Found on the Alaska Division of Insurance Website.)

"Supplement to Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Washington," prepared for Premera Blue Cross, March 5, 2004. (Found on the Washington Office of Insurance Commissioner Website.)

"Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Alaska," prepared for Premera Blue Cross, January 7, 2004. (Found on the Alaska Division of Insurance Website.)

"Antitrust and Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross in the State of Washington," prepared for Premera Blue Cross, November 10, 2003. (Found on the Washington Office of Insurance Commissioner Website.)

Expert Report submitted on behalf of defendants in the Superior Court of Guam, *Kyung Yeob Yung, et al. v. Consolidated Transportation Services, Inc., et al.*, Civil Case No. CV2605-98, July 30, 2001.

Expert Report submitted on behalf of plaintiff in the United States District Court for the Central District of California Southern Section, *Don De Cristo Concrete Accessories, Inc. v. American Allsafe Company, Inc., et al.*, Case No. SACV00-30 AHS (EEx), May 24, 2001.

"Valuation Analysis of Putnam Hospital Center," prepared for counsel in connection with the proposed hospital merger between Vassar Brothers and Putnam in New York, March 23, 2001.

"Discussion of Patient Origin Data Analysis and HHIs Re: Proposed Lease of Sutter Merced Medical Center by Mercy Hospital and Health Services – Merced," submitted to the California Department of Justice, November 2000.

Expert Report submitted on behalf of plaintiff in the United States District Court for the District of Oregon, *Rentrak Corporation v. Susan Janae Kingston*, Case No. CV 98-1004-HA, June 13, 2000.

"Confidential Preliminary Report to Counsel Re: Proposed Merger between Baylor Health Care Systems and Texas Health Resources," submitted to the U.S. Department of Justice, the Federal Trade Commission, and the Texas Department of Justice, February 3, 1999.

"Economists' Report Submitted to the California Department of Justice Re: Proposed Acquisition of Chico Community Hospital by N. T. Enloe Memorial Hospital," prepared for N. T. Enloe Memorial Hospital, February 27, 1998.

"Expert Report on Damages," submitted on behalf of defendant in the Circuit Court for the State of Wisconsin for the County of Dane, *Uniek, Inc. v. William T. Graham v. Gregory J. Wenkman*, Case No. 94 CV 2784, June 13, 1997.

"Report on Hospital Activity in California, 1985-1996," prepared for the California Office of Statewide Health Planning and Development, January 27, 1997.

"Economists' Report Submitted to the Sacramento County Board of Supervisors Re: Proposed Designation of Mercy San Juan Hospital as a Level II Trauma Center," prepared for Mercy Healthcare Sacramento, November 7, 1996.

"Expert Report on Lost Pledges," submitted on behalf of the excess insurers in connection with the Jewish Federation Council of Greater Los Angeles matter, July 17, 1996.

"Supplemental Expert Report on Damages," submitted on behalf of plaintiff in the United States District Court for the District of Colorado, *COBE Laboratories, Inc. v. AVECOR Cardiovascular, Inc.*, Case No. 95-WY-2284-CB, May 28, 1996.

"Preliminary Expert Report on Damages," submitted on behalf of plaintiff in the United States District Court for the District of Colorado, *COBE Laboratories, Inc. v. AVECOR Cardiovascular, Inc.*, Case No. 95-WY-2284-CB, April 15, 1996.

"Economists' Report Submitted to the Montana Department of Justice Re: Proposed Great Falls Hospital Consolidation of Columbus Hospital and Montana Deaconess Medical Center," prepared for the Montana Department of Justice, March 5, 1996.

Affidavits and Declarations

Affidavit, filed on behalf of defendants, in connection with *Richard A. Hynes, M.D., et al. v. Health First, Inc.* and *Wuesthoff Health System, Inc. v. Health First, Inc., et al.* in the Circuit Court for Eighteenth Judicial Circuit in and for Brevard County, Florida, Case Nos. 05-2007-CA-19182 and 05-2007-CA-019391, February 17, 2011.

Affidavit submitted in opposition to plaintiff's motion for partial summary judgment in the Circuit Court for Eighteenth Judicial Circuit in and for Brevard County, Florida, *Richard A. Hynes, M.D., et al. v. Health First, Inc.*, Case No. 05-2007-CA-19182, March 5, 2010.

Affidavit submitted in opposition to plaintiff's motion for partial summary judgment in the Circuit Court for Eighteenth Judicial Circuit in and for Brevard County, Florida, *Wuesthoff Health System, Inc. v. Health First, Inc., et al.*, Case No. 05-2007-CA-019391, March 5, 2010.

Affidavit submitted in support for plaintiffs' motion for summary judgment in the Superior Court of the State of Georgia for the County of Fulton, *United Healthcare of Georgia, Inc. et al. v.*

Georgia Department of Community Health v. The Medical Association of Georgia, et al., Case No. 2006-CV-116114, June 11, 2009.

Declaration submitted in support for defendants' motion for summary judgment in the United States District Court for the Northern District of California, *Richard B. Fox, M.D. v. Good Samaritan Hospital, et al.*, Case No. CV 04 00874 PVT, June 30, 2006.

Declaration submitted in support for defendants' motion for summary judgment in the United States District Court for the Central District of California, *Bio-Medical Research Ltd, et al. v. Thane International, Inc., et al.*, Case No. CV-02-01179-R (Mcx), October 28, 2002.

Declaration submitted on behalf of plaintiff in the Superior Court of the State of California for the County of Orange, *Henry Schein, Inc. v. Western Dental Services, Inc.*, Case No. CC15106, March 14, 2002.

Affidavit submitted on behalf of defendant in the United States District Court for the District of Oregon, *Video Update, Inc. v. Rentrak Corporation*, Case No. CV98-1013-HA, July 27, 2000.

Declaration submitted in support of defendants' motion for summary judgment in the United States District Court for the Eastern District of California, *Chae Moon, M.D., et al. v. Catholic Healthcare West, et al.*, Case No. CIV-S 97-2359-DFL DAD, July 26, 1999.

Affidavit submitted on behalf of defendant in the Superior Court of the State of North Carolina for the County of Mecklenburg, *Novant Health, Inc. et al. v. Aetna U.S. Healthcare of North Carolina, Inc.*, Case No. 98-CVS-12661, October 30, 1998.

Declaration submitted in support of defendants' motions for summary adjudication in the Superior Court of the State of California for the County of Los Angeles, *Arun K. Mittal, M.D., et al. v. BayShore Medical Group, et al.*, Case No. BC 172899, April 9, 1998.

Affidavit submitted in support of defendants' motion for summary judgment in the United States District Court for the Eastern District of California, *Four A Farms, et al. v. California-Oregon Seed, Inc., et al.*, Case No. CIV-S-94-978 EJG PAN, October 20, 1995.

Declaration submitted in opposition to defendants' motion for summary adjudication in the United States District Court for the Central District of California, *BMMG, Inc., et al. v. American Telecast Corporation, et al.*, Case No. CV 92 3308 HLH, April 19, 1993.

Declaration submitted in support of defendants' motion for summary judgment in the Superior Court of the State of California for the County of Orange, *Ivar Roth, et al. v. Frank Rhodes, et al.*, Case No. 625223, September 28, 1992.

Presentations

Part of presentation team on behalf of St. Joseph Health System and Hoag Memorial Presbyterian Hospital at a meeting with the Federal Trade Commission in connection with the proposed affiliation between the two health care systems, June 29, 2012.

Part of presentation team on behalf of LHP Hospital Group, Inc. Saint Mary's Health System, Inc., and Greater Waterbury Health Network, Inc., at a meeting with the Federal Trade Commission in connection with the proposed joint venture between the parties, January 1, 2012.

Part of presentation team on behalf of Renown Health System and Reno Heart Physicians at a meeting with the Federal Trade Commission and Nevada Attorney General's Office in connection with the proposed affiliation between the parties, November 15, 2011.

Part of presentation team on behalf of Ardent Health System, SouthCrest Hospital, and Claremore Regional Hospital at a meeting with the Federal Trade Commission in connection with the proposed affiliation between the parties, June 29, 2011.

Deposition Testimony

Testimony presented on behalf of defendants in the United States District Court for the District of Nevada, *Virgin Valley Water District v. Vanguard Piping Systems, et al.*, Case No. 2:09-cv-00309, July 16, 2010.

Testimony presented on behalf of defendant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), January 5, 2010.

Testimony presented on behalf of defendants in the United States District Court for the Northern District of Oklahoma, *George S. Cohlmia, Jr., M.D., et al. v. Ardent Health Services, LLC, et al.*, Case No. 05-CV-0384 JHP-PJC, April 3, 2009.

Testimony presented on behalf of defendants in the Superior Court of the State of California for the County of Los Angeles, *Kenneth L. Rosenblood v. Robert Hayman, et al.*, Case No. BC 374 005, October 23, 2008.

Testimony presented on behalf of cross-complainants in the Superior Court of the State of California for the County of San Bernardino, *Dallen Trealoff v. Forest River, Inc., et al.*, Case No. SCVSS 096372, February 15, 2007 and June 6, 2008.

Testimony presented on behalf of defendants in the United States District Court for the Northern District of California, in the San Jose Division, *Richard B. Fox, M.D. v. Good Samaritan Hospital, et al.*, Case No. C04 00874 RMW, September 20, 2006.

Testimony presented on behalf of defendants in the Superior Court of the State of California for the County of Los Angeles, *Universal Bank v. Moss Adams, LLP, et al.*, Case No. BC 263 709, June 11, 2003.

Testimony presented on behalf of plaintiff in the Superior Court of the State of California for the County of Orange, *Henry Schein, Inc. v. Western Dental Services, Inc.*, Case No. CC15106, February 14, 2002.

Testimony presented on behalf of plaintiff in the United States District Court for the Central District of California in the Southern Section, *Don De Cristo Concrete Accessories, Inc. v. American Allsafe Company, Inc., et al.*, Case No. SACV00-30 AHS (EEx), July 23, 2001.

Testimony presented on behalf of defendants in the Superior Court of the State of California for the County of Los Angeles, *MetalMart, Inc. v. Samuel Allen, et al.*, Case No. BC200847, May 25, 2001.

Testimony presented on behalf of plaintiff in the Superior Court of the State of California for the County of Orange, *Sidney Born v. Y. Michael Kim, et al.*, Case No. 818058, April 30, 2001.

Testimony presented on behalf of defendant in the Circuit Court for the State of Wisconsin for the County of Dane, *Uniek, Inc. v. William T. Graham v. Gregory J. Wenkman*, Case No. 94 CV 2784, June 19, 1997.

Arbitration Testimony

Testimony presented on behalf of counterclaimant at the American Arbitration Association in the State of California, *Interstate Rehab, Inc. v. Target Healthcare, Inc.*, Case No. 72 193 255 00, October 19-20, 2000.

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Trial Testimony

Testimony presented on behalf of counterclaimant in the United States District Court for the Central District of California, *King Tuna, Inc. v. Anova Food, Inc.*, Case No. CV07-07451(JWJx), September 7, 2010.

Testimony presented on behalf of cross-complainants in the Superior Court of the State of California for the County of San Bernardino, *Dallen Trealoff v. Forest River, Inc., et al.*, Case No. SCVSS 096372, March 19, 2009.

Testimony presented on behalf of defendants in the Superior Court of the State of California for the County of Los Angeles, *Kenneth L. Rosenblood v. Robert Hayman, et al.*, Case No. BC 374 005, January 20, 2009.

Testimony presented on behalf of defendants in the Superior Court of the State of California for the County of Los Angeles, *MetalMart, Inc. v. Samuel Allen, et al.*, Case No. BC200847, June 11, 2001.

Testimony presented on behalf of defendant in the Superior Court of the State of California for the County of Los Angeles, *Helen D. Zweck v. GTE California, Inc.*, Case No. BC 142687, June 3 and 5, 1997.

September 2012

APPENDIX B: NAIC Form E Analysis Based on Health Data Only

B-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data Only, 2007-2011

B-2: Total Premiums Written by Line of Business: Individual, Based on Health Data Only, 2007-2011

B-3: Total Premiums Written by Line of Business: Group, Based on Health Data Only, 2007-2011

B-4: Total Premiums Written by Line of Business: Medicare Supplement, Based on Health Data Only, 2007-2011

B-5: Total Premiums Written by Line of Business: Vision Only, Based on Health Data Only, 2007-2011

B-6: Total Premiums Written by Line of Business: Dental Only, Based on Health Data Only, 2007-2011

B-7: Total Premiums Written by Line of Business: Federal Employees Health Benefits Plan, Based on Health Data Only, 2007-2011

B-8: Total Premiums Written by Line of Business: Title XVIII Medicare, Based on Health Data Only, 2007-2011

B-9: Total Premiums Written by Line of Business: Other, Based on Health Data Only, 2007-2011

B-10: Total Premiums Written by Line of Business: Total, Based on Health Data Only, 2007-2011

B-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data Only, 2007-2011

Line of Business	Premiums Written 2007 (1)	2008 (2)	2009 (3)	2010 (4)	2011 (5)	Average (6)
Individual						
HCSC	$ 57	$ 44	$ 44	$ 45	$ 42	$ 46
BCBSMT	58,202	62,593	58,464	62,674	71,325	62,652
Total Premiums	62,930	67,215	64,783	70,848	79,293	69,014
Share of Premiums						
HCSC	*0.1 %*	*0.1 %*	*0.1 %*	*0.1 %*	*0.1 %*	*0.1 %*
BCBSMT	*92.5*	*93.1*	*90.2*	*88.5*	*90.0*	*90.8*
Group						
HCSC	$ 1,058	$ 1,538	$ 1,700	$ 3,422	$ 2,767	$ 2,097
BCBSMT	286,087	280,832	267,851	286,144	304,665	285,116
Total Premiums	353,341	377,158	387,672	428,094	462,517	401,756
Share of Premiums						
HCSC	*0.3 %*	*0.4 %*	*0.4 %*	*0.8 %*	*0.6 %*	*0.5 %*
BCBSMT	*81.0*	*74.5*	*69.1*	*66.8*	*65.9*	*71.0*
Medicare Supplement						
HCSC	$ 74	$ 74	$ 70	$ 71	$ 89	$ 75
BCBSMT	30,851	30,274	29,967	30,451	31,501	30,609
Total Premiums	41,411	40,500	40,233	41,001	44,390	41,507
Share of Premiums						
HCSC	*0.2 %*	*0.2 %*	*0.2 %*	*0.2 %*	*0.2 %*	*0.2 %*
BCBSMT	*74.5*	*74.7*	*74.5*	*74.3*	*71.0*	*73.7*
Vision Only						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	823	668	596	496	475	612
Total Premiums	1,685	1,587	1,605	1,554	1,556	1,597
Share of Premiums						
HCSC	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*
BCBSMT	*48.9*	*42.1*	*37.1*	*31.9*	*30.6*	*38.3*
Dental Only						
HCSC	$ 47	$ 27	$ 31	$ 38	$ 48	$ 38
BCBSMT	3,561	3,251	2,771	2,430	2,694	2,942
Total Premiums	4,104	4,004	8,639	9,575	10,302	7,325
Share of Premiums						
HCSC	*1.1 %*	*0.7 %*	*0.4 %*	*0.4 %*	*0.5 %*	*0.5 %*
BCBSMT	*86.8*	*81.2*	*32.1*	*25.4*	*26.1*	*40.2*
Federal Employees Health Benefits Plan						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	107,238	117,893	122,672	126,939	133,881	121,725
Total Premiums	110,128	120,963	126,347	130,917	137,593	125,190
Share of Premiums						
HCSC	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*
BCBSMT	*97.4*	*97.5*	*97.1*	*97.0*	*97.3*	*97.2*

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B-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data Only, 2007-2011, *(Cont'd)*

Line of Business	Premiums Written 2007 (1)	2008 (2)	2009 (3)	2010 (4)	2011 (5)	Average (6)
Title XVIII Medicare						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	4,434	4,464	3,682	4,318	7,774	4,935
Total Premiums	51,427	67,753	84,537	97,053	114,234	83,001
Share of Premiums						
HCSC	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0 0 %*	*0.0 %*
BCBSMT	*8.6*	*6 6*	*4.4*	*4.4*	*6.8*	*5 9*
Other						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	18,775	17,941	18,818	16,940	16,752	17,845
Total Premiums	26,094	25,980	29,179	28,322	29,827	27,880
Share of Premiums						
HCSC	*0 0 %*	*0 0 %*	*0 0 %*	*0.0 %*	*0 0 %*	*0 0 %*
BCBSMT	*72 0*	*69 1*	*64.5*	*59.8*	*56.2*	*64 0*
Total						
HCSC	$ 1,235	$ 1,684	$ 1,845	$ 3,577	$ 2,947	$ 2,258
BCBSMT	509,972	517,916	504,821	530,393	569,068	526,434
Total Premiums	651,119	705,161	742,996	807,364	879,712	757,270
Share of Premiums						
HCSC	*0.2 %*	*0.2 %*	*0 2 %*	*0.4 %*	*0 3 %*	*0.3 %*
BCBSMT	*78.3*	*73.4*	*67.9*	*65.7*	*64 7*	*69.5*

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011.

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B-2: Total Premiums Written by Line of Business: Individual, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 58,202	$ 62,593	$ 58,464	$ 62,674	$ 71,325
New West Health Services	4,671	4,324	4,461	4,665	4,506
PacificSource Health Plan Group	0	0	0	3,463	3,421
HCSC	57	44	44	45	42
ClearChoice Health Plan	0	253	1,814	--	--
Total Premiums	**$ 62,930**	**$ 67,215**	**$ 64,783**	**$ 70,848**	**$ 79,293**

Notes "--" denotes not applicable
PacificSource Health Plan Group acquired ClearChoice Health Plan in 2009

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-3: Total Premiums Written by Line of Business: Group, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 286,087	$ 280,832	$ 267,851	$ 286,144	$ 304,665
New West Health Services	55,570	60,128	65,787	73,856	77,445
Cigna Health Group	0	0	44,938	56,876	71,589
Timber Products Manufacturers Trust	7,438	8,273	7,397	6,695	6,051
HCSC	1,058	1,538	1,700	3,422	2,767
PacificSource Health Plan Group	0	0	0	1,099	0
Great West Group	3,187	26,387	--	--	--
Total Premiums	**$ 353,341**	**$ 377,158**	**$ 387,672**	**$ 428,094**	**$ 462,517**

Notes: "--" denotes not applicable.
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008.

Source: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-4: Total Premiums Written by Line of Business: Medicare Supplement, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written				
	2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 30,851	$ 30,274	$ 29,967	$ 30,451	$ 31,501
Munich Re Group	0	9,645	9,735	10,018	12,402
New West Health Services	529	508	461	461	398
HCSC	74	74	70	71	89
Aon Corporation Group	9,957	--	--	--	--
Total Premiums	**$ 41,411**	**$ 40,500**	**$ 40,233**	**$ 41,001**	**$ 44,390**

Notes: "--" denotes not applicable.
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007.

Source. NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011.

B-5: Total Premiums Written by Line of Business: Vision Only, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Vision Service Plan Group	$ 805	$ 787	$ 837	$ 864	$ 887
BCBSMT	823	668	596	496	475
Cigna Health Group	0	0	126	152	175
Timber Products Manufacturers Trust	41	52	46	42	17
Metropolitan Group	0	0	0	0	0 [1]
Great West Group	16	80	--	--	--
Total Premiums	**$ 1,685**	**$ 1,587**	**$ 1,605**	**$ 1,554**	**$ 1,556**

Notes "--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008

[1] Metropolitan Group reported $137 premiums written in 2011.

Source: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-6: Total Premiums Written by Line of Business: Dental Only, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Dentegra Group	$ 0	$ 0	$ 4,971	$ 5,930	$ 6,183
BCBSMT	3,561	3,251	2,771	2,430	2,694
Cigna Health Group	0	0	455	750	1,053
Timber Products Manufacturers Trust	378	387	318	305	200
Delta Dental of Minnesota	97	96	85	109	111
HCSC	47	27	31	38	48
Renaissance Health Service Corp. Group	0	4	7	11	13
Metropolitan Group	0	0	0	0	0 [1]
Great West Group	21	238	--	--	--
Total Premiums	**$ 4,104**	**$ 4,004**	**$ 8,639**	**$ 9,575**	**$ 10,302**

Notes "--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008

[1] Metropolitan Group reported $58 premiums written in 2011

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-7: Total Premiums Written by Line of Business: Federal Employees Health Benefit Plan, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written				
	2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 107,238	$ 117,893	$ 122,672	$ 126,939	$ 133,881
New West Health Services	2,890	3,071	3,675	3,977	3,712
Total Premiums	**$ 110,128**	**$ 120,963**	**$ 126,347**	**$ 130,917**	**$ 137,593**

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-8: Total Premiums Written by Line of Business: Title XVIII Medicare, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written				
	2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
New West Health Services	$ 9,183	$ 13,972	$ 25,032	$ 38,818	$ 75,063
Munich Re Group	0	48,494	54,628	53,913	31,398
BCBSMT	4,434	4,464	3,682	4,318	7,774
Fox Insurance Company	143	490	5	2	0
WellCare Group	37	277	1,160	2	(1)
Aon Corporation Group	37,629	--	--	--	--
ClearChoice Health Plan	0	57	30	--	--
Total Premiums	**$ 51,427**	**$ 67,753**	**$ 84,537**	**$ 97,053**	**$ 114,234**

Notes. "--" denotes not applicable.
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007
PacificSource Health Plan Group acquired ClearChoice Health Planin 2009 but PacificSource did not report any premiums written for 2010 and 2011

Source: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-9: Total Premiums Written by Line of Business: Other, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 18,775	$ 17,941	$ 18,818	$ 16,940	$ 16,752
CVS Caremark Group	0	2,548	5,614	6,457	6,216
Wellcare Group	2,816	2,703	1,687	1,764	2,232
NewQuest Group	130	268	706	0	2,224
Medco Containment Service Group	658	783	1,453	1,491	1,241
Munich Re Group	0	1,546	690	772	883
Express Scripts Insurance Company	0	113	149	219	197
Envision Insurance Company	176	78	61	58	80
PacificSource Health Plan Group	0	0	0	0	0 [1]
Catamaran Insurance of Delaware, Inc.	7	0 [2]	0	0	0
Aon Corporation Group	963	--	--	--	--
Bravo Health Group	0	0	2	621	--
SilverScript Insurance Company	2,569	--	--	--	--
Total Premiums	**$ 26,094**	**$ 25,980**	**$ 29,179**	**$ 28,322**	**$ 29,827**

Note "--" denotes not applicable
CVS Caremark Group acquired SilverScript Insurance Company in 2007
NewQuest Group acquired Bravo Health Group in 2010

[1] PacificSource Health Plan Group reported $35 premiums written in 2011

[2] Catamaran Insurance of Delaware, Inc reported $123 premiums written in 2008

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

B-10: Total Premiums Written by Line of Business: Total, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 509,972	$ 517,916	$ 504,821	$ 530,393	$ 569,068
New West Health Services	72,844	82,003	99,416	121,778	161,123
Cigna Health Group	0	0	45,518	57,779	72,817
Munich Re Group	0	59,685	65,053	64,704	44,683
Timber Products Manufacturers Trust	7,857	8,712	7,761	7,042	6,268
CVS Caremark Group	0	2,548	5,614	6,457	6,216
Dentegra Group	0	0	4,971	5,930	6,183
PacificSource Health Plan Group	0	0	0	4,563	3,422
HCSC	1,235	1,684	1,845	3,577	2,947
WellCare Group	2,853	2,980	2,847	1,766	2,231
NewQuest Group	130	268	706	0	2,224
Medco Containment Service Group	658	783	1,453	1,491	1,241
Vision Service Plan Group	805	787	837	864	887
Express Scripts Insurance Company	0	113	149	219	197
Delta Dental of Minnesota	97	96	85	109	111
Envision Insurance Company	176	78	61	58	80
Renaissance Health Service Corp Group	0	4	7	11	13
Metropolitan Group	0	0	0	0	0 [1]
Catamaran Insurance of Delaware, Inc	7	0 [2]	0	0	0
Fox Insurance Company	143	490	5	2	0
Aon Corporation Group	48,549	--	--	--	--
Bravo Health Group	0	0	2	621	--
ClearChoice Health Plan	0	310	1,844	--	--
Great West Group	3,224	26,705	--	--	--
SilverScript Insurance Company	2,569	--	--	--	--
Total Premiums	**$ 651,119**	**$ 705,161**	**$ 742,996**	**$ 807,364**	**$ 879,712**

Notes "--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008
CVS Caremark Group acquired SilverScript Insurance Company in 2007.
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007
NewQuest Group acquired Bravo Health Group in 2010
PacificSource Health Plan Group acquired ClearChoice Health Plan in 2009

[1] Metropolitan Group reported $195 premiums written in 2011

[2] Catamaran Insurance of Delaware, Inc reported $123 premiums written in 2008

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

APPENDIX C: NAIC Form E Analysis Based on Health Data and Accident & Health Data

C-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data and Accident & Health Data, 2007-2011

C-2: Total Premiums Written by Line of Business: Commercial, Based on Health Data and Accident & Health Data, 2007-2011

C-3: Total Premiums Written by Line of Business: Medicare Supplement, Based on Health Data Only, 2007-2011

C-4: Total Premiums Written by Line of Business: Vision Only, Based on Health Data Only, 2007-2011

C-5: Total Premiums Written by Line of Business: Dental Only, Based on Health Data Only, 2007-2011

C-6: Total Premiums Written by Line of Business: Title XVIII Medicare, Based on Health Data Only, 2007-2011

C-7: Total Premiums Written by Line of Business: Other, Based on Health Data, 2007-2011

C-8: Total Premiums Written by Line of Business: Total, Based on Health Data and Accident & Health Data, 2007-2011

C-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data and Accident & Health Data, 2007-2011

Line of Business	Premiums Written ($000) 2007 (1)	2008 (2)	2009 (3)	2010 (4)	2011 (5)	Average (6)
Commercial						
HCSC	$ 3,757	$ 3,543	$ 3,347	$ 4,840	$ 4,099	$ 3,917
BCBSMT	451,527	461,318	448,986	475,758	509,871	469,492
Total Premiums	729,979	764,150	759,942	807,858	856,448	783,675
Share of Premiums						
HCSC	*0.5 %*	*0 5 %*	*0 4 %*	*0 6 %*	*0.5 %*	*0 5 %*
BCBSMT	*61 9*	*60.4*	*59 1*	*58.9*	*59 5*	*59.9*
Medicare Supplement						
HCSC	$ 74	$ 74	$ 70	$ 71	$ 89	$ 75
BCBSMT	30,851	30,274	29,967	30,451	31,501	30,609
Total Premiums	41,411	40,500	40,233	41,001	44,390	41,507
Share of Premiums						
HCSC	*0.2 %*	*0.2 %*	*0 2 %*	*0.2 %*	*0.2 %*	*0.2 %*
BCBSMT	*74 5*	*74.7*	*74 5*	*74 3*	*71 0*	*73.7*
Vision Only						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	823	668	596	496	475	612
Total Premiums	1,685	1,587	1,605	1,554	1,556	1,597
Share of Premiums						
HCSC	*0 0 %*	*0 0 %*	*0 0 %*	*0 0 %*	*0.0 %*	*0.0 %*
BCBSMT	*48 9*	*42.1*	*37.1*	*31.9*	*30.6*	*38 3*
Dental Only						
HCSC	$ 47	$ 27	$ 31	$ 38	$ 48	$ 38
BCBSMT	3,561	3,251	2,771	2,430	2,694	2,942
Total Premiums	4,104	4,004	8,639	9,575	10,302	7,325
Share of Premiums						
HCSC	*1.1 %*	*0 7 %*	*0 4 %*	*0.4 %*	*0.5 %*	*0.5 %*
BCBSMT	*86 8*	*81.2*	*32 1*	*25 4*	*26 1*	*40 2*
Title XVIII Medicare						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	7 0
BCBSMT	4,434	4,464	3,682	4,318	7,774	4,935
Total Premiums	51,427	67,753	84,537	97,053	114,234	83,001
Share of Premiums						
HCSC	*0.0 %*	*0.0 %*	*0.0 %*	*0 0 %*	*0.0 %*	*0.0 %*
BCBSMT	*8.6*	*6.6*	*4.4*	*4.4*	*6 8*	*5 9*
Other						
HCSC	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
BCBSMT	18,775	17,941	18,818	16,940	16,752	17,845
Total Premiums	26,094	25,980	29,179	28,322	29,827	27,880
Share of Premiums						
HCSC	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0 0 %*	*0 0 %*
BCBSMT	*72 0*	*69 1*	*64.5*	*59.8*	*56.2*	*64.0*

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C-1: NAIC Form E Analysis for Health Insurance Business in Montana, Based on Health Data and Accident & Health Data, 2007-2011 *(Cont'd)*

Line of Business	Premiums Written ($000)					
	2007	2008	2009	2010	2011	Average
	(1)	(2)	(3)	(4)	(5)	(6)
Total						
HCSC	$ 3,877	$ 3,644	$ 3,449	$ 4,949	$ 4,236	$ 4,031
BCBSMT	509,972	517,916	504,821	530,393	569,068	526,434
Total Premiums	851,829	903,635	923,457	984,644	1,055,962	943,905
Share of Premiums						
HCSC	*0.5 %*	*0.4 %*	*0 4 %*	*0.5 %*	*0.4 %*	*0.4 %*
BCBSMT	*59 9*	*57 3*	*54.7*	*53.9*	*53.9*	*55.8*

Notes: HCSC includes HCSC Insurance Service Company, Colorado Bankers Life Insurance Company, and Dearborn National Life Insurance Company
Commercial line of business includes
Individual, Group, and Federal Employees Health Benefit Plan from Health data
Group Policies, Federal Employees Health Benefits Program Premium and Credit (Group and Individual) from Accident & Health data.
Total includes all lines of business from the Health data, and Group Policies, Federal Employees Health Benefits Program Premium, and Credit (Group and Individual) from Accident & Health data.

Sources: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011
NAIC, Life, Accident and Health Annual Statements Blanks, "Accident and Health Insurance," 2007-2011

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C-2: Total Premiums Written by Line of Business: Commercial, Based on Health Data and Accident & Health Data Combined, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 451,527	$ 461,318	$ 448,986	$ 475,758	$ 509,871
New West Health Services	63,132	67,523	73,924	82,499	85,662
Cigna Health Group	4,132	3,493	49,386	62,601	78,994
UnitedHealth Group	25,262	27,068	28,627	28,045	30,181
Assurant Inc. Group	50,385	44,966	36,461	30,981	28,979
WMI Mutual Insurance Company	10,768	10,748	11,497	10,032	10,013
UnumProvident Corporation Group	6,249	6,681	8,517	8,432	8,850
Sirius Group	6,019	8,220	8,223	7,030	8,116
BCBS of South Carolina Group	8,399	12,117	8,373	7,551	7,740
Aetna Group	4,142	4,543	5,125	6,214	6,594
Hartford Fire & Casualty Group	6,951	6,152	6,576	6,476	6,174
Timber Products Manufacturers Trust	7,438	8,273	7,397	6,695	6,051
Principal Financial Group	10,982	10,361	8,500	7,791	5,609
Aegon US Holding Group	4,786	4,759	5,054	4,756	4,329
Metropolitan Group	4,273	4,139	4,549	4,163	4,147
HCSC	3,757	3,543	3,347	4,840	4,099
StanCorp Financial Group	3,576	4,302	4,198	4,230	3,676
CUNA Mutual Group	3,813	3,639	3,678	3,558	3,528
PacificSource Health Plan Group	0	0	0	4,563	3,421
Trustmark Insurance Company Group	212	225	182	5,272	3,384
ING America Insurance Holding Group	3,222	3,723	3,100	2,885	2,772
Geneve Holdings Inc. Group	703	537	532	929	2,579
Guardian Life Group	562	529	1,101	1,888	2,526
Fidelity Security Group	1,293	1,942	2,071	2,082	2,133
New York Life Group	1,749	1,991	2,019	2,141	2,097
Ameritas Mutual Holding Group	212	219	278	287	1,843
Mutual of Omaha Group	4,282	1,865	1,452	1,768	1,743
Lincoln National Group	1,753	2,209	2,150	1,664	1,715
Delphi Financial Group	594	570	502	597	1,234
HCC Insurance Holdings Group	1,421	1,366	1,061	1,805	1,174
Best Life and Health Insurance Company	122	107	241	750	1,061
Liberty Mutual Group	0	55	485	805	921
Minnesota Mutual Group	948	1,187	950	849	872
Central States Group	699	777	677	716	847
Healthmarkets Group	1,970	1,578	1,205	998	823
American Fidelity Corporation Group	427	571	1,021	900	819
AllState Insurance Group	253	204	271	754	758
Prudential of America Group	640	536	535	585	736
Pan-American Life Group	393	541	1,009	801	712
OneAmerica Financial Partners Group	13	64	136	220	657
Old Republic Group	1,314	1,438	1,334	1,231	608
American International Group	2,140	2,262	1,981	816	587
W R. Berkley Corporation Group	0	0	0	26	580
Northwestern Mutual Group	494	517	562	516	519
Citigroup Group	920	900	553	413	472
Humana Group	44	24	3	381	442

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C-2: Total Premiums Written by Line of Business: Commercial, Based on Health Data and Accident & Health Data Combined, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Security American Financial Enterprises Group	0	0	343	352	431
United Heritage Mutual Group	301	340	335	367	363
Security American Financial Enterprises Group	0	0	343	352	431
United Heritage Mutual Group	301	340	335	367	363
American Enterprise Mutual Group	159	173	229	200	344
Harris Insurance Holdings Group	141	163	157	187	338
John Hancock Group	413	311	344	366	329
Genworth Financial Group	254	262	210	223	327
Westbridge Capital Group	562	446	374	324	237
AAA Life Insurance Company	243	234	225	245	235
Aflac Group	3	2	42	47	208
Great West Group	6,643	29,386	1,565	710	205
General Electric Group	255	233	207	190	184
Kansas City Life Insurance Group	229	197	159	180	163
Liberty National Group	138	160	154	170	156
American National Financial Group	403	295	(50)	174	154
CNO Financial Group	177	166	152	136	132
Athene Group	0	0	0	0	129
Centene Corporation Group	0	465	327	231	122
Nestle SA Group	320	258	108	140	115
Coventry Corporation Group	0	332	244	114	106
Sun Life Assurance Company of CT Group	1,422	1,315	558	1,044	76
BankAmerica Corporation Group	0	57	60	64	72
National Guardian Life Insurance Group	41	45	53	60	70
Fortress Group	0	0	0	0	68
Munich Re Group	0	0	101	79	53
Nationwide Corporation Group	49	45	53	49	51
HSBC Group	139	130	84	63	46
Kemper Corporation Group	68	59	47	42	38
Arkansas BCBS Group	166	75	64	85	25
Union Labor Group	39	31	23	23	21
Sentry Insurance Group	47	(9)	28	27	20
American Medical & Life Insurance Company	0	48	77	52	20
Lifetime Healthcare Group	31	28	21	22	19
Guarantee Trust Group	70	24	28	6	17
Senior Health Insurance Company of PA	0	19	16	15	14
American Financial Group	4	295	350	169	12
WellPoint Inc. Group	351	133	41	225	11
Horace Mann Group	11	11	10	10	11
Wells Fargo Group	37	36	29	16	10
BCS Insurance Group	4	11	10	8	10
Ace Ltd. Group	0	11	8	8	10
Boston Mutual Group	5	8	12	11	9
Financial Holdings Group	1	2	2	3	7
Fidelity Life Association	0	0	0	1	5
Premera Blue Cross Group	316	184	15	5	4

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C-2: Total Premiums Written by Line of Business: Commercial, Based on Health Data and Accident & Health Data Combined, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Houston International Insurance Group	0	0	0	0	4
Starmount Life Insurance Company	0	0	0	0	4
AXA Insurance Group	8	6	4	4	4
Universal American Financial Corp Group	0	0	0	0	4
Swiss Re Group	8	6	5	4	3
Commercial Travelers Mutual Insurance Co.	0	0	0	0	3
InterAmerican Group	16	15	8	3	2
Ameriprise Financial Group	2	3	2	4	2
Physicians Mutual Group	2	2	2	2	1
Allianz Insurance Group	360	2	3	4	1
Zale Corporation Group	0 *	1	1	1	1
United Service Automobile Association Group	0 *	1	1	1	1
GPM Life Group	0	0	0	1	1
Security Mutual Life Insurance Co. of NY	0 *	0 *	1	1	0 *
United Fire & Casualty Group	0	0	0 *	0 *	0 *
Automobile Club Michigan Group	0 *	0 *	0 *	0 *	0 *
Presidential Life Insurance Group	0	0	0	0 *	0 *
AMERCO Corporation Group	4	0	0	0	0
American Community Mutual Group	1	0	0	0	0
American Life & Health Group	315	0	0	0	0
American Modern Insurance Group	146	137	0	0	0
Aon Corporation Group	17	0	0	0	0
Assurity Life Insurance Company	162	157	55	8	0
Athene Annuity & Life Assurance Company	122	130	135	136	0
Atlantic American Group	0	9	29	31	0
Balboa Insurance Group	49	0	0	0	0
Baltimore Life Holdings Group	1	1	1	1	0
Brokers National Life Assurance Company	1,469	1,537	1,511	1,461	0
Cambia Health Solutions Inc.	20	25	0	0	0
Celtic Insurance Company	567	0	0	0	0
CNA Insurance Group	25	0	0	0	0
Commercial Travelers Group	4	4	3	3	0
Continental American Insurance Company	11	23	0	0	0
Dentegra Group	2,959	4,100	0	0	0
Express Scripts Insurance Company	126	0	0	0	0
Gov't Personnel Mutual Life Insurance Co.	1	1	1	0	0
Mutual of America Life Insurance Company	2	2	2	1	0
Phoenix Companies Group	1	1	1	1	0
Security Life Insurance Company of America	397	348	0	0	0
Security National Group	0	0	0	1	0
The Hanover Insurance Group	3	3	0	0	0
Unified Life Insurance Company	6,159	1,865	1	0	0
West Southern Group	4	3	0	0	0
Wilton Re Group	0 *	0 *	0	0	0
Zurich Insurance Group	(98)	(2)	(4)	(1)	(0)

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C-2: Total Premiums Written by Line of Business: Commercial, Based on Health Data and Accident & Health Data Combined, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
The Warranty Group	41	(1)	(3)	(1)	(0)
IAC Group	7	3	0 *	1	(1)
JM Family Group	(5)	(3)	(41)	(3)	(1)
Protective Life Insurance Group	23	19	15	5	(2)
ClearChoice Health Plan	0	253	1,814	--	--
National Health Insurance Company	1,738	--	--	--	--
Southwest Insurance Partners Group	0	1,394	1,074	734	--
Total Premiums	**$ 729,979**	**$ 764,150**	**$ 759,942**	**$ 807,858**	**$ 856,448**

Notes HCSC includes HCSC Insurance Service Company, Colorado Bankers Life Insurance Company, and Dearborn National Life Insurance Company
Commercial line of business includes
Individual, Group, and Federal Employees Health Benefit Plan from Health data.
Group Policies, Federal Employees Health Benefits Program Premium and Credit (Group and Individual) from Accident & Health data.
"--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008
Fortress Group acquired Merit Life Insurance Company from American International Group in 2010
PacificSource Health Plan Group acquired ClearChoice Health Plan in 2009
Southwest Insurance Partners Group acquired National Health Insurance Company in 2007, and sold to Houston International Insurance Group in 2010

* Premiums written were between $1 and $499 for the given insurance group and year.

Sources: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011
NAIC, Life, Accident and Health Annual Statements Blanks, "Accident and Health Insurance," 2007-2011

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C-3: Total Premiums Written by Line of Business: Medicare Supplement, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written				
	2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 30,851	$ 30,274	$ 29,967	$ 30,451	$ 31,501
Munich Re Group	0	9,645	9,735	10,018	12,402
New West Health Services	529	508	461	461	398
HCSC	74	74	70	71	89
Aon Corporation Group	9,957	--	--	--	--
Total Premiums	**$ 41,411**	**$ 40,500**	**$ 40,233**	**$ 41,001**	**$ 44,390**

Notes: "--" denotes not applicable
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011.

C-4: Total Premiums Written by Line of Business: Vision Only, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Vision Service Plan Group	$ 805	$ 787	$ 837	$ 864	$ 887
BCBSMT	823	668	596	496	475
Cigna Health Group	0	0	126	152	175
Timber Products Manufacturers Trust	41	52	46	42	17
Metropolitan Group	0	0	0	0	0 [1]
Great West Group	16	80	--	--	--
Total Premiums	**$ 1,685**	**$ 1,587**	**$ 1,605**	**$ 1,554**	**$ 1,556**

Notes "--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008

[1] Metropolitan Group reported $137 premiums written in 2011.

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

C-5: Total Premiums Written by Line of Business: Dental Only, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Dentegra Group	$ 0	$ 0	$ 4,971	$ 5,930	$ 6,183
BCBSMT	3,561	3,251	2,771	2,430	2,694
Cigna Health Group	0	0	455	750	1,053
Timber Products Manufacturers Trust	378	387	318	305	200
Delta Dental of Minnesota	97	96	85	109	111
HCSC	47	27	31	38	48
Renaissance Health Service Corp. Group	0	4	7	11	13
Metropolitan Group	0	0	0	0	0 [1]
Great West Group	21	238	--	--	--
Total Premiums	**$ 4,104**	**$ 4,004**	**$ 8,639**	**$ 9,575**	**$ 10,302**

Notes. "--" denotes not applicable

Cigna Health Group acquired Great West Healthcare from Great West Group in 2008

[1] Metropolitan Group reported $58 premiums written in 2011

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

C-6: Total Premiums Written by Line of Business: Title XVIII Medicare, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
New West Health Services	$ 9,183	$ 13,972	$ 25,032	$ 38,818	$ 75,063
Munich Re Group	0	48,494	54,628	53,913	31,398
BCBSMT	4,434	4,464	3,682	4,318	7,774
Fox Insurance Company	143	490	5	2	0
WellCare Group	37	277	1,160	2	(1)
Aon Corporation Group	37,629	--	--	--	--
ClearChoice Health Plan	0	57	30	--	--
Total Premiums	**$ 51,427**	**$ 67,753**	**$ 84,537**	**$ 97,053**	**$ 114,234**

Notes: "--" denotes not applicable.
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007.
PacificSource Health Plan Group acquired ClearChoice Health Plan in 2009 but PacificSource did not report any premiums written for 2010 and 2011.

Source: NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011.

C-7: Total Premiums Written by Line of Business: Other, Based on Health Data Only, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 18,775	$ 17,941	$ 18,818	$ 16,940	$ 16,752
CVS Caremark Group	0	2,548	5,614	6,457	6,216
Wellcare Group	2,816	2,703	1,687	1,764	2,232
NewQuest Group	130	268	706	0	2,224
Medco Containment Service Group	658	783	1,453	1,491	1,241
Munich Re Group	0	1,546	690	772	883
Express Scripts Insurance Company	0	113	149	219	197
Envision Insurance Company	176	78	61	58	80
PacificSource Health Plan Group	0	0	0	0	0 [1]
Catamaran Insurance of Delaware, Inc	7	0 [2]	0	0	0
Aon Corporation Group	963	--	--	--	--
Bravo Health Group	0	0	2	621	--
SilverScript Insurance Company	2,569	--	--	--	--
Total Premiums	**$ 26,094**	**$ 25,980**	**$ 29,179**	**$ 28,322**	**$ 29,827**

Note "--" denotes not applicable
CVS Caremark Group acquired SilverScript Insurance Company in 2007
NewQuest Group acquired Bravo Health Group in 2010

[1] PacificSource Health Plan Group reported $35 premiums written in 2011

[2] Catamaran Insurance of Delaware, Inc. reported $123 premiums written in 2008

Source NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011

C-8: Total Premiums Written by Line of Business: Total, Based on Health Data and Accident & Health, 2007-2011

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
BCBSMT	$ 509,972	$ 517,916	$ 504,821	$ 530,393	$ 569,068
New West Health Services	72,844	82,003	99,416	121,778	161,123
Cigna Health Group	4,132	3,493	49,966	63,503	80,223
Munich Re Group	0	59,685	65,154	64,782	44,736
UnitedHealth Group	25,262	27,068	28,627	28,045	30,181
Assurant Inc Group	50,385	44,966	36,461	30,981	28,979
WMI Mutual Insurance Company	10,768	10,748	11,497	10,032	10,013
UnumProvident Corporation Group	6,249	6,681	8,517	8,432	8,850
Sirius Group	6,019	8,220	8,223	7,030	8,116
BCBS of South Carolina Group	8,399	12,117	8,373	7,551	7,740
Aetna Group	4,142	4,543	5,125	6,214	6,594
Timber Products Manufacturers Trust	7,857	8,712	7,761	7,042	6,268
CVS CareMark Group	0	2,548	5,614	6,457	6,216
Dentegra Group	2,959	4,100	4,971	5,930	6,183
Hartford Fire & Casualty Group	6,951	6,152	6,576	6,476	6,174
Principal Financial Group	10,982	10,361	8,500	7,791	5,609
Aegon US Holding Group	4,786	4,759	5,054	4,756	4,329
HCSC	3,877	3,644	3,449	4,949	4,236
Metropolitan Group	4,273	4,139	4,549	4,163	4,147
StanCorp Financial Group	3,576	4,302	4,198	4,230	3,676
CUNA Mutual Group	3,813	3,639	3,678	3,558	3,528
PacificSource Health Plan Group	0	0	0	4,563	3,422
Trustmark Insurance Company Group	212	225	182	5,272	3,384
ING America Insurance Holding Group	3,222	3,723	3,100	2,885	2,772
Geneve Holdings Inc Group	703	537	532	929	2,579
Guardian Life Group	562	529	1,101	1,888	2,526
WellCare Group	2,853	2,980	2,847	1,766	2,231
NewQuest Group	130	268	706	0	2,224
Fidelity Security Group	1,293	1,942	2,071	2,082	2,133
New York Life Group	1,749	1,991	2,019	2,141	2,097
Ameritas Mutual Holding Group	212	219	278	287	1,843
Mutual of Omaha Group	4,282	1,865	1,452	1,768	1,743
Lincoln National Group	1,753	2,209	2,150	1,664	1,715
MedCo Containment Services Group	658	783	1,453	1,491	1,241
Delphi Financial Group	594	570	502	597	1,234
HCC Insurance Holdings Group	1,421	1,366	1,061	1,805	1,174
Best Life and Health Insurance Company	122	107	241	750	1,061
Liberty Mutual Group	0	55	485	805	921
Vision Service Plan Group	805	787	837	864	887
Minnesota Mutual Group	948	1,187	950	849	872
Central States Group	699	777	677	716	847
Healthmarkets Group	1,970	1,578	1,205	998	823
American Fidelity Corporation Group	427	571	1,021	900	819
AllState Insurance Group	253	204	271	754	758
Prudential of America Group	640	536	535	585	736
Pan-American Life Group	393	541	1,009	801	712

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C-8: Total Premiums Written by Line of Business: Total, Based on Health Data and Accident & Health, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
OneAmerica Financial Partners Group	13	64	136	220	657
Old Republic Group	1,314	1,438	1,334	1,231	608
American International Group	2,140	2,262	1,981	816	587
W R. Berkley Corporation Group	0	0	0	26	580
Northwestern Mutual Group	494	517	562	516	519
Citigroup Group	920	900	553	413	472
Humana Group	44	24	3	381	442
Security American Financial Enterprises Group	0	0	343	352	431
United Heritage Mutual Group	301	340	335	367	363
American Enterprise Mutual Group	159	173	229	200	344
Harris Insurance Holdings Group	141	163	157	187	338
John Hancock Group	413	311	344	366	329
Genworth Financial Group	254	262	210	223	327
Westbridge Capital Group	562	446	374	324	237
AAA Life Insurance Company	243	234	225	245	235
Aflac Group	3	2	42	47	208
Great West Group	6,680	29,704	1,565	710	205
Express Scripts Insurance Company	126	113	149	219	197
General Electric Group	255	233	207	190	184
Kansas City Life Insurance Group	229	197	159	180	163
Liberty National Group	138	160	154	170	156
American National Financial Group	403	295	(50)	174	154
CNO Financial Group	177	166	152	136	132
Athene Group	0	0	0	0	129
Centene Corporation Group	0	465	327	231	122
Nestle SA Group	320	258	108	140	115
Delta Dental of Minnesota	97	96	85	109	111
Coventry Corporation Group	0	332	244	114	106
Envision Insurance Company	176	78	61	58	80
Sun Life Assurance Company of CT Group	1,422	1,315	558	1,044	76
BankAmerica Corporation Group	0	57	60	64	72
National Guardian Life Insurance Group	41	45	53	60	70
Fortress Group	0	0	0	0	68
Nationwide Corporation Group	49	45	53	49	51
HSBC Group	139	130	84	63	46
Kemper Corporation Group	68	59	47	42	38
Arkansas BCBS Group	166	75	64	85	25
Union Labor Group	39	31	23	23	21
Sentry Insurance Group	47	(9)	28	27	20
American Medical and Life Insurance Co	0	48	77	52	20
Lifetime Healthcare Group	31	28	21	22	19
Guarantee Trust Group	70	24	28	6	17
Senior Health Insurance Company of PA	0	19	16	15	14
Renaissance Health Services Corp Group	0	4	7	11	13
American Financial Group	4	295	350	169	12
WellPoint Inc Group	351	133	41	225	11

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C-8: Total Premiums Written by Line of Business: Total, Based on Health Data and Accident & Health, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Horace Mann Group	11	11	10	10	11
Wells Fargo Group	37	36	29	16	10
BCS Insurance Group	4	11	10	8	10
Ace Ltd Group	0	11	8	8	10
Boston Mutual Group	5	8	12	11	9
Financial Holdings Group	1	2	2	3	7
Fidelity Life Association	0	0	0	1	5
Premera Blue Cross Group	316	184	15	5	4
Houston International Insurance Group	0	0	0	0	4
Starmount Life Insurance Company	0	0	0	0	4
AXA Insurance Group	8	6	4	4	4
Universal American Financial Corp Group	0	0	0	0	4
Swiss Re Group	8	6	5	4	3
Commercial Travelers Mutual Insurance Co	0	0	0	0	3
InterAmerican Group	16	15	8	3	2
Ameriprise Financial Group	2	3	2	4	2
Physicians Mutual Group	2	2	2	2	1
Allianz Insurance Group	360	2	3	4	1
Zale Corporation Group	0 *	1	1	1	1
United Service Automobile Association Group	0 *	1	1	1	1
GPM Life Group	0	0	0	1	1
Security Mutual Life Insurance Co. of NY	0	0 *	1	1	0 *
United Fire & Casualty Group	0	0	0 *	0 *	0 *
Automobile Club Michigan Group	0 *	0 *	0 *	0 *	0 *
Presidential Life Insurance Company	0	0	0	0 *	0 *
AMERCO Corporation Group	4	0	0	0	0
American Community Mutual Group	1	0	0	0	0
American Life & Health Group	315	0	0	0	0
American Modern Insurance Group	146	137	0	0	0
Aon Corporation Group	48,566	0	0	0	0
Assurity Life Insurance Company	162	157	55	8	0
Athene Annuity & Life Assurance Company	122	130	135	136	0
Atlantic American Group	0	9	29	31	0
Balboa Insurance Group	49	0	0	0	0
Baltimore Life Holdings Group	1	1	1	1	0
Brokers National Life Assurance Company	1,469	1,537	1,511	1,461	0
Cambia Health Solutions Inc	20	25	0	0	0
Catamaran Insurance of Delaware, Inc	7	0 *	0	0	0
Celtic Insurance Company	567	0	0	0	0
CNA Insurance Group	25	0	0	0	0
Commercial Travelers Group	4	4	3	3	0
Continental American Insurance Company	11	23	0	0	0
Fox Insurance Company	143	490	5	2	0
Gov't Personnel Mutual Life Insurance Co.	1	1	1	0	0
Mutual of America Life Insurance Company	2	2	2	1	0
National Health Insurance Company	1,738	0	0	0	0

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C-8: Total Premiums Written by Line of Business: Total, Based on Health Data and Accident & Health, 2007-2011 *(Cont'd)*

Insurance Group	Premiums Written 2007	2008	2009	2010	2011
	($000s)				
	(1)	(2)	(3)	(4)	(5)
Phoenix Companies Group	1	1	1	1	0
Security Life Insurance Company of America	397	348	0	0	0
Security National Group	0	0	0	1	0
Southwest Insurance Partners Group	0	1,394	1,074	734	0
The Hanover Insurance Group	3	3	0	0	0
Unified Life Insurance Company	6,159	1,865	1	0	0
West Southern Group	4	3	0	0	0
Wilton Re Group	0 *	0 *	0	0	0
Zurich Insurance Group	(98)	(2)	(4)	(1)	(0)
The Warranty Group	41	(1)	(3)	(1)	(0)
IAC Group	7	3	0 *	1	(1)
JM Family Group	(5)	(3)	(41)	(3)	(1)
Protective Life Insurance Group	23	19	15	5	(2)
Bravo Health Insurance Group	0	0	2	621	--
ClearChoice Health Plan	0	310	1,844	--	--
SilverScript Insurance Company	2,569	--	--	--	--
Total Premiums	**$ 851,829**	**$ 903,635**	**$ 923,457**	**$ 984,644**	**$ 1,055,962**

Notes HCSC includes HCSC Insurance Service Company, Colorado Bankers Life Insurance Company, and Dearborn National Life Insurance Company
"--" denotes not applicable
Cigna Health Group acquired Great West Healthcare from Great West Group in 2008
CVS Caremark Group acquired SilverScript Insurance Company in 2007
Fortress Group acquired Merit Life Insurance Company from American International Group in 2010.
Munich Re Group acquired Sterling Life Insurance Company from Aon Corporation in 2007
NewQuest Group acquired Bravo Health Group in 2010.
PacificSource Health Plan Group acquired ClearChoice Health Plan in 2009
Southwest Insurance Partners Group acquired National Health Insurance Company in 2007, and sold to Houston International Insurance Group in 2010

* Premiums written were between $1 and $499 for the given insurance group and year

Sources NAIC, Health Annual Statements Blanks, "Exhibit of Premiums, Enrollment and Utilization (a)," 2007-2011
NAIC, Life, Accident and Health Annual Statements Blanks, "Accident and Health Insurance," 2007-2011

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VALUATION ANALYSIS

Blue Cross Blue Shield of Montana

As of June 30, 2012

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November 12, 2012

Mr. Mark Burzynski
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Blue Cross & Blue Shield of Montana
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Helena, Montana 59604-4309

Thank you for the opportunity to submit this valuation report on behalf of Blue Cross Blue Shield of Montana, Inc. our "Client." This report, which constitutes an appraisal as defined by Uniform Standards of Professional Appraisal Practices (USPAP), was prepared in accordance with the highest standards of professional and ethical practice. We trust you will find the contents of this report to meet your valuation needs and look forward to serving you in the future.

Our valuation process involves a disciplined approach aimed at gathering relevant financial, economic, industry, and operating data, reviewing this data to isolate the core value drivers, and quantifying the impact of value drivers on the subject entity. The Moss Adams LLP valuation team is comprised of highly trained experts with advanced degrees in accounting, finance, and economics, coupled with multiple professional designations, including Chartered Financial Analyst (CFA) and Accredited Senior Appraiser (ASA) and Certified Public Accountant (CPA).

We're glad you chose Moss Adams as your valuation services provider. We look forward to working with you again in the future.

Respectfully,

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I. Introduction

Moss Adams LLP was engaged by Blue Cross Blue Shield of Montana, Inc. (the "Client") to determine the fair market value of the total surplus of Blue Cross Blue Shield of Montana, Inc. (hereafter referred to as "Blue Cross Blue Shield of Montana" or "BCBSMT" or the "Company"), the fair market value of the total equity of the Company's subsidiary Health-E-Web, and the fair market value of certain of the Company's assets and liabilities for financial planning purposes as of June 30, 2012.

This report is intended for the use of the Company and its regulatory bodies the Montana Department of Insurance and the Montana Attorney General, for the purpose stated above, and any distribution of it to other parties for any reason is prohibited without specific written permission of Moss Adams LLP. Readers are directed to Schedule 1, which outlines important Terms and Contingent and Limiting Conditions that are considered integral to this analysis.

STANDARD OF VALUE

The term "Fair Market Value" as used herein is defined by Internal Revenue Service (IRS) Revenue Ruling 59-60 as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. The hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.

VALUATION FACTORS

The factors considered in the valuation process include those set forth in Internal Revenue Service Ruling 59-60. These include:

- The nature of the business and history of the enterprise.
- The economic outlook, and the condition and outlook of the industry.
- The book value of the stock and the financial condition of the business.
- The earning capacity of the company.
- The enterprise's dividend-paying capacity.
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of the stock and size of the block being valued.
- The market prices of stocks of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either on an exchange or over the counter.

Significant events subsequent to the appraisal date were not considered as part of our analysis unless they could be reasonably ascertained by an informed investor. As such, readers are cautioned not to rely on the findings contained in this report for materially different valuation dates.

SCOPE OF WORK

As fully described in the accompanying report, the appraisal investigation included discussions with various officers and management of the Company including Mr. Michael Frank, CEO and Mr. Mark Burzynski, CFO; as well as Ms. Chris Manger, Controller; and Mr. Sean Slanger, Associate General Counsel regarding the current and future operations of the business, a review of financial statements, four-year

financial projections provided by the Company, and consideration of other factors that were deemed necessary under the circumstances. We also reviewed information concerning the economy and industry in which the Company operates, including a search for comparable public companies and merger and acquisition transaction data of comparable companies. We also performed a site visit of the Company's Helena, Montana location on September 5 through September 6, 2012.

The financial statements and other pertinent information provided by the Company were accepted without further verification as correctly reflecting the results of its operations and its financial and business condition for the respective periods. We did not examine the financial records or other documents of the Company to determine the accuracy of the data presented therein.

II. Description of the Company

HISTORY

Blue Cross Blue Shield of Montana is a not-for-profit health services company headquartered in Helena, Montana. The Company is a licensee of the Blue Cross and Blue Shield Association, and primarily offers individual and group indemnity products, as well as administrative and claims processing services to self-insured groups. BCBSMT was founded in 1986 following the merger of Blue Cross of Montana (formerly the Hospital Service Association) and the Montana Physician's Service. Prior to the merger, the Hospital Service Association and the Montana Physician's Service had been operating in Montana since 1940 and 1946, respectively. Management services are centralized at its corporate headquarters in Helena, but the Company also has marketing offices throughout Montana.

SERVICES & OPERATIONS

Operating solely within the state of Montana, BCBSMT serves approximately 272,000 plan members and has provider networks including all of Montana's hospitals and over 1,900 physicians. The Company contracts with the Federal Employees Program. As a healthcare indemnity company in the state of Montana, the Company is regulated by the Montana Department of Insurance which requires BCBSMT to maintain a surplus (book value of equity) of at least $500,000. At the date of valuation, the Company's surplus under Statutory Accounting Principles ("SAP") totaled $111.4 million.

The Company entered into a reinsurance agreement related to the self funded member groups with HM Insurance Group for the three years beginning January 2010, which is expected to protect the Company against catastrophic losses. BCBSMT also participates in the BlueCross BlueShield Association's "BlueCard" Program, whereby the Progam's members agree to process subscriber's claims for other Blue Cross and/or Blue Shield Plans.

As a participant in the Montana Comprehensive Health Association, the Company contributes 1.0 percent of qualified disability premium income to supplement premiums for the uninsurable and high-risk population of Montana. Along with several other "Blue Plans", the Company also created Regional Advantage Services, LLC ("RAS") in 2006 to administer the Medicare Advantage and Medicare Part D programs of the Blue Cross Blue Shield Northern Plans Alliance.

Combined Benefits Management, Inc.

Combined Benefits Managements, Inc. ("CBMI") is a wholly owned subsidiary of Blue Cross Blue Shield of Montana, and was incorporated in April 1993. CBMI is a holding company for its wholly owned subsidiaries Health-E-Web, Insurance Coordinators of Montana, Inc., and Western States Insurance Agency.

Founded in 1996, Health-E-Web ("HEW") is an electronic claims clearinghouse and also offers a full suite of revenue cycle management solutions and consulting services to healthcare providers and insurance carriers. HEW currently has connections with over 2,000 health insurance carriers. In 2010, HEW acquired Electronic Translations and Transmittals Corporation for $1.5 million. HEW is further discussed in a later section of this report.

Insurance Coordinators of Montana, Inc. ("ICMI") provides various health insurance products and services, and was incorporated in 1976. Based in Helena, Montana, ICMI contributed its flexible administration business and voluntary product sales operations to Peak1 Administrators, LLC ("Peak1")

in April 2012. In exchange for its business lines, ICMI received a 49.0 percent interest in Peak1. Blue Cross of Idaho owns the remaining 51 percent interest in ICMI. As of July 1, 2012 ICMI was an inactive holding company. Peak1 Administrators is a third party administrator servicing the northwest states.

Western States Insurance Agency ("WSIA") brokers health, life and property and casualty insurance from its offices in Montana, Oregon, Washington and Idaho. WSIA was founded in 1981 and is based in Missoula, Montana. The company develops employee benefits packages, provides commercial and personal insurance and offers bonding services as well. As of June 30, 2012, BCBSMT was pursuing the potential sale of WSIA to a third party. The sale price is expected to be in excess of cost basis.

Other Significant Private Ownership Interests

In addition to its wholly owned subsidiaries, BCBSMT also holds minority private ownership interests in Prime Therapeutics, LLC ("Prime"), TriWest Alliance, Inc. ("TriWest") and WPMI, LLC ("WPMI"). Prime is a pharmaceutical third party administrator headquartered in Eagan, Minnesota. The Company invested $2.5 million in 2009 in exchange for a 1.92 percent ownership interest in Prime, whose other investors are also Blue Cross and Blue Shield Plans. Through its ownership interest in Prime, BCBSMT also obtains lower drug claims costs in the areas of pricing, network and rebates. In 2008, BCBSMT invested $1.1 million in TriWest in exchange for a 4.19 percent ownership interest. TriWest contracts with the federal government to provide health care access to military personnel and federal employees. However, during the most recent bidding round the federal government awarded the contract to another provider following the end of TriWest's current contract in March 2013. BCBSMT also owns a 1.0 percent interest in WPMI, LLC, which operates as a third party administrator in China. WPMI is a joint venture among multiple US health care companies to expand their markets in health care products internationally. The Company made its $1.1 million investment in WPMI in 2007.

Blue Cross Blue Shield Montana also previously held 50.0 percent interests in Montana Health, LLC and Montana Care, Inc. However, these joint ventures were both dissolved.

OFFICERS

The Company employs approximately 532 people, and its officers as of June 30, 2012 are as follows:

Name	Title
Michael Frank	President & Chief Executive Officer
Mary Belcher	General Counsel & Corporate Secretary
Mark Burzynski	Chief Financial Officer
Frank Cote	Chief Sales Officer
Linda Ganno	Chief Operating Officer
Patrick Law	Chief Information Officer
Fred Olson, MD	Executive VP of Internal Operations & Chief Medical Officer
Jim Spencer	Chief Actuary
Deb Thompson	Senior Director of Corporate Affairs & Compliance Officer

BOARD OF DIRECTORS

The Company's community-based board of directors is chaired by Jerry Lusk, and also includes Lane Basso, Stratus Consulting, Inc., Terry Cosgrove, Gough, Shanahan, Johnson, & Waterman, Jeff Fee, Providence Health & Services, Dean Folkvord, Wheat Montana Farms and Bakery, Michael Frank, BCBSMT, Nora Gerrity, M.D., Benefis Health System, Larry Gianchetta, University of Montana School of Business Administration, Paul Grmoljez, M.D., Billings Clinic, David Henry, Northern Montana Health Care, Inc., Chase Hibbard, Hibbard Management & Sieben Livestock Co., Randall Olson, M.D., John A. Moran Eye Center, Mark Rumans, Billings Clinic, Larry Viano, Tamarack Air, and Faye Hanson Warren, U.S. Bank.

MARKET CONDITION

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act ("ACA" or the "Act"), which will mandate health care coverage for most individuals, prohibit limits on lifetime and annual health care coverage maximums and denial of coverage for pre-existing conditions, expand Americans' access to Medicaid and establish state-based "exchanges" for individuals to purchase health insurance. In June 2012, the US Supreme Court upheld the constitutionality of the Act, which will require significant reforms within the health care provider and insurance industries. While some of the expected reforms have already been implemented, most will be implemented through 2014 and beyond. The significant industry-wide reforms instituted by the Act create additional risk for a potential investor in the Company due to uncertainty in the future landscape and profitability of the healthcare and health insurance industries.

Under its licensing agreement with the Blue Cross Blue Shield Association, the Company's operations are restricted within the state of Montana, one of the smaller states in the country with an estimated population of less than 1.0 million people. While the Company has grown to become the largest healthcare insurer in the state, its limited market potential may lead to competitive disadvantages vis-a-vis larger, national health care plan providers that capitalize on greater economies of scale in areas such as software and infrastructure.

CONTINGENT OR UNFUNDED LIABILITIES

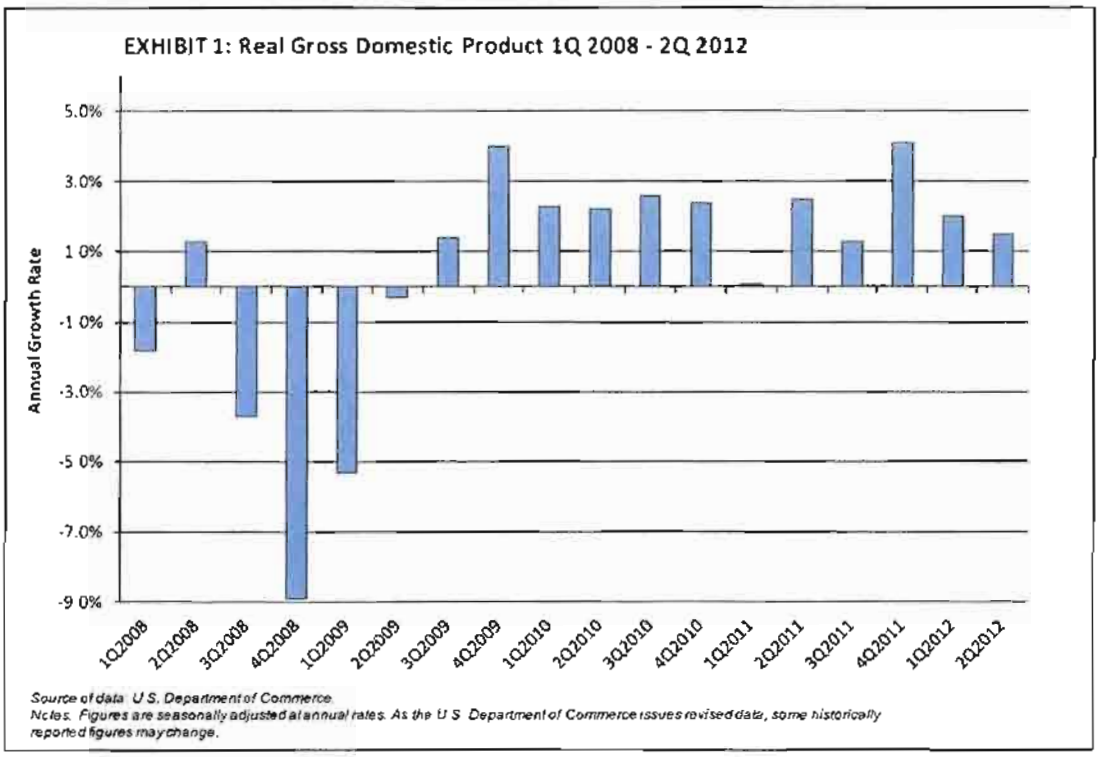
The Company is involved in various legal proceedings that arise in the ordinary course of business. It has been named as a defendant in several class action lawsuits. On December 31, 2010 the Company recorded a $4.6 million contingent liability related to one of these unsettled claims. This contingent liability is based on the settlement estimated by the Company's internal legal counsel, as well as outside legal consultants. Moss Adams has not undertaken an investigation of this or any other legal claim and has relied on management's estimate of the potential legal exposure from this lawsuit. Should the settlement from this or any other lawsuit vary from management's recorded $4.6 million liability, then our valuation conclusion may change.

III. Economic Outlook

NATIONAL

Second Quarter 2012

Gross domestic product (GDP) is the total market value of goods and services produced in the U.S. economy and is generally considered the most comprehensive and broadest measure of economic growth. GDP grew at an annual rate of 1.5 percent in the second quarter of 2012. The second quarter 2012 rate is a deceleration from the first quarter's growth rate of 2.0 percent.



Most economists had expected weak economic growth during the second quarter of 2012. The two quarter average of 1.75 percent for 2012 is disappointing compared to the 2011 quarterly average of 2.0 percent. Economists project that GDP growth would need to be 3.0 to 4.0 percent for a full year to lower the unemployment rate significantly.

The economy grew 1.8 percent (annualized rate) in 2011 after growing 2.4 percent in 2010. The decrease in the second quarter of 2012 real GDP primarily reflected a deceleration in:

- personal consumption expenditures, and
- residential and nonresidential fixed investment.

This deceleration in real GDP during the second quarter of 2012 was offset by accelerations in:

- imports and exports,
- smaller decrease in federal government spending, and

- private inventory investment.

Exports grew at an annual rate of 5.3 percent in the second quarter of 2012, following first quarter's rate of 4.4 percent. Exports increased 6.7 percent in 2011 and 11.1 percent in 2010.

Foreign imports, which are a subtraction in the calculation of GDP, increased at an annual rate of 6.0 percent during the second quarter of 2012 compared to first quarter's rate of 3.1 percent. Imports increased 4.8 percent in 2011 and 12.5 percent in 2010.

According to the U.S. Department of Commerce, the price index for gross domestic purchases increased 0.7 percent in the second quarter of 2012 compared to a 2.5 percent increase in the first quarter of 2012. The price index for gross domestic purchases measures prices paid by U.S. residents. Excluding food and energy prices, the price index for gross domestic purchases increased 1.4 percent in the second quarter of 2012 compared to an increase of 2.4 percent in the first quarter of 2012.

The U.S. Department of Labor reported that the Producer Price Index for Finished Goods declined 0.1 percent in December 2011 (seasonally adjusted). PPI increased by 0.4 percent in February 2012 and 0.1 percent in January. The Producer Price Index for Finished Goods measures inflationary pressures before they reach consumers.

The U.S. Department of Labor reported that the Consumer Price Index was unchanged in June following a decrease of 0.3 percent in May and no change in April 2012 (seasonally adjusted). The Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Over the last 12 months, the index rate increased 1.7 percent.

The Federal Open Market Committee (FOMC or the "Committee") met twice during the second quarter of 2012, issuing two statements on their target for the federal funds rate. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank.

The FOMC stated that the information it has received indicated that the economy has been expanding moderately. The Committee expressed concern that the growth in employment has been slowing over recent months and that the unemployment rate remains high. The FOMC stated that it anticipates the unemployment rate will decline very slowly going forward. Further, it notes that household spending has been rising at a slower pace than it was earlier in the year. While business fixed investment has continued to grow, the housing sector continues to remain depressed. The FOMC found that inflation has declined, largely due to lower prices for crude oil and gasoline. It also noted that its longer-term inflation expectations have remained stable and, in the interim, should run at or below its target rate. The FOMC remains cautious because it believes strains in global financial markets continue to pose significant downside risks to the U.S. economic outlook.

During the second quarter of 2012, the Board of Governors of the Federal Reserve left the discount rate unchanged at 0.75 percent. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

The U.S. Department of Labor reported that U.S. unemployment remained at 8.2 percent for the second quarter of 2012, unchanged from the first quarter of 2012. Employment increased in professional and business services, but was offset by change in other industries.

The U.S. Department of Labor reported that average hourly earnings for production and nonsupervisory employees increased to $19.74 in June 2012, up 1.4 percent over the past 12 months. Average hourly earnings for all private employees were $23.50 in June 2012, up 2.0 percent over the past 12 months.

Disposable personal income increased $115.6 billion (4.0 percent) in the second quarter of 2012 compared to an increase of $169.9 billion (6.0 percent) in the first quarter of 2012.

The Conference Board Consumer Confidence Index is an indicator designed to measure consumer confidence, which is the degree of optimism on the state of the economy that consumers are expressing through their activities of saving and spending. The Consumer Confidence Index®, stood at 62.7 at the end of the second quarter of 2012, down from 69.5 during the first quarter of 2012. June 2012 decline was the fourth consecutive monthly decline. At this point, the Conference Board believes that all the signs suggest there will be little change in the pace of economic activity in the near term. At 62.7, the index is above the average of the 2007-2009 recession of 54.0 (the normal non-recession value for the index is 100).

A month-on-month decreasing trend in the Consumer Confidence Index suggests consumers have a negative outlook on their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40 percent of the index (the Present Situation Index), with expectations of future conditions comprising the remaining 60 percent (the Expectations Index).

According to Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, real GDP is forecast to increase at a seasonally adjusted annual rate of 2.3 percent in the third quarter of 2012 and 2.5 percent in the fourth quarter of 2012. They reported that GDP is forecast to grow 2.2 percent in 2012, 2.4 percent in 2013, and 3.1 percent in 2014. In the long-term, they report that real GDP will grow by an average annual rate of 2.4 percent between 2018 and 2021. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates. Additionally, Consensus Economics, Inc. forecasts that unemployment will average 8.1 percent in the third quarter of 2012 and 8.0 percent for the fourth quarter. They forecast unemployment will average 8.1 percent in 2012 and 7.8 percent in 2013.

According to the survey, consumer prices will increase 1.7 percent in the third quarter of 2012 and 1.9 percent in the fourth quarter of 2012. Additionally, producer prices are forecast to increase 1.0 percent in the third quarter of 2012 and 1.6 percent in the fourth quarter. Furthermore the survey indicates an increase at a rate of 2.2% in real disposable personal income in the third quarter of 2012 and 2.3 percent in the fourth quarter of 2012. On an annual basis, real disposable personal income is forecast to increase 1.1 percent in 2012 and 1.7 percent in 2013.

Current indicators

	2005	2006	2007	2008	2009	2010	2011
Real GDP*	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8
Industrial Production*	3.3	2.2	2.5	-3.5	-11.4	5.4	4.1
Personal Consumption*	3.4	2.9	2.3	-0.6	-1.9	1.8	2.5
Nonresidential Fixed Investment*	6.7	8.0	6.5	-0.8	-18.1	0.7	8.6
Government Spending*	0.3	1.4	1.3	2.6	3.7	0.6	-3.1
Consumer Prices*	3.4	3.2	2.8	3.8	-0.4	1.6	3.2
Unemployment Rate	5.1	4.6	4.6	5.8	9.3	9.6	9.0
Housing Starts (*millions*)	2.068	1.801	1.355	0.906	0.554	0.587	0.609

Forecast **

	2012	2013	2014	2015	2016	2017	2018-2021
Real GDP*	2.2	2.4	3.1	3.1	3.0	2.6	2.4
Industrial Production*	4.3	3.0	3.5	3.1	2.9	2.6	2.4
Personal Consumption*	2.2	2.2	2.7	2.7	2.7	2.5	2.3
Nonresidential Fixed Investment*	6.3	6.5	6.6	5.9	5.1	4.5	4.0
Government Spending*	-2.0	-0.8	NA	NA	NA	NA	NA
Consumer Prices*	2.2	2.0	2.2	2.3	2.3	2.3	2.3
Unemployment Rate	8.1	7.8	NA	NA	NA	NA	NA
Housing Starts (*millions*)	0.740	0.900	NA	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts - USA, June 2011.

Notes:
**Numbers are based on percent change from preceding period. Consumer Prices are the percent change between annual averages. Historic Unemployment Rate, 3 Month Treasury Rate and 10 Year Treasury Yield are the annual averages.*
***Forecast numbers are based on percent change from preceding period (excludes Unemployment Rate, Housing Starts, 3 Month Treasury Rate and 10 Year Treasury Yield). Consumer Price Index information is the percent change between annual averages. The 2012 through 2017 forecasts for the 3 Month Treasury Rate and 10 Year Treasury Yield are for the end of each period. Forecasts for 2018-2021 signify the average for that period.*

Personal Consumption includes spending on services, durable, and nondurable goods.
Nonresidential Fixed Investment is also known as business spending.
Total Government Spending includes federal, state, and local government spending.

Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

CAPITAL MARKETS

Equity Market

The weak U.S. economic growth coupled with the European debt crisis, caused the major stock indexes to tumble during the second quarter of 2012. However, U.S. stock indexes are still up for the year and continue to outperform most of the global indexes.

The Dow Jones Industrial Average (Dow) dropped 2.5 percent in the second quarter of 2012. The Dow has risen 3.8 percent over the last 12 months. The Dow is an index of 30 of the largest and most widely held public companies in the U.S. and is considered the single most watched index in the world.

The Nasdaq Composite Index (Nasdaq), consisting mainly of high-tech stocks, ended the second quarter of 2012 with a loss of 5.1 percent but has gained 5.8 percent over the last year.

The S&P 500 slipped 3.3% in the second quarter, but has seen year-to-date gains of 8.3%. The index has risen 3.1% over the last 12 months. The S&P 500 consists of a representative sample of 500 leading companies of the U.S. economy and is one of the most commonly used benchmarks for the overall U.S. stock market.

The Dow Jones U.S. Total Market Index fell 3.8 percent in the second quarter of 2012, but is up 1.7 percent over the last year. The Dow Jones U.S. Total Market Index, considered a total market index, represents the top 95 percent of the U.S. stock market based on market capitalization.

The Russell 2000 Index dropped 3.8 percent in the second quarter of 2012 and had a decline of 1.7 percent over the last year. The Russell 2000 Index serves as a benchmark for small cap stocks in the U.S. stock market.

The Chicago Board Options Exchange Volatility Index (VIX), a popular volatility measure, began the second quarter of 2012 at 15.50 and ended at 17.80. The highest closing VIX reading during the second quarter of 2012 was 26.66, which occurred on June 1st . The average VIX reading during the second quarter of 2012 was 20.03 compared to 18.20 during the first quarter of 2012.

The VIX represents the implied volatility of 30-day options on the Standard & Poor's 500 stocks and has been termed by some as the "fear gauge." Accordingly, the VIX represents the expected volatility of the market, as represented by the S&P 500. Stock market professionals use the VIX to gauge investor sentiment. VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.

Historical and Forecast Equity Returns

(%)	3Q 11	4Q 11	1Q 12	2Q 12	Projected 2012	Projected 2013
DJIA	-12.1	12.0	8.1	-2.5	NA	NA
Nasdaq Composite	-12.9	7.9	18.7	-5.1	NA	NA
S&P 500	-14.3	11.2	12.0	-3.3	10.77	6.98
Dow Jones US Total Market	-15.7	11.4	12.7	-3.8	NA	NA
Russell 2000*	-22.1	15.0	12.1	-3.8	NA	NA

Source of data: Yahoo! Finance
Index Tickers: ^DJI, ^IXIC, ^GSPC, ^DWC, ^RUT, ^VIX

Notes:
Quotes are closing prices on the last day of trade for the month
**Source: The Livingston Survey, June 7, 2012*

Bond Market

U.S. Treasuries rallied in the second quarter as the European debt crisis continued, U.S. economic growth slowed, China continued to report weak numbers, and Europe likely moved into a recession. The high demand for U.S. Treasuries caused prices to rise and yields to plunge. As a result, both the 5- and 10-year Treasuries reached record low yields.

The 30-day T-bill rate was 0.04 percent at the end of the second quarter of 2012, down from 0.05 percent from the end of the first quarter of 2012. The five-year Treasury ended the second quarter of 2012 with a yield of 0.72 percent, down from 1.04 percent at the end of the previous quarter.

The 10-year Treasury bond yield was 1.67 percent at the end of the second quarter of 2012, down from a yield of 2.23 percent at the end of the first quarter of 2012. The 20-year Treasury bond yield was 2.38 percent at the end of the second quarter of 2012, down from 3.00 percent at the end of the first quarter of 2012.

Moody's seasoned Aaa and Baa corporate bonds ended the second quarter of 2012 with a yield of 3.66 percent and 5.06 percent, respectively, down from yields of 4.04 percent and 5.30 percent at the end of the first quarter of 2012.

The prime lending rate was 3.25 percent at the beginning of the second quarter of 2012 and remained there through the end of June 2012. The discount window (primary credit) remained at 0.75 percent during the second quarter of 2012.

IV. Industry Outlook

HEALTH & MEDICAL INSURANCE

The U.S. health and medical insurance industry underwrites (assumes the risks of and assigns premiums for) health and medical insurance policies. Insurance is the transfer of the risk of a loss in exchange for payment. Operators also provide administrative services for self-funded insurance plans, whereby an employer provides health benefits to employees with its own funds. Under this structure, the industry operator is a third-party administrator and is not responsible for health benefit obligations. Despite reduced employer coverage during the economic downturn, industry research firm IBISWorld reports that in the five years prior to 2012, the U.S. health and medical insurance industry saw revenue grow at an average annual rate of 2.8 percent as medical-cost inflation has driven revenue growth. However, as healthcare expenditures increased, operating profit declined from 4.5 percent of revenue in 2007 to about 4.0 percent in 2012, estimates IBISWorld. For 2012, IBISWorld projects U.S. health and medical insurance industry revenues will end the year up 2.9 percent, to total $707.4 billion.

The majority of revenue for the U.S. health and medical insurance industry is generated from premiums that are related to fully funded insurance policies. Under this traditional coverage, the health insurer is financially responsible for paying all the incurred covered benefits and administration costs of healthcare benefits. In return, the company receives a premium. Health insurers also generate income by providing network-based health and well-being services to beneficiaries in government-sponsored healthcare programs such as Medicare and Medicaid. In addition to healthcare premiums, insurers also generate revenue from fees and product sales, such as managing care for self-funded insurance plans, prescription management services, healthcare consulting services and IT management solutions. Health insurers also generate income from health-related product sales and investment activity.

Services Segment	% Share
Pharmaceutical benefit management (PBM)	32.0%
Preferred provider organization (PPO) plans	26.5%
Medicare (via private firms)	17.5%
Health maintenance organization (HMO) plans	9.5%
Point-of-service (POS) plans	6.0%
Medicaid (via private firms)	5.0%
High-deductible health plans (HDHPs)	2.0%
Fee-for-service plans	1.5%

Source: IBISWorld, 2012.

Demand for health insurance is largely influenced by coverage costs, and employment and disposable income levels. The majority of insurance coverage is purchased by employers, representing 46.1 percent of industry revenue, or subsidized by government entities, at 19.8 percent of industry revenue. Around 15.5 percent of the population is uninsured, says IBISWorld, as high unemployment levels and low levels of discretionary income have limited the ability of individuals, families and self-employed business owners to afford healthcare coverage. The aging of the population also drives industry demand, and as the baby-boomer generation ages, more people will need medical coverage. Medicare expenditures are expected to increase as the baby-boomer generation retires, growing services related to this government program, while the private-sector insurance market will also benefit from the aging population, as many individuals look to supplement government coverage with private insurance. In addition, the Obama administration's enactment of the Patient Protection and Affordable Care Act ("ACA") of 2010 has introduced significant healthcare reform that will increase access to healthcare.

Anticipated to take full effect in 2014, the reforms will increase demand for industry product as more individuals will qualify for financial subsidies.

The industry is highly regulated at both the federal and state level. While legislation imposed on the population such as the ACA can increase revenues for the industry, regulations imposed on the industry such as mandated consumer discounts and limitations on premium rate increases may limit revenue or profitability for operators. Health providers that service government programs through Medicaid and Medicare must adhere to a number of regulations and compliance issues. In terms of state-based regulation, industry participants must provide periodic financial statements and establish minimum capital requirements in order to meet benefit payments.

Over the near-term, Standard & Poor's has a neutral outlook for health insurers due to the challenging sales growth environment and sustained low interest rates pressuring net investment income and operating margins. Over the longer-term, the industry is expected to grow at increasing rates as the economy recovers and employment and disposable income levels rise, the population ages, and the ACA expands coverage to an additional 32.0 million individuals. IBISWorld forecasts that the U.S. health and medical insurance industry will grow revenue at an average annual rate of 5.1 percent over the five year outlook, to reach $908.2 billion in 2017.

Revenue Growth Forecast: U.S. Health & Medical Insurance

2011	$687.3	3 3%
2012	$707 4	2.9%
2013	$741.6	4.8%
2014	$780 2	5.2%
2015	$823.0	5.5%
2016	$865 8	5.2%
2017	$908 2	4.9%
Average Annual Growth Rate 2013-2017		5.1%

Source: IBISWorld, 2012.

MEDICAL CLAIMS PROCESSING SERVICES

The U.S. medical claims processing services industry processes and administers medical insurance policies and claims. Operators in the industry serve as intermediaries between physicians, insurance companies, government entities, and program coordinators and patients. Despite the recession, the medical claims processing services industry recorded average annual growth of 0.1 percent over the five years to 2011, reports industry research firm IBISWorld. This lower than average growth period was offset by employment and wage reductions, which kept profit margins stable at around 10 percent of revenue over the past five years. As U.S. employment and insurance coverage levels recover, allowing for increased doctor visits, industry revenue will advance. Following 2.6 percent growth in 2011, IBISWorld expects the medical claims processing services industry revenues to grow 4.0 percent in 2012, to $3.3 billion.

Services Segment	% Share
Claims Processing	60%
Claims Investigations	15%
Policy & Claims Examinations	15%
Back-office, administrative support and consulting	10%

Source: IBISWorld, 2011.

Industry services include claims processing, claims investigations, policy and claims examinations, and back office, administrative support and consulting. Claims processing and coordination of benefits services involve submitting and processing claims. These services also include routing claims that are already paid by a healthcare or insurance program to appropriate healthcare providers. By outsourcing claims processing and properly coordinating benefits, these programs are able to avoid and recover dollars spent in error and avoid unnecessary future costs. Traditionally, this service has been this industry's primary function; however, players have expanded the breadth of their service offerings during the past five years. Policy and claims examinations and cost-avoidance services provide validated insurance coverage information. Healthcare and insurance payers use this information to reject claims that are ineligible or the responsibility of a third party, such as another group health plan, or a patient also covered under a government health plan. Claims investigations are designed to ensure that medical services are utilized, billed and paid appropriately. Investigative services may include data mining, credit balance reviews, clinical reviews, fraud, waste and abuse detection, compliance audits and recoupment services. The back-office, administrative support and other ad-hoc consulting services segment has grown over the past five years because of the rising popularity of medical claims-related consulting.

Demand for medical claims processing services comes primarily from doctors' offices and other healthcare providers, at 60 percent of industry revenue, while 25 percent is derived from private insurers and 15 percent is from government insurers, according to IBISWorld. As these demand segments continue to seek cost-cutting opportunities, the need for third-party insurance processors will grow. Key external drivers for the industry include physician visits, employment levels, demographics, and federal funding for Medicare and Medicaid. Physician visits increase with insurance coverage levels and age. As employment levels increase, the resulting increase in employer-sponsored insurance coverage allows for increased doctor visits, leading to higher demand for medical claims processing. Similarly, as the large number of baby boomers age and become eligible for Medicare, demand for industry services will increase. This will be compounded by the fact that adults aged 65 and over require more medical services than other age groups. However, funding levels for Medicare and Medicaid are dependent on federal budgets and may experience constraints due to economic conditions, potentially impacting industry profit levels.

Laws and regulations for insurance services vary between states. Every state requires third-party administrators to have an individual or company license from the relevant governmental agency or self-regulatory organization. The level of industry regulation is lighter than for insurance carriers and funds since providers of claims, funds administration and other insurance services do not have access to, or rights over, capital from premiums, investments, or fund inflows making regular financial reporting and capital adequacy measures unnecessary.

As the population ages, the economy recovers, and employment levels grow, increased doctors' visits will boost the volume of insurance claims made, ultimately leading to a greater need for claims processing services, says IBISWorld. Also, as technological advances continue, the industry is expected to streamline processes, reduce staffing expenditures, and potentially increase profits. IBISWorld forecasts that the U.S. medical claims processing services industry will grow revenue at an average annual rate of 6.7 percent over the five year outlook, to reach $4.6 billion in 2017.

Revenue Growth Forecast: U.S. Medical Claims Processing Services

2011	$3.2	2.6%
2012	$3.3	4.0%
2013	$3.5	6.5%
2014	$3.8	7.4%
2015	$4.1	7.6%
2016	$4.4	6.8%
2017	$4.6	5.3%
Average Annual Growth Rate 2013-2017		6.7%

Source: IBISWorld, 2011.

V. Financial Analysis

Exhibits 1-4 present the Company's historical financial results for the five years ended December 31, 2011 and the six months ended June 30, 2012. Exhibits 1 and 2 present the Company's financial statements on a GAAP basis, while Exhibits 3 and 4 present them on a Statutory ("SAP") accounting basis as prescribed by the Montana Commissioner of Securities and Insurance. Unless otherwise stated, all figures presented in this appraisal reflect the Company's GAAP accounting. It should be noted that in its GAAP financials, the Company reports its investment in CBMI (a wholly owned subsidiary) using the equity method of accounting, rather than on a consolidated basis as normally prescribed under GAAP.

A historical working capital analysis is presented in Exhibit 6. Adjustments for non-recurring and non-operating income and expenses are presented in Exhibit 7. Exhibit 8 presents the Company's adjusted income statement and cash flow. Adjusted financial analyses based on GAAP are presented in Exhibit 9, while Exhibit 10 presents a comparative financial analysis based on SAP accounting.

Industry comparison statistics under GAAP are from Annual Statement Studies 2011/2012, published by The Risk Management Association ("RMA"). The averages shown are for NAICS Code 524114, Direct Health and Medical Insurance Carriers, with sales in the same size range as the Company, as well as the public companies included in Exhibit 16.

An industry comparison made on a statutory accounting basis is also shown in Exhibit 10, using data provided by SNL Financial LC's database.

INCOME STATEMENT

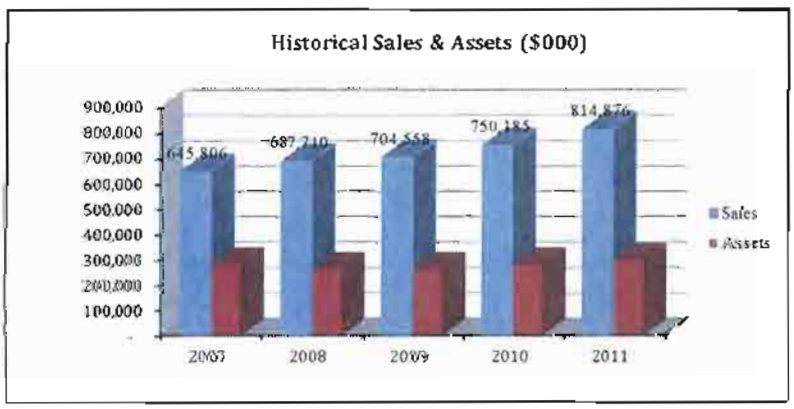
The Company's historical income statements are presented in Exhibit 1. Certain adjustments were made to the Company's historical financial statements for the purpose of reaching a valuation conclusion. These adjustments do not reflect any opinion with respect to the accuracy of the Company's financial statements.

Adjustments to Historical Income Statements

As Exhibit 7 shows, we adjusted historical income and expense to exclude the effect of non-recurring and non-core asset related income during the period under review. We applied income tax at state and federal corporate rates, based on the assumption that a hypothetical buyer would not necessarily share the same non-profit status as the Company. Exhibit 8 shows the Company's adjusted historical earnings and cash flow.

Growth

As can be seen from the graph, BCBSMT's revenue (premiums and fees) increased during the period under review, growing at a compound annual growth rate of 6.0 percent between 2007-2011. Company revenues increased from $645.8 million in 2007 to $814.9 million in 2011. During the twelve month period



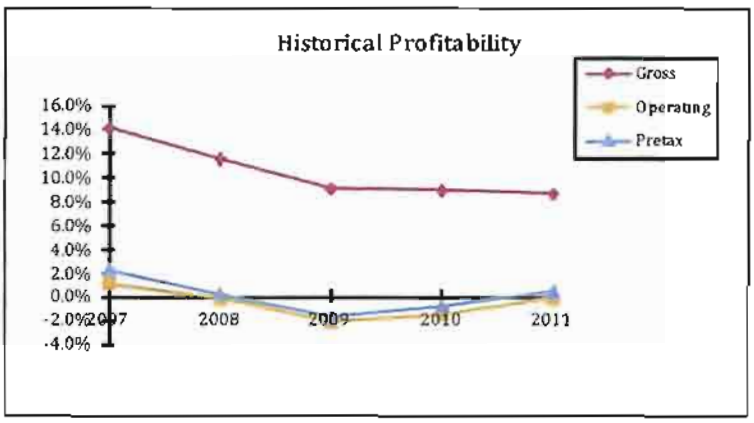
ending June 30, 2012 sales further increased to $867.2 million.

Total assets increased from $279.6 million in 2007 to $294.5 million in 2011; which equates to a compound annual growth rate of 1.3 percent. This was predominantly a result of an increase in net fixed assets, which grew from $17.8 million to $23.1 million, and deferred income taxes, which grew from $4.6 million to $9.5 million between 2007 and 2011. The Company's total assets as of June 30, 2012 were $308.2 million.

Profitability

Profitability ratios measure the Company's return on sales. The "**Profitability (% of Sales)**" section of Exhibit 9 provides the Company's historical profit ratios.

The Company's adjusted gross margin decreased from 14.1 percent in 2007 to 8.7 percent in 2011. The Company's five-year average adjusted gross margin of 10.5 percent was lower than the Public Company industry average gross margin of 29.6 percent. An RMA industry average was not available.



Adjusted operating profit margins decreased over the period under review from $7.4 million in 2007 to a loss of $0.6 million in 2011, declining from 1.1 percent to negative 0.1 percent of sales. However, as can be seen from the graph, results were worse in 2009 and 2010, as compared to 2011 results. The decrease in adjusted operating margin was predominantly due to the Company's declining gross margin and underwriting profit. The Company's five-year average adjusted operating margin of negative 0.5 percent was lower than the RMA industry average of 3.3 percent. During the six months ended June 30, 2012 the Company's operating margin was negative 0.8 percent.

The Company recorded significant other income from its marketable securities holdings and subsidiaries. For purposes of our analyses, we have adjusted the Company's historical other income to exclude investment income from non-core assets. As shown in Exhibit 8, adjusted other income was $7.6 million during 2007 and $4.4 million during 2011. The Company's five-year average adjusted pretax profit margin of 0.1 percent was lower than the RMA industry average pretax margin of 3.2 percent. During the six months ended June 30, 2012 the Company's pre-tax margin was negative 0.5 percent.

An analysis of the Company's historical profitability during 2011, on a SAP basis, is presented in Exhibit 10. As shown in the Exhibit, BCBSMT's claims-to-premiums earned ratio of 92.5 percent was higher than its industry peer group's 90.5 percent average. Further, the Company's net income-to-premiums earned ratio of 0.6 percent was lower than its industry peer group's 3.0 percent average.

Overall, the Company's profitability declined and was below industry averages during period under review.

BALANCE SHEET

Exhibit 2 contains balance sheet information for the last five years and six months.

Description of Interest Bearing Debt

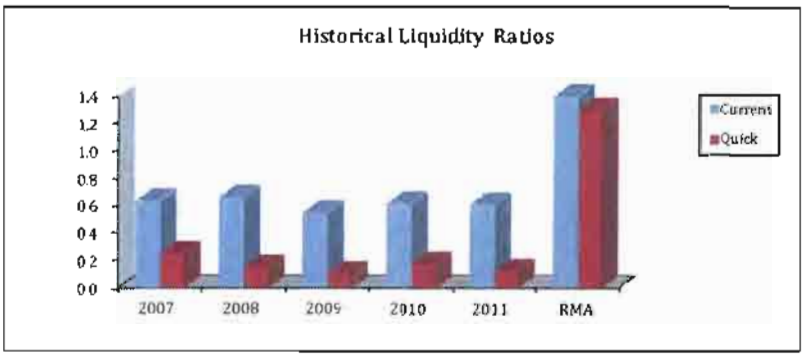
At the valuation date, the Company had no interest bearing debt outstanding.

Description of Non-Core Assets

Certain assets are considered to be non-core items for purposes of this valuation. These assets could be liquidated without impairing the Company's operations, and are listed in Exhibit 5. The Company's historical financial statements have been adjusted to exclude income and expense from these non-core assets, as shown in Exhibit 8.

Liquidity

The "**Liquidity**" section of Exhibit 9 provides an analysis of the ability to meet its current obligations as they come due. As measured by the Company's adjusted 2011 current and quick ratios of 0.6 times and 0.1 times, respectively, liquidity was lower than the RMA industry average of 1.4 times and 1.3 times.



The Company's five-year average adjusted accounts receivable turnover ratio was 19.1 times, somewhat lower than the RMA industry average 22.5 times.

Overall, the Company's liquidity was below industry averages during period under review.

Solvency

The "**Solvency**" section of Exhibit 9 provides solvency ratios, which are used to measure the Company's ability to meet interest and principal payments on long-term debt and other obligations as they become due. These ratios analyze leverage, debt coverage and long-term profitability.

The Company utilized relatively little interest-bearing debt during the period under review, and its five-year average long term debt-to-total capital ratio was 1.4 percent and was lower than the RMA industry average of 25.1 percent. As of the date of valuation, the Company had no outstanding debt.

As state regulators demand that insurance companies maintain a minimum level of equity capital, solvency can also be measured by the Company's ratio of net worth to total assets. The Company's five-year adjusted net worth was 45.8 percent, and was higher than the RMA average of 39.1 percent.

Perhaps the best indicator of solvency is a firm's ability to generate profits over a period of years. As previously discussed, the Company's profitability declined and was lower than industry averages.

On balance, the Company's solvency was average during the period under review. While its profitability was below average historically, it held no debt at the date of valuation and has maintained a book value of equity to assets ratio in excess of the RMA industry average.

Efficiency and Asset Utilization

The "**DuPont Analysis**" section of Exhibit 9 provides efficiency ratios, which are used to assess management's performance and to further analyze the Company's profitability. They measure how efficiently the Company is employing its assets as well as the equity capital used to finance those assets.

The Company's adjusted 2011 pretax return on equity and debt-free return on assets were 1.5 percent and 4.6 percent, respectively, and both lower than their industry norms of 6.1 percent and 11.7 percent, indicating below average efficiency. These two ratios are closely related to each other and can be broken down into several components using the "DuPont model" to provide additional insight into the Company's efficiency, as follows:

Asset Turnover	×	Profit Margin	=	Debt-Free ROA	×	Financing	=	Pretax ROA	×	Leverage	=	Pretax ROE

The formulas used to calculate each component of the "DuPont" analysis are shown below:

Sales	×	EBIT	=	EBIT	×	Pretax	=	Pretax	×	Assets	=	Pretax
Assets		Sales		Assets		EBIT		Assets		Equity		Equity

A comparison of the Company's "DuPont" analysis relative to the RMA industry averages follows:

Blue Cross Blue Shield of Montana (Adjusted 2011):

3.3	×	*0.5%*	=	*1.5%*	×	*1.00*	=	*1.5%*	×	*3.01*	=	*4.6%*

RMA Industry Averages - 2011:

3.4	×	*1.8%*	=	*6.1%*	×	*0.85*	=	*5.2%*	×	*2.25*	=	*11.7%*

As shown in the figures above, the Company's adjusted 2011 sales to assets ratio, which measures asset turnover, was 3.3 times and similar to the industry average level of 3.4 times, indicating similarly efficient use of assets. The Company's adjusted 2011 EBIT profit margin was 0.5 percent and was noticeably lower than the industry norm of 1.8 percent. Combined with the sales to assets ratio, this produced the Company's lower than industry level debt-free return on assets.

The Company utilized no interest-bearing debt during 2011. Due to the lack of financial leverage, the Company's adjusted pretax return on assets was equal to its debt-free return on assets, indicating less than optimal efficiency from a potential investor's point of view.

Additional insight into the sales to assets ratio can be gained by analyzing additional asset turnover ratios. The Company's 2011 sales to net fixed assets ratio was 35.3 times and was lower than the RMA industry average of 70.3 times, indicating less efficient usage of fixed assets relative to the industry.

As shown in Exhibit 10, the Company's 2011 return on average assets and equity under SAP accounting were 1.1 percent and 2.2 percent, respectively. Both measures of efficiency were below their industry peer averages of 5.8 percent and 10.7 percent.

Altogether, the Company exhibited below average efficiency during the period under review.

SUMMARY

Overall, the financial condition of the Company can be characterized as declining and unstable. Sales increased at 6.0 percent per annum between 2007 and 2011. However, the Company's solvency could be described as average, and its adjusted historical profitability, liquidity and efficiency were all below industry averages.

VI. Valuation Approaches

Valuation of a business ownership interest requires consideration of all pertinent factors bearing upon its investment merits. The following three valuation approaches were considered:

Income Approach: In this approach, estimated future returns are discounted to present value at an appropriate rate of return for the investment.

Market Approach: This approach utilizes valuation ratios derived from market transactions involving companies that are similar to the subject business. Past transactions involving the subject business, if any, are also considered.

Asset-Based Approach: In this approach, the assets and liabilities of the business are restated from historical cost to Fair Market Value.

In a specific appraisal situation, the selection of an approach and the weight given to each depends on the quantity and quality of available data, the valuation function and purpose, the value premise and definition, and the reliability of the analysis.

VII. The Income Approach

In the Income Approach, expected future returns from an investment in the form of cash flows are discounted to present value at an appropriate rate of return for the investment. The selected discount rate or rate of return should reflect the degree of uncertainty or risk associated with the future returns and returns available from alternative investments. Higher uncertainty or risk leads to a higher expected rate of return, which produces a lower value for the investment.

Income Approach valuation methods include discounted cash flow and capitalization of cash flow analyses. In the discounted cash flow Income Approach, future cash flows are discounted to present value using an appropriate discount rate or rate of return. Cash flows are forecasted for a discrete period of years and then projected to grow at a constant rate in perpetuity. The capitalization of cash flow analysis uses forecasted cash flow for the next period, which is converted to present value using an appropriate capitalization rate, equal to the discount rate less the expected growth rate in perpetuity.

The projections of future cash flow take into account several factors:

- Past operating trends.
- The outlook for the economy and the Company.
- Management capabilities.
- Working capital requirements.
- Capital expenditures (money spent for fixed assets).
- Depreciation and amortization.

Definition of Cash Flow

In this case, we applied a discounted cash flow analysis, whereby cash flow is defined as:

	Earnings Before Interest & Taxes (EBIT)
-	*Income Taxes on EBIT*
+	*Non-Cash Expenses*
+/-	*Adjusted Working Capital Changes*
-	*Capital Expenditures*
=	*Free Cash Flow (Debt Free)*

DISCOUNTED CASH FLOW PROJECTIONS

Exhibit 12 presents the forecasted free cash flows. Earnings projections through 2015 were provided by management. The assumptions used in the analysis are shown in the exhibit and are summarized within the footnotes of the exhibit.

DISCOUNT RATE

The discount rate is a market-driven rate representing the rate of return necessary to induce investors to commit funds to an investment given its level of risk. The discount rate is applied to free cash flows to estimate a total capital value (interest-bearing debt plus stockholders' equity).

The discount rate used is the weighted average cost of interest-bearing debt and equity capital. The cost of equity capital is based on the Capital Asset Pricing Model (CAPM), modified to account for a small

stock premium and a subject Company premium. Computation of the discount rate and residual capitalization rate is shown in Exhibit 14 and described in Appendix B.

The subject Company risk premium is based on a consideration of the Company's operating and financial risks. We analyzed the risk factors affecting the subject Company relative to the RMA industry average data, which is from companies closely aligned with the specific business of the Company. This analysis is used in determining an appropriate subject company risk premium, and is outlined in the table below.

Factor	Benchmark	Subject	Impact on Risk Premium	Weight
Operating Factors:				
History of Company	Established	Established	None	
Management	Experienced	Experienced	None	
Labor Relations	Good	Good	None	
Products/Services	Diversified	Diversified	None	
Market/Industry Condition	Industry faces significant uncertainty regarding the implementation of the Affordable Care Act	Similar	None	
Competition	High	High	None	
Customers	Diversified	BCBSMT's customers are limited to the state of Montana	Higher	Small
Suppliers	Diversified	Diversified	None	
Economic Factors:				
Economic Condition	National economy is recovering from recession	Similar	None	
Financial Factors:				
Profitability	RMA industry averages used as benchmark	Declining and lower than industry benchmark	Higher	Medium
Efficiency and Asset Utilization	RMA industry averages used as benchmark	Lower than industry benchmark	Higher	Small
Liquidity	RMA industry averages used as benchmark	Lower than industry benchmark	Higher	Small
Solvency	RMA industry averages used as benchmark	Similar	None	

Factor	Benchmark	Subject	Impact on Risk Premium	Weight
Contingent Liabilities	Not significant	The company is involved in various litigations, however, this is not considered uncommon for the industry	None	

Based on our evaluation of the risk factors listed above, a subject Company risk premium of 5.0 percent was selected. The subject company risk premium is one component of the discount rate, as further discussed in Appendix B.

The computation of the discount rate is presented in Exhibit 14. Based on this analysis, it is our opinion that a discount rate of 15.1 percent is appropriate.

RESIDUAL CAPITALIZATION RATE

Beyond the discrete forecast period, residual free cash flows are estimated to grow at a constant rate into perpetuity These cash flows are converted to a residual value using an appropriate residual capitalization rate.

The residual capitalization rate is equal to the discount rate minus the expected long-term growth rate of cash flows. Based on historical results, the economic climate, the outlook for the industry, and management's expectations, we estimated a long-term growth rate of 3.0 percent.

The residual capitalization rate computation is presented in Exhibit 14. Based on this analysis, it is our opinion that a residual capitalization rate of 12.1 percent is appropriate.

SUMMARY

Exhibit 15 summarizes the results of the discounted cash flow analysis. The resulting equity (or surplus) value represents a majority interest value. The fair market value of the non-core assets shown in Exhibit 5 is then added to produce an indication of total surplus value for the Company. The Company also expects to make significant capital expenditures beyond the projected five-year period, as shown in Exhibit 13. The present value of these expected additional capital expenditures and related depreciation tax savings is then deducted against the total surplus value of the Company.

VIII. The Market Approach

Criteria for selecting guideline companies include similarity of lines of business, markets, growth prospects, risks, and firm size. The primary criterion for selecting guideline firms is similarity of lines of business with those of the subject business.

We applied both a public company analysis and a merger and acquisition analysis.

Rules of thumb are sometimes referred to; however, they are not given any weight unless they are supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them. We did not consider rules of thumb in this valuation. They are generally not considered to be a relevant valuation method for this type of business.

PUBLIC COMPANY ANALYSIS

This analysis uses stock market transactions involving publicly traded companies that are similar in nature to the subject business. The following steps were applied in the analysis:

- Select guideline companies
- Compute valuation ratios
- Adjust the market-derived valuation ratios
- Compute values and summarize.

Guideline Companies

We investigated the stock market in order to identify companies in lines of business similar to the Company which are influenced by comparable business and economic conditions and are considered to offer alternative investment opportunities. The following is a brief description of the 13 selected guideline companies, as provided by CapitalIQ:

- **WellPoint, Inc.**, through its subsidiaries, operates as a health benefits company in the United States. The company offers various network-based managed care plans to large and small employer, individual, Medicaid, and senior markets. Its managed care plans include preferred provider organizations; health maintenance organizations; point-of-service plans; traditional indemnity plans; and other hybrid plans, including consumer-driven health plans, hospital only, and limited benefit products. Wellpoint also provides various managed care services comprising claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs, and other administrative services to self-funded customers.

- **Coventry HealthCare, Inc.** operates as a managed healthcare company in the United States. The company's Health Plan and Medical Services division provides health plan commercial risk, commercial management services, Medicare advantage coordinated care plans, and Medicaid products. It also offers commercial risk products, including health maintenance organization, preferred provider organization, and point of service products to individuals and employer groups.

- **UnitedHealth Group Incorporated** operates as a diversified health and well-being company in the United States. The UnitedHealthcare segment offers consumer-oriented health benefit plans and services to national employers, public sector employers, mid-sized

employers, small businesses, and individuals; health and well-being services to individuals aged 50 and older addressing their needs for preventive and acute health care services; health plans and care programs to beneficiaries of acute and long-term care Medicaid plans; and specialty benefits, such as dental, vision, life, and disability products.

- **CIGNA Corporation**, a health services organization, through its subsidiaries, provides insurance and related products and services in the United States and internationally. Its Health Care segment offers insured and self-insured medical, dental, behavioral health, vision, and prescription drug benefit plans; health advocacy programs; and other products and services that may be integrated to provide health care benefit programs, as well as operates retail pharmacies.
- **Aetna Inc.** operates as a diversified health care benefits company in the United States. The company operates in three segments: Health Care, Group Insurance, and Large Case Pensions. The Health Care segment provides medical, pharmacy benefit management, dental, behavioral health, and vision plans. This segment also provides Medicare and Medicaid products and services; and specialty products, such as health information exchange technology services, medical management and data analytics services, medical stop loss insurance, and products that offer access in its provider networks select markets.
- **American Independence Corp.**, through its subsidiaries, engages in the health insurance and reinsurance businesses primarily in the United States. American Independence Corp. provides specialized health coverage and related services to commercial customers and individuals. It offers medical excess or stop-loss insurance; medical insurance for individuals and families; group medical insurance; short-term medical insurance; limited medical insurance; pet insurance; and vision and dental insurance products.
- **Independence Holding Company**, through its subsidiaries, engages in the life and health insurance business in the United States, the District of Columbia, the Virgin Islands, Guam, and Puerto Rico. Its products include medical stop-loss insurance that provides coverage to public and private entities, which elect to self-insure their employees' medical coverage; group major medical insurance, a fully insured medical coverage that is designed to work with health reimbursement accounts and health savings accounts; short-term medical products that are designed for people with transient needs for health coverage; dental plans that include indemnity and preferred provider organization plans for employer groups of two or more lives and for individuals within affinity groups; and vision plans that offer a flat reimbursement amount for exams and materials.
- **Citizens, Inc.**, through its subsidiaries, provides life and health insurance policies in the United States and internationally. It primarily offers whole life insurance, endowments, credit insurance, final expense, and limited liability property policies. The company's Life Insurance segment offers whole life insurance and endowment policies to high net worth and high income residents in Latin America and the Pacific Rim.
- **Aflac Incorporated**, through its subsidiary, American Family Life Assurance Company of Columbus, provides supplemental health and life insurance. Aflac offers various voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans, and annuities in Japan. It also provides loss-of-income products, such as life and short-term disability plans; and products designed to protect individuals from depletion of assets, which comprise hospital indemnity, fixed-benefit dental, vision care, accident, cancer, critical illness/critical care, and hospital intensive care plans in the United States.
- **CNO Financial Group, Inc.**, through its subsidiaries, engages in the development, marketing, and administration of health insurance, annuity, individual life insurance, and other insurance products for senior and middle-income markets in the United States. CNO's

Bankers Life segment markets and distributes Medicare supplement insurance, interest-sensitive and traditional life insurance, fixed annuities, and long-term care insurance products; Medicare advantage plans through a distribution arrangement with Humana Inc.; and Medicare Part D prescription drug plans through a distribution and reinsurance arrangement with Coventry Health Care.

- **Unum Group**, together with its subsidiaries, provides group and individual disability insurance products primarily in the United States and the United Kingdom. It also provides a portfolio of other insurance products, including employer-and employee-paid group benefits, life insurance, and other related services. Unum Group's products comprise group long-term and short-term disability, group life, accidental death and dismemberment, individual disability, voluntary benefits, sickness, cancer and critical illness, and group and individual long-term care insurance products.
- **Symetra Financial Corporation**, through its subsidiaries, provides group and individual insurance products and retirement products in the United States and the District of Columbia. Its Benefits division offers medical stop-loss insurance, limited benefit medical insurance, group life insurance, accidental death and dismemberment insurance, and disability income insurance products to employers, unions, and public agencies with 50 to 5,000 employees, as well as provides managing general underwriting services.
- **Torchmark Corporation**, an insurance holding company, provides individual life and supplemental health insurance, and annuities, to middle income households in the United States. Its life insurance products include traditional and interest sensitive whole-life insurance, term life insurance, and other life insurance; and supplemental limited-benefit health insurance products comprise cancer and accident plans, as well as Medicare Supplements plans and Medicare Part D prescription drug insurance.

SEC filings for public companies contain a wealth of information, including historical financial statements and descriptions of the business, assets, management, competition and financial condition. Financial statements for public companies are prepared in accordance with generally accepted accounting principles (GAAP), which result in a greater tendency for consistency among these financial statements.

Exhibit 16 summarizes financial statements and financial ratios for the selected guideline companies. A comparative analysis of the guideline companies and the adjusted subject Company financial results are presented in Exhibit 9.

Valuation Ratios

Various valuation ratios may be derived from guideline companies in calculating the Fair Market Value of a closely held business. Valuation ratios can be broadly categorized into three types: total equity, total capital (debt and equity) and asset multiples.

Commonly used total equity ratios include the ratios of market value of total equity to earnings. Total capital multiples include the ratios of market value of invested capital (MVIC) to revenue, earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings before interest and taxes (EBIT). In this valuation, we also relied on market value to book value ratios.

Pricing data, financial information, and computed valuation ratios for the selected guideline companies are presented in Exhibit 17.

Adjustments to Valuation Ratios

Investors consider a Company's growth, size and unique risk factors. We have considered these factors in our analysis.

Growth expectations have a significant impact on valuation ratios. All else being equal, higher growth companies exhibit higher valuation ratios. Based on an analysis of brokers' expected growth rates for the guideline companies and their implied discount rates, we made adjustments to the valuation ratios.

Studies of large versus small companies within the stock market and the merger and acquisition market indicate that small companies typically sell at significantly lower valuation ratios than large companies. Using the results of size study data published in the *Duff & Phelps, LLC Risk Premium Report*, we made adjustments to the valuation ratios based on the Company's net income, EBITDA, revenues, and gross cash flow levels relative to the public companies.

Unique risks have a significant impact on valuation ratios. Valuation ratios for guideline companies with similar size and growth potential can vary significantly due to unique risk factors. Based on an analysis of the Company's risk factors relative to the guideline companies we made no further adjustment to the valuation ratios to account for unique risk factors.

The individual adjustments and adjusted guideline company multiples are presented in Exhibit 17.

Summary – Public Company Analysis

Each adjusted valuation ratio is then applied to the Company's corresponding adjusted figures to produce an indication of value, either equity value or total capital value, depending on the type of valuation ratio employed.

The resulting values are then adjusted to equity values (as needed). For the MVIC multiples, the subject Company's interest-bearing debt, if any, is subtracted in order to arrive at estimates of equity value. The values estimated from the total equity multiples need no further adjustment. The resulting equity values for the various valuation ratios are then weighted based on the number of guideline companies, the comparability of the companies (in terms of line of business, financial results, etc.) and the quality of the data included in each valuation ratio.

Exhibit 18 summarizes the results of the public company analysis. The resulting weighted average equity value represents a majority interest value. The fair market value of the non-core assets shown in Exhibit 5 is then added to produce an indication of total surplus value for the Company.

MERGER AND ACQUISITION ANALYSIS

This analysis uses merger and acquisition transactions involving companies that are similar in nature to the subject business. The following steps were applied in the analysis:

- Select guideline transactions
- Compute valuation ratios
- Adjust the market-derived valuation ratios
- Compute values and summarize

Guideline Transactions

We investigated merger and acquisition data in order to identify comparable companies. Transactions involving health and medical insurance or managed healthcare companies within the past ten years were selected as comparable to the subject Company.

We selected a total of seven guideline transactions, which are summarized in Exhibit 19. The companies acquired in the selected transactions are judged to have a reasonable degree of comparability with the Company. Although these acquired companies differ in important respects from the Company, they are generally influenced by similar business and economic conditions and are considered to offer alternative investment opportunities.

Sources of merger and acquisition data, which are listed in a previous section of this report, are briefly described as follows:

- Capital IQ: Provides transaction data as reported in certain Securities and Exchange Commission (SEC) documents and from other private sources. Publicly traded companies must file Form 14D-1 if they make a tender offer for a company in the open market. Individuals purchasing five percent or more of a company's stock must file Form 13D.

The different sources of merger and acquisition data vary greatly in the amount, type and quality of information provided. These variations significantly impact the reliability of the valuation ratios derived from each source. However, a large number of transactions may offset some of these reliability issues.

One potential problem with merger and acquisition data is the fact that the data cannot be independently verified. While the data sources are generally considered to be reliable, it is not clear if reported financial results conform to generally accepted accounting principles (GAAP). In addition, the different data sources use varying definitions of "earnings" and "cash flow," so valuation ratios are often not comparable across different sources. Another potential problem is that accounting conventions used by the acquired companies are usually not disclosed, so earnings may not be reported in a consistent fashion from company to company. Inventory valuation methods, for example, can differ between deals, so reported earnings may not be strictly comparable with the subject Company's earnings. Separate from these quality issues, financial data for acquired companies is usually very limited, precluding a direct financial ratio comparison with the subject Company. All these problems reduce the reliability of merger and acquisition data.

Valuation Ratios

Various valuation ratios may be derived from guideline companies in calculating the Fair Market Value of a closely held business. Valuation ratios can be broadly categorized into three types: total equity, total capital (debt and equity) and asset multiples.

Commonly used total equity ratios include the ratios of market value of total equity to earnings. Total capital multiples include the ratios of market value of invested capital (MVIC) to revenue; earnings before interest, taxes, depreciation, and amortization (EBITDA); and earnings before interest and taxes (EBIT). In this valuation, we also relied on market value to book value ratios, as is often done when valuing insurance companies.

Computed valuation ratios for the guideline companies are presented in Exhibit 19.

Adjustments to Valuation Ratios

Valuation ratios derived from merger and acquisition transactions are considered to be majority interest ratios because they usually involve the sale of entire companies or controlling interests in companies. These valuation ratios may also reflect the effect of buyer synergies, company size and unique risk factors. Adjustments to the market-derived valuation ratios were considered to account for differences between the subject Company and the guideline companies.

Merger and acquisition transactions may not directly reflect Fair Market Value. Some transactions represent "investment value," or value to strategic buyers including synergies, economies of scale and other unique benefits. These factors have a tendency to increase the price that strategic buyers are willing to pay relative to Fair Market Value for typical non-strategic buyers. Valuation ratios derived from such transactions, therefore, must be adjusted downward in order to convert the ratios from investment value to Fair Market Value (the "synergy adjustment").

Large transactions, or those involving publicly traded buyers, are considered to reflect investment value, and so require a synergy adjustment. Small company transactions are not considered to reflect the impact of synergies, and so no synergy adjustment is needed. Transactions involving medium-sized companies may or may not reflect the impact of synergies and so may or may not require a synergy adjustment, depending on the circumstances.

Studies of large versus small companies within the stock market and the merger and acquisition market indicate that small companies typically sell at significantly lower valuation ratios than large companies. Based on an analysis of data published in the *Duff & Phelps Risk Premium Report*, we made adjustments to the valuation ratios based on the Company's net income, EBITDA, and sales levels relative to the comparable acquired companies.

The total equity adjustment calculated above reflects synergy, size, and unique risks that are appropriate for equity investors. For debt investors, any perceived risk is already reflected in the interest rate associated with the Company's interest-bearing debt. For the MVIC multiples, the total equity adjustment is recalculated in order to reflect the Company's actual capital structure.

The individual adjustments and adjusted guideline transaction multiples are presented in Exhibit 19.

Summary – Merger and Acquisition Analysis

Each adjusted valuation ratio is then applied to the Company's corresponding adjusted figure to produce an indication of value, either total equity value or total invested capital value, depending on the type of valuation ratio employed. The resulting total equity values for the various valuation ratios are then weighted based on number of transactions, comparability of the companies (in terms of line of business, financial results, etc.), and quality of the data included in each valuation ratio. Weighting for the multiples is shown in Exhibit 20.

Exhibit 20 summarizes the merger and acquisition analysis. The fair market value of the non-core assets shown in Exhibit 5 is then added to produce an indication of total surplus value for the Company.

IX. Asset-Based Approach

ASSET-BASED APPROACH

In the Asset-Based Approach, net asset value is estimated by restating the value of assets and liabilities from historical cost to Fair Market Value. Assets and liabilities can be valued either individually or collectively. Individual assets and liabilities of a business can be appraised using the Cost, Market and Income Approaches to asset valuation.

Book value of equity is not an appropriate measure of value for most businesses because assets and liabilities are generally stated at historical cost and not Fair Market Value. For an operating business, book value of equity is generally not suitable because it generally does not include the value of intangible assets.

The liquidation value of a business can be estimated using the Asset-Based Approach, and is computed as the Fair Market Value of assets, net of liabilities, less estimated liquidation expenses. We did not consider the liquidation value of the Company because liquidation is not considered to be imminent or probable.

Exhibit 22 presents the Asset-Based Approach computations on a going concern basis. Multiple adjustments were made to the reported book value of assets and liabilities to reflect fair market values. The adjustments were made based on discussions with management, and other indications of value, as listed in the Exhibit's footnotes. Goodwill was excluded from the analysis because it cannot be reliably valued without reference to the Income and Market Approaches.

RESIDUAL INCOME APPROACH

In addition to the Asset-Based Approach described above, we also performed a residual income approach analysis. This analysis calculates the value of equity (or surplus) as the book value of equity plus the present value of the Company's expected future residual income.

Residual income is a company's projected future earnings in excess of the rate of return required by a hypothetical investor in the Company, discounted to present value. In this instance, the required rate of return is the Company's expected cost of equity capital. The residual income approach has the benefit of comparing the Company's expected return on equity to an investor's required return on equity. Further, this approach is often applied in valuing insurance companies, as they are required by state regulators to maintain significant levels of equity (or surplus). The residual income approach allows investors to account for both the significant net asset value of the Company and its profitability.

In performing our valuation, the Company requested that we rely on a separate third party appraisal of the present value of the Company's expected future residual income performed by Jim Galasso, FSA, MAAA of Actuarial Services & Financial Modeling, Inc. as of June 30, 2012. Should the fair market value of the Company's residual income differ from that indicated by the third party appraisal then our valuation conclusion may change.

Residual Income Approach - Summary

Exhibit 21 summarizes the results of the residual income approach analysis. The Company's adjusted book value of surplus is added to the present value of its expected future residual income, as calculated by the third party appraiser Actuarial Services & Financial Modeling, Inc.

X. Health-E-Web

As part of our valuation of Blue Cross Blue Shield of Montana, we have also performed a valuation of its wholly owned subsidiary Health-E-Web ("HEW"). Founded in 1996, Health-E-Web ("HEW") is an electronic claims clearinghouse and also offers a full suite of revenue cycle management solutions and consulting services to healthcare providers and insurance carriers. HEW currently has connections with over 2,000 health insurance carriers. In 2010, HEW acquired Electronic Translations and Transmittals Corporation for $1.5 million.

FINANCIAL ANALYSIS

Exhibits 25-26 present HEW's historical financial results for the five years ended December 31, 2011 and the six months ended June 30, 2012. A historical working capital analysis is presented in Exhibit 27. Adjustments for non-recurring and non-operating income and expenses are presented in Exhibit 28. Exhibit 29 presents HEW's adjusted income statement and cash flow. Adjusted financial analyses are presented in Exhibit 30.

Industry comparison statistics are from Annual Statement Studies 2011/2012, published by The Risk Management Association ("RMA"). The averages shown are for NAICS Code 524292, Third Party Administration of Insurance and Pension Funds, with sales in the same size range as HEW.

Income Statement

HEW's historical income statements are presented in Exhibit 25. Certain adjustments were made to its historical financial statements for the purpose of reaching a valuation conclusion. These adjustments do not reflect any opinion with respect to the accuracy of HEW's financial statements.

Adjustments to Historical Income Statements

As Exhibit 28 shows, we adjusted historical income and expense to exclude the effect of non-recurring and non-core asset related income during the period under review. We applied income tax at state and federal corporate rates. Exhibit 29 shows HEW's adjusted historical earnings and cash flow.

Growth

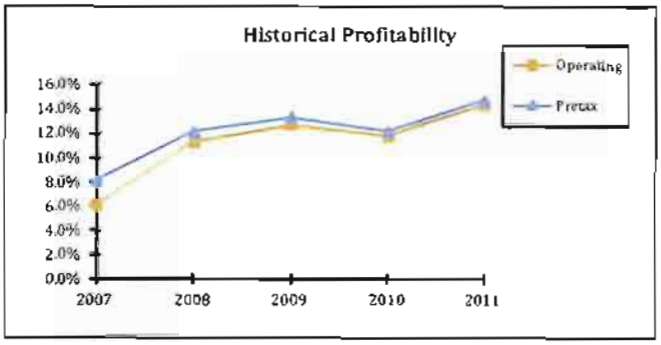
As can be seen from the graph, HEW's revenue (sales) increased during the period under review, growing at a compound annual growth rate of 19.3 percent between 2007 - 2011. HEW's revenues increased from $2.2 million in 2007 to $4.4 million in 2011. During the twelve month period ending June 30, 2012 sales were $4.4 million.

Total assets increased from $1.6 million in 2007 to $3.5 million in 2011; which equates to a compound annual growth rate of 22.0 percent. This was predominantly a result of an increase in intangible assets, which grew from $14,000 to $1.1 million, and current assets, which grew from $0.8 million to $1.7 million between 2007 - 2011. HEW's total assets as of June 30, 2012 were $3.9 million. The growth in intangible assets, current assets

and sales during the period under review largely reflects HEW's acquisition of Electronic Translations and Transmittals ("ETT") in 2010.

Profitability

Profitability ratios measure HEW's return on sales. The "**Profitability (% of Sales)**" section of Exhibit 30 provides HEW's historical profit ratios.



Adjusted operating profit increased over the period under review from $132,000 in 2007 to $634,000 in 2011, increasing from 6.0 percent to 14.3 percent of sales. The increase in adjusted operating margin was predominantly due to HEW's declining salaries and related expenses as a percentage of total sales. HEW's five-year average adjusted operating margin of 11.2 percent was somewhat lower than the RMA industry average of 12.3 percent. During the six months ended June 30, 2012 HEW's operating margin was 10.3 percent.

HEW's five-year average adjusted pretax profit margin of 12.0 percent was similar to the RMA industry average pretax margin of 12.9 percent. During the six months ended June 30, 2012 HEW's pre-tax margin was 10.7 percent.

Overall, HEW's profitability has improved during the period under review and is similar to industry averages.

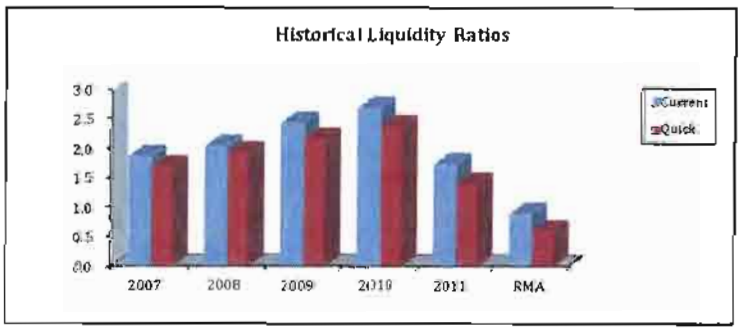
Balance Sheet

Exhibit 2 contains balance sheet information for the last five years and six months.

Description of Interest Bearing Debt

At the valuation date, HEW had no interest bearing debt outstanding.

Liquidity



The "**Liquidity**" section of Exhibit 30 provides an analysis of HEW's ability to meet its current obligations as they come due. As measured by HEW's adjusted 2011 current and quick ratios of 1.7 times and 1.4 times, respectively, liquidity was higher than the RMA industry average of 0.9 times and 0.6 times.

HEW's five-year average adjusted accounts receivable turnover ratio was 9.3 times, and higher than the guideline public company average of 7.7 times. An RMA industry average was not available.

Overall, HEW's liquidity was above average during the period under review.

Solvency

The "**Solvency**" section of Exhibit 30 provides solvency ratios, which are used to measure HEW's ability to meet interest and principal payments on long-term debt and other obligations as they become due. These ratios analyze leverage, debt coverage and long-term profitability.

HEW utilized no interest-bearing debt during the period under review, compared to the RMA industry average long term debt-to-total capital ratio of 47.3 percent.

Perhaps the best indicator of solvency is a firm's ability to generate profits over a period of years. As previously discussed, HEW's profitability improved and is similar to industry averages.

On balance, HEW's solvency was average during the period under review. While its profitability was similar to industry averages, it also held no debt at the date of valuation.

Efficiency and Asset Utilization

The "**DuPont Analysis**" section of Exhibit 30 provides efficiency ratios, which are used to assess management's performance and to further analyze HEW's profitability. They measure how efficiently HEW is employing its assets as well as the equity capital used to finance those assets.

HEW's adjusted 2011 pretax return on equity and debt-free return on assets were 43.7 percent and 18.5 percent, respectively, and higher than the industry average 13.0 percent pretax return on equity, indicating above average efficiency. An RMA industry average debt-free return on assets was not available. These two ratios are closely related to each other and can be broken down into several components using the "DuPont model" to provide additional insight into HEW's efficiency, as follows:

Asset Turnover	×	Profit Margin	=	Debt-Free ROA	×	Financing	=	Pretax ROA	×	Leverage	=	Pretax ROE

The formulas used to calculate each component of the "DuPont" analysis are shown below:

Sales	×	EBIT	=	EBIT	×	Pretax	=	Pretax	×	Assets	=	Pretax
Assets		Sales		Assets		EBIT		Assets		Equity		Equity

A comparison of HEW's "DuPont" analysis relative to the RMA industry averages follows:

Health-E-Web (Adjusted 2011):

1.3	×	*14.6%*	=	*18.5%*	×	*1.00*	=	*18.5%*	×	*2.37*	=	*43.7%*

RMA Industry Averages - 2011:

1.2	×	*11.0%*	=	*13.2%*	×	*0.98%*	=	*13.0%*	×	*NMF*	=	*NMF*

HEW's adjusted 2011 sales to assets ratio, which measures asset turnover, was 1.3 times and similar to the industry average level of 1.2 times, indicating similarly efficient use of assets. HEW's adjusted 2011 EBIT profit margin was 14.6 percent and was higher than the industry average of 11.0 percent. Combined with the sales to assets ratio, this produced HEW's higher than industry level debt-free return on assets.

HEW utilized no interest-bearing debt during 2011. Due to the lack of financial leverage, HEW's adjusted pretax return on assets was equal to its debt-free return on assets, indicating less than optimal efficiency from a potential investor's point of view.

Altogether, HEW exhibited above average efficiency during the period under review.

Financial Analysis Summary

Overall, the financial condition of HEW can be characterized as improving and above average. Sales increased at 19.3 percent per annum between 2007 and 2011, largely due to its acquisition of ETT. Further, HEW's liquidity and efficiency were above average, while its profitability and solvency were similar to industry averages.

VALUATION APPROACHES

In performing our valuation of HEW, we considered the Income Approach, Market Approach and Asset-Based Approach. These approaches are described in earlier sections of this report. Analyses particular to HEW are presented below.

Income Approach

Exhibits 31-33 present the Income Approach valuation for HEW. The Income Approach methodologies used to value HEW are described in the Income Approach section of this report.

Exhibit 31 presents the forecasted free cash flows. Earnings projections through 2015 were provided by management. The assumptions used in the analysis are shown in the exhibit and are summarized within the footnotes of the exhibit.

Discount Rate

Computation of the discount rate and residual capitalization rate is shown in Exhibit 32 and described in Appendix B. The subject company risk premium is based on a consideration of HEW's operating and financial risks. We analyzed the risk factors affecting the subject company relative to the RMA industry average data, which is from companies closely aligned with the specific business of HEW. This analysis is used in determining an appropriate subject company risk premium, and is outlined in the table below.

Factor	Benchmark	Subject	Impact on Risk Premium	Weight
Operating Factors:				
History of Company	Established	Established	None	
Management	Experienced	Experienced	None	
Labor Relations	Good	Good	None	
Products/Services	Diversified	Diversified	None	
Market/Industry Condition	Industry faces significant uncertainty regarding the implementation of the Affordable Care Act	Similar	None	
Competition	High	High	None	
Customers	Diversified	Most of HEW's sales are related to its parent BCBSMT	Higher	Medium
Suppliers	Diversified	Diversified	None	
Economic Factors:				
Economic Condition	National economy is recovering from recession	Similar	None	
Financial Factors:				
Profitability	RMA industry averages used as benchmark	Similar to industry benchmark	None	
Efficiency and Asset Utilization	RMA industry averages used as benchmark	Higher than industry benchmark	Lower	Small
Liquidity	RMA industry averages used as benchmark	Higher than industry benchmark	Lower	Small
Solvency	RMA industry averages used as benchmark	Similar to industry benchmark	None	
Contingent Liabilities	Not significant	None disclosed	None	

Based on our evaluation of the risk factors listed above, a subject company risk premium of 1.0 percent was selected for HEW. The subject company risk premium is one component of the discount rate, as further discussed in Appendix B.

The computation of the discount rate is presented in Exhibit 32. Based on this analysis, it is our opinion that a discount rate of 15.6 percent is appropriate. Further, based on our analysis and a selected 3.0

percent long term growth rate, it is our opinion that a residual capitalization rate of 12.6 percent is appropriate.

Income Approach Summary

Exhibit 33 summarizes the results of the discounted cash flow analysis. The resulting equity value represents a majority interest value.

Market Approach

In our valuation of HEW, we investigated both a public company analysis and a merger and acquisition analysis. However, based on the lack of recent and closely comparable M&A transactions we relied solely on the public company Market Approach. The public company Market Approach is presented in Exhibits 34 - 36.

Public Company Analysis

We investigated the stock market in order to identify companies in lines of business similar to the Company which are influenced by comparable business and economic conditions and are considered to offer alternative investment opportunities. Ultimately, we selected 11 publicly traded companies as being reasonably similar to HEW, as presented in Exhibit 34.

Pricing data, financial information, and computed valuation ratios for the selected guideline companies are presented in Exhibit 34. We made adjustments to the market multiples based on HEW's size and expected growth relative to the public companies. The individual adjustments and adjusted guideline company multiples are presented in Exhibit 35.

Summary – Public Company Analysis

Exhibit 36 summarizes the results of the public company analysis. The resulting weighted average equity value represents a majority interest value.

Exhibit 20 summarizes the merger and acquisition analysis. The fair market value of the non-core assets shown in Exhibit 5 is then added to produce an indication of total surplus value for the Company.

Asset-Based Approach

In the Asset-Based Approach, net asset value is estimated by restating the value of assets and liabilities from historical cost to Fair Market Value. Assets and liabilities can be valued either individually or collectively. Individual assets and liabilities of a business can be appraised using the Cost, Market and Income Approaches to asset valuation.

Exhibit 37 presents the Asset-Based Approach computations on a going concern basis. Adjustments were made to the reported book value of assets and liabilities, as appropriate.

CONCLUSION OF VALUE – HEW

The final step in the valuation process requires a review of each valuation approach and a reconciliation of these approaches to reach a final value conclusion. In a specific appraisal situation, the weight given to each approach depends on the valuation function and purpose, the value premise and definition, the quantity and quality of available data, and the reliability of the analysis.

We gave significant weight to the discounted cash flow Income Approach because it represents the amount a prudent investor would pay for HEW's expected future cash flows based on market rates of return and HEW's specific risks.

Significant weight was also given to the public company analysis because it reflects current stock market pricing for reasonably comparable businesses that represent alternative investment opportunities.

In this instance, we gave no weight to the Asset Based Approach in deference to the Income and Market Approaches which better captures HEW's future earnings ability.

A summary of the valuation analysis for HEW follows:

	Indicated Equity Value	**Weight**
Income Approach	$3,438,000	50.0%
Market Approach – Public Company Analysis	$4,323,000	50.0%
Asset Based Approach	$2,688,000	0.0%
CONCLUDED EQUITY VALUE - HEW	**$3,881,000**	

Based upon our investigation, premises and analyses, it is our opinion that the Fair Market Value of Health-E-Web's total equity on a majority interest, going concern basis is as follows:

THREE MILLION EIGHT HUNDRED AND EIGHTY-ONE THOUSAND DOLLARS

($3,881,000)

XI. Conclusion of Value

The final step in the valuation process requires a review of each valuation approach and a reconciliation of these approaches to reach a final value conclusion. In a specific appraisal situation, the weight given to each approach depends on the valuation function and purpose, the value premise and definition, the quantity and quality of available data, and the reliability of the analysis.

We gave some weight to the discounted cash flow Income Approach because it represents the amount a prudent investor would pay for the Company's expected future cash flows based on market rates of return and the Company's specific risks.

In the Market Approach, the public company analysis was given significant weight because it reflects current stock market pricing for reasonably comparable businesses that represent alternative investment opportunities.

In the Market Approach, the merger and acquisition analysis was not given any weight because of limitations in finding recent transactions for closely similar companies, and for the difficulties in using M&A data previously discussed in the Market Approach section of this report.

Significant weight was given to the residual Income Approach, which captures the value of the Company's total surplus as well as its future earnings ability in excess of a potential investor's required return on equity.

We gave no weight to the Asset Based Approach in this instance because there is significant overlap between the Asset Based Approach and the Residual Income Approach, which better captures the Company's future excess earnings ability in addition to its book value of surplus.

A summary of the valuation analysis follows:

	Indicated Surplus Value	**Weight**
Income Approach	$125,406,000	5.0%
Market Approach – Public Company Analysis	$175,651,000	35.0%
Market Approach – Merger and Acquisition Analysis	$147,247,000	0.0%
Residual Income Approach	$164,168,000	60.0%
Asset Based Approach	$146,557,000	0.0%
CONCLUDED SURPLUS VALUE	**$166,200,000**	

Based upon our investigation, premises and analyses, it is our opinion that the Fair Market Value of the Company's total surplus on a majority interest, going concern basis is as follows:

ONE HUNDRED SIXTY-SIX MILLION TWO HUNDRED THOUSAND DOLLARS
($166,200,000)

EXHIBIT 1

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL COMMON SIZE INCOME STATEMENT, GAAP BASIS ($000)

Fiscal Year Ended December 31	Audit 2007	Percent	Audit 2008	Percent	Audit 2009	Percent	Audit 2010	Percent	Audit 2011	Percent	LTM 06/30/12	Percent	Average FY 07-11	*RMA* 11/12*
Revenue, Net of Commissions & Assessments	645,806	100 0%	687,710	100 0%	704,558	100 0%	750,185	100 0%	814,876	100 0%	867,242	100 0%	100 0%	
Claims Incurred	554,492	85 9%	608,080	88 4%	640,085	90 8%	682,899	91 0%	744,091	91 3%	799,250	92 2%	89 5%	
Gross Margin	91,314	14 1%	79,630	11 6%	64,473	9 2%	67,286	9 0%	70,785	8 7%	67,993	7 8%	10 5%	***100.0%***
Operating Expenses:														
Advertising & Public Relations	978	0 2%	3,240	0 5%	1,703	0 2%	1,249	0 2%	1,262	0 2%	935	0 1%	0 2%	
Depreciation & Amortization - PP&E	3,198	0 5%	3,733	0 5%	4,487	0 6%	5,140	0 7%	3,230	0 4%	5,191	0 6%	0 6%	***0.4%***
Salaries & Wages	34,364	5 3%	32,074	4 7%	35,702	5 1%	36,386	4 9%	34,480	4 2%	34,173	3 9%	4 8%	
Payroll Taxes	2 365	0 4%	2,184	0 3%	2,613	0 4%	2,670	0 4%	2 591	0 3%	2,600	0 3%	0 3%	
Salary Related Fringe Benefits	14,839	2 3%	12,998	1 9%	12,330	1 8%	11,659	1 6%	11,662	1 4%	12,545	1 4%	1 8%	
Employee Relations & Welfare	676	0 1%	776	0 1%	799	0 1%	565	0 1%	531	0 1%	512	0 1%	0 1%	
Recruiting & Relocation	239	0 0%	418	0 1%	451	0 1%	160	0 0%	171	0 0%	142	0 0%	0 0%	
Rent & Lease Expense	2 020	0 3%	2,239	0 3%	2,465	0 3%	2,431	0 3%	2 115	0 3%	1,875	0 2%	0 3%	
Data Processing & Equipment	3,484	0 5%	3,224	0 5%	2,832	0 4%	2,340	0 3%	2,270	0 3%	2,345	0 3%	0 4%	
Utilities, Janitorial & Other	1,420	0 2%	1,459	0 2%	1,418	0 2%	1,262	0 2%	1,308	0 2%	1,215	0 1%	0 2%	
Professional & Outsourced Fees, Blue Card	9,159	1 4%	10,412	1 5%	9,357	1 3%	8,885	1 2%	8.996	1 1%	9,416	1 1%	1 3%	
Printing & Supplies	1,017	0 2%	863	0 1%	815	0 1%	777	0 1%	624	0 1%	703	0 1%	0 1%	
Travel, Meals & Entertainment	1,107	0 2%	1,252	0 2%	993	0 1%	861	0 1%	963	0 1%	1,022	0 1%	0 1%	
Insurance	614	0 1%	631	0 1%	575	0 1%	611	0 1%	586	0 1%	621	0 1%	0 1%	
Dues & Subscriptions	511	0 1%	577	0 1%	1,091	0 2%	1,145	0 2%	1 121	0 1%	1,081	0 1%	0 1%	
Postage & Shipping	1,750	0 3%	1,830	0 3%	1,903	0 3%	1,835	0 2%	1,794	0 2%	1,691	0 2%	0 3%	
Taxes & Fees	495	0 1%	476	0 1%	557	0 1%	571	0 1%	500	0 1%	490	0 1%	0 1%	
Repairs & Maintenance	2,006	0 3%	2,935	0 4%	3,207	0 5%	2,522	0 3%	2,518	0 3%	2,380	0 3%	0 4%	
BOD Expense	433	0 1%	511	0 1%	476	0 1%	464	0 1%	467	0 1%	485	0 1%	0 1%	
Other Operating Expense	2,175	0 3%	(893)	(0 1%)	(2,279)	(0 3%)	225	0 0%	(2,278)	(0 3%)	(2,005)	(0 2%)	(0 1%)	
Cost Containment	9,695	1 5%	8,153	1 2%	6,651	0 9%	5,599	0 7%	5,817	0 7%	6,861	0 8%	1 0%	
Admin Reimbursement - Medicare[a]	(315)	(0 0%)	(1,852)	(0 3%)	0	0 0%	(6,276)	(0 8%)	0	0 0%	0	0 0%	(0 2%)	
Admin Reimbursement - Blue Card Host	(4,225)	(0 7%)	(4,307)	(0 6%)	(4,730)	(0 7%)	(4,440)	(0 6%)	(4,335)	(0 5%)	(4,335)	(0 5%)	(0 6%)	
Admin Reimbursement - Joint Venture	0	0 0%	(78)	(0 0%)	0	0 0%	0	0 0%	0	0 0%	0	0 0%	(0 0%)	
Admin Reimbursement - Other	(2,520)	(0 4%)	(2,677)	(0 4%)	(2,731)	(0 4%)	(2,976)	(0 4%)	(3,298)	(0 4%)	(3,298)	(0 4%)	(0 4%)	
Admin Reimbursement - MCHA	(1,204)	(0 2%)	(1,191)	(0 2%)	(1,199)	(0 2%)	(1,244)	(0 2%)	(1,281)	(0 2%)	(1,281)	(0 1%)	(0 2%)	
Admin Reimbursement - Health E-Web	(371)	(0 1%)	(229)	(0 0%)	(112)	(0 0%)	(213)	(0 0%)	(194)	(0 0%)	(194)	(0 0%)	(0 0%)	
Admin Reimbursement - MGMT Fees	(280)	(0 0%)	(280)	(0 0%)	(280)	(0 0%)	(280)	(0 0%)	(254)	(0 0%)	(254)	(0 0%)	(0 0%)	
Total Operating Expense	83,631	12 9%	78,479	11 4%	79,098	11 2%	71,928	9 6%	71,367	8 8%	74,918	8 6%	10 8%	***96.7%***
Operating Income/(Loss)	7,683	1 2%	1,152	0 2%	(14,625)	(2 1%)	(4,642)	(0 6%)	(582)	(0 1%)	(6,925)	(0 8%)	(0 3%)	***3.3%***
Other Income (Expense):														
Investment Income - Marketable Securities[b]	7,953	1 2%	2,984	0 4%	3,250	0 5%	3,494	0 5%	3,279	0 4%	1,509	0 2%	0 6%	
Investment Income - Subsidiaries	9,623	1 5%	3,510	0 5%	4,333	0 6%	5,133	0 7%	4,192	0 5%	3,774	0 4%	0 8%	
Other Income (Expense)[c]	(430)	(0 1%)	(491)	(0 1%)	(400)	(0 1%)	1,583	0 2%	689	0 1%	565	0 1%	0 0%	
Total Other Income (Exp)	17,146	2 7%	6,004	0 9%	7,183	1 0%	10,209	1 4%	8,160	1 0%	5,847	0 7%	1 4%	***(0 1%)***
Pretax Profit	24,829	3 8%	7,155	1 0%	(7,441)	(1 1%)	5,567	0 7%	7,578	0 9%	(1,078)	(0 1%)	1 1%	***3.2%***
Total Income Taxes[d]	5,324	0 8%	(2,317)	(0 3%)	(1,741)	(0 2%)	(2,784)	(0 4%)	(5,817)	(0 7%)	(6,527)	(0 8%)	(0 2%)	***NA***
Net Income	19,506	3 0%	9,473	1 4%	(5,700)	(0 8%)	8,351	1 1%	13,395	1 6%	5,448	0 6%	1 3%	***NA***
Capital Expenditures	3,904	0 6%	10,306	1 5%	6,735	1 0%	2,487	0 3%	5,461	0 7%	NA	NA	0 8%	

Notes

Financial statements prepared under US GAAP, however the Company's wholly owned subsidiary CBMI is accounted for using the equity method of accounting, rather than on a consolidated basis, as normally prescribed under US GAAP

* NAICS 524114 - Direct Health and Medical Insurance Carriers and sales of >$25M

a The Company ended its Medicare administrative servicing contracts in 2008 and received the $6 27m payment in 2010 for services in prior years

b Investment income includes realized gain / (losses), investment income and other investment expense

c Includes change in premium deficiency reserve of ($1 025m) in 2009 and $1 025m in 2010

d Historical income tax expense consists of 20% AMT rate, plus prior year's under or overaccrual of tax reserves, plus tax-sharing benefit from subsidiaries and change in deferred income taxes

EXHIBIT 2, Page 1 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL COMMON SIZE BALANCE SHEET, GAAP BASIS ($000) TOTAL ASSETS

Fiscal Year Ended December 31	Audit 2007	Percent	Audit 2008	Percent	Audit 2009	Percent	Audit 2010	Percent	Audit 2011	Percent	Interim 06/30/12	Percent	Average FY 07-11	*RMA** *11/12*
Current Assets:														
Cash	27,875	10 0%	15,624	6 0%	10,954	4.2%	20,185	7 2%	14,506	4 9%	7,366	2.4%	6 5%	*48.5%*
Prepaid Expenses	2,697	1 0%	5,244	2 0%	4,489	1 7%	4,697	1 7%	3,863	1 3%	3,512	1 1%	1 5%	
Health Care & Other Receivables	32,052	11 5%	42,368	16 3%	34,891	13 4%	38,387	13 7%	42,078	14 3%	45,079	14.6%	13 8%	*14.6%*
Accrued Income - Investments	1,262	0 5%	1,021	0.4%	941	0 4%	914	0 3%	898	0 3%	895	0.3%	0 4%	
Receivables from Affiliates	3,461	1 2%	2,591	1 0%	2,169	0 8%	2,855	1 0%	3,123	1 1%	3,770	1 2%	1.0%	*0.4%*
Notes Receivable	100	0.0%	28	0 0%	14	0 0%	0	0.0%	0	0 0%	22	0.0%	0.0%	
Income Tax Receivable & Deferred Taxes	2,773	1 0%	1,211	0 5%	2,220	0 9%	4,079	1 5%	6,353	2 2%	8,659	2 8%	1 2%	
Medicare Subsidies Receivable	718	0 3%	1,535	0 6%	403	0 2%	0	0 0%	741	0 3%	0	0 0%	0.3%	
Due from Managed Companies	13	0 0%	0	0 0%	1,702	0 7%	1,344	0 5%	2,001	0 7%	0	0.0%	0 4%	*6.2%*
Total Current Assets	70,952	25 4%	69,621	26 7%	57,783	22 2%	72,462	25.9%	73,565	25 0%	69,304	22 5%	25 0%	*69.7%*
Fixed Assets:														
Land	1,557	0 6%	1,557	0 6%	1,557	0 6%	1,557	0 6%	1,557	0 5%	1,557	0 5%	0 6%	
Buildings & Improvements	13,570	4 9%	13,590	5 2%	15,884	6 1%	15,884	5 7%	15,912	5 4%	15,926	5.2%	5 4%	
Furniture & Equipment	9,050	3 2%	9,207	3 5%	11,129	4 3%	11,153	4 0%	12,066	4 1%	12,409	4 0%	3 8%	
Automobiles	249	0 1%	313	0 1%	313	0.1%	289	0 1%	367	0 1%	336	0 1%	0 1%	
Software	31,113	11.1%	34,982	13 4%	41,697	16 0%	42,491	15 2%	44,391	15 1%	44,671	14 5%	14 2%	
Projects in Progress	2,565	0 9%	7,868	3 0%	3,075	1 2%	1,599	0 6%	3,754	1 3%	3,749	1 2%	1 4%	
Total Gross Fixed Assets	58,105	20 8%	67,518	25 9%	73,656	28 3%	72,973	26 1%	78,048	26 5%	78,648	25 5%	25 5%	
Accumulated Depreciation (-)	(40,264)	(14 4%)	(43,102)	(16 5%)	(46,991)	(18 0%)	(51,874)	(18 5%)	(54,958)	(18 7%)	(56,388)	(18 3%)	(17 2%)	
Net Fixed Assets	17,841	6 4%	24,416	9 4%	26,665	10.2%	21,099	7 5%	23,089	7 8%	22,260	7 2%	8 3%	*10.1%*
Investments & Other Assets:														
Bonds	79,166	28 3%	71,075	27 3%	68,863	26.4%	69,328	24 8%	74,164	25 2%	75,415	24 5%	26 4%	
Common Stock	38,817	13 9%	26,627	10.2%	31,192	12 0%	35,124	12.6%	35,059	11 9%	39,131	12 7%	12.1%	
Closely Held Investments	0	0 0%	0	0 0%	1,132	0 4%	1,132	0 4%	1,132	0.4%	3,198	1 0%	0 2%	
Annuities	12,918	4 6%	14,634	5.6%	13,972	5 4%	13,428	4 8%	12,794	4 3%	12,482	4.0%	4 9%	
Cash Value of Life Insurance	11,142	4 0%	12,786	4 9%	16,217	6 2%	17,026	6 1%	17,854	6 1%	15,221	4 9%	5 5%	
Subsidiaries	44,102	15 8%	36,598	14 0%	41,032	15 7%	45,678	16 3%	47,254	16.0%	48,215	15 6%	15 6%	
Intangible Assets, Net[a]	0	0 0%	0	0 0%	0	0 0%	0	0.0%	0	0.0%	23,003	7 5%	0.0%	
Deferred Income Taxes	4,632	1 7%	4,720	1.8%	3,792	1 5%	4,170	1 5%	9,495	3 2%	0	0 0%	1 9%	
Notes Receivable	14	0 0%	164	0 1%	10	0 0%	263	0 1%	71	0 0%	0	0 0%	0 0%	
Total Investments & Other Assets	190,791	68 2%	166,603	63 9%	176,210	67 6%	186,149	66.6%	197,823	67 2%	216,666	70.3%	66 7%	*16.0%*
Total Assets	279,584	100.0%	260,641	100 0%	260,658	100 0%	279,710	100 0%	294,478	100 0%	308,230	100 0%	100 0%	*100.0%*

Notes.

Financial statements account for the Company's wholly owned subsidiary CBMI using the equity method of accounting, rather than on a consolidated basis, as normally prescribed under US GAAP

* NAICS 524114 - Direct Health and Medical Insurance Carriers and sales of >$25M

a Intangible assets consist of value premiums to be collected during 6-year New West Hospital System employee health insurance contract, amortized over the life of the contract, Intangible liabilities consist of the purchase price paid for contract, with interest accruing over the life of the contract

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL COMMON SIZE BALANCE SHEET, GAAP BASIS ($000) LIABILITIES & SURPLUS

Fiscal Year Ended December 31	Audit 2007	Percent	Audit 2008	Percent	Audit 2009	Percent	Audit 2010	Percent	Audit 2011	Percent	Interim 06/30/12	Percent	Average FY 07-11	*RMA* 11/12*
Current Liabilities:														
Unpaid Claims (Incl Adj)	52,358	18 7%	55,089	21 1%	51,080	19 6%	57,182	20 4%	61,711	21 0%	58,028	18 8%	20 2%	
Rate Stabilization, Case & Claim Reserves[a]	5,178	1 9%	3,502	1 3%	1,953	0 7%	4,008	1 4%	1,917	0 7%	9,075	2 9%	1 2%	
Premiums Received in Advance	15,840	5 7%	11,029	4 2%	12,773	4 9%	17,801	6 4%	16,431	5 6%	18,755	6 1%	5 3%	
Health Care & Other Claims	4,625	1 7%	7,294	2 8%	6,727	2 6%	6,291	2 2%	10,053	3 4%	16,146	5 2%	2 5%	
Checks Issued but Not Presented	5,156	1 8%	4,252	1 6%	3,902	1 5%	230	0 1%	3,432	1 2%	0	0 0%	1 2%	
Accounts Payable[b]	11,865	4 2%	11,504	4 4%	9,913	3 8%	8,929	3 2%	8,932	3 0%	3,705	1 2%	3 7%	
Accrued General Expenses	8,951	3 2%	5,633	2 2%	6,254	2 4%	8,193	2 9%	7,241	2 5%	1,568	0 5%	2 6%	
Pension Liabilities, Current	3,928	1 4%	4,318	1 7%	3,544	1 4%	5,648	2 0%	2,001	0 7%	0	0 0%	1 4%	
Payables to Affiliates	623	0 2%	370	0 1%	355	0 1%	561	0 2%	536	0 2%	0	0 0%	0 2%	*18.2%*
Due to Managed Companies	36	0 0%	281	0 1%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 0%	
Premium Deficiency Reserve	0	0 0%	0	0 0%	1,025	0 4%	0	0 0%	0	0 0%	0	0 0%	0 1%	
Medicare Subsidies Payable	0	0 0%	0	0 0%	0	0 0%	898	0 3%	0	0 0%	0	0 0%	0 1%	
Contingent Liabilities[c]	0	0 0%	0	0 0%	0	0 0%	4,870	1 7%	4,870	1 7%	4,870	1 6%	0 7%	*0.4%*
Other Current Liabilities[d]	3,321	1 2%	1,726	0 7%	7,749	3 0%	2,848	1 0%	3,518	1 2%	3,398	1 1%	1 4%	
Total Current Liabilities	111,880	40 0%	104,998	40 3%	105,275	40 4%	117,459	42 0%	120,641	41 0%	115,544	37 5%	40 7%	*45.4%*
Pension & Other Obligations:														
Notes Payable	10,070	3 6%	39	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 7%	*10.4%*
Defined Benefit Pensions	8,259	3 0%	18,588	7 1%	14,863	5 7%	15,624	5 6%	19,386	6 6%	20,022	6 5%	5 6%	
Non-Qualified Deferred Comp Plans	20,017	7 2%	21,040	8 1%	20,904	8 0%	21,924	7 8%	24,358	8 3%	23,587	7 7%	7 9%	
Accounts Payable - Deferred Compensation	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	660	0 2%	0 0%	
Post Retirement - Life	18	0 0%	16	0 0%	23	0 0%	18	0 0%	15	0 0%	15	0 0%	0 0%	
Post Retirement - Medical	535	0 2%	371	0 1%	411	0 2%	459	0 2%	532	0 2%	548	0 2%	0 2%	
Defined Contribution Pensions	117	0 0%	232	0 1%	306	0 1%	298	0 1%	320	0 1%	223	0 1%	0 1%	
Less Current Portion	(3,928)	(1 4%)	(4,318)	(1 7%)	(3,544)	(1 4%)	(5,648)	(2 0%)	(2,001)	(0 7%)	0	0 0%	(1 4%)	
Impairments[e]	0	0 0%	1,512	0 6%	1,512	0 6%	1,512	0 5%	1,512	0 5%	0	0 0%	0 4%	
Intangible Liabilities[f]	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	20,033	6 5%	0 0%	*5.1%*
Total Long-Term Liabilities	35,089	12 6%	37,480	14 4%	34,475	13 2%	34,188	12 2%	44,122	15 0%	65,088	21 1%	13 5%	*15.5%*
Total Liabilities	146,969	52 6%	142,478	54 7%	139,751	53 6%	151,647	54 2%	164,764	56 0%	180,632	58 6%	54 2%	*60.9%*
Surplus:														
Unassigned Reserves	142,903	51 1%	152,376	58 5%	146,676	56 3%	155,027	55 4%	168,422	57 2%	162,904	52 9%	55 7%	
Accumulated Other Comprehensive Loss	(10,289)	(3 7%)	(34,213)	(13 1%)	(25,768)	(9 9%)	(26,965)	(9 6%)	(38,708)	(13 1%)	(35,306)	(11 5%)	(9 9%)	
Total Surplus	132,615	47 4%	118,163	45 3%	120,908	46 4%	128,062	45 8%	129,714	44 0%	127,598	41 4%	45 8%	*39.1%*
Total Liabilities & Surplus	279,584	100 0%	260,641	100 0%	260,658	100 0%	279,710	100 0%	294,478	100 0%	308,230	100 0%	100 0%	*100.0%*

Notes

Financial statements account for the Company's wholly owned subsidiary CBMI using the equity method of accounting, rather than on a consolidated basis, as normally prescribed under US GAAP

* NAICS 524114 - Direct Health and Medical Insurance Carriers and sales of >$25M

a As of June 30, 2011 consists of $1 4m for rate stabilization reserves and $7 7m for claim and case reserves

b Includes trade accounts payable and compensation related accounts payable

c Estimated exposure in multiple class action lawsuits

d Includes ($2 85) non-current million federal income taxes payable, and $1 5m impairment for bonds and SIVs

e Impairment loss for bonds and structured investment vehicles held in collateral asset portfolios

f Intangible assets consist of value premiums to be collected during 6-year New West Hospital System employee health insurance contract, amortized over the life of the contract, Intangible liabilities consist of the purchase price paid for contract, with interest accruing over the life of the contract

EXHIBIT 3

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL COMMON SIZE INCOME STATEMENT, STATUTORY BASIS ($000)

Fiscal Year Ended December 31	Statutory 2007	Percent	Statutory 2008	Percent	Statutory 2009	Percent	Statutory 2010	Percent	Statutory 2011	Percent	LTM 06/30/12	Percent	Average FY 07-11	*SNL[e] 2011*
Premium Income	**508,999**	**100.0%**	**516,240**	**100.0%**	**503,272**	**100.0%**	**529,301**	**100.0%**	**562,275**	**100.0%**	**580,636**	**100.0%**	**100.0%**	**100.0%**
Hospital & Medical Benefits	291,489	57 3%	313,437	60 7%	322,788	64 1%	335,755	63 4%	361,293	64 3%	375,821	64 7%	62 0%	**56.0%**
Other Professional Services	44,828	8 8%	46,206	9 0%	47,934	9 5%	44,644	8 4%	48,184	8 6%	50,810	8 8%	8 9%	**9.8%**
Emergency Room & Out-of-Area	7,543	1 5%	8,343	1 6%	8,829	1 8%	9,207	1 7%	10,286	1 8%	10,819	1 9%	1 7%	**3.3%**
Prescription Drugs	66,113	13 0%	62,661	12 1%	56,899	11 3%	68,289	12 9%	68,458	12 2%	74,077	12 8%	12 3%	**14.4%**
Other Hospital & Medical Expense[a]	2,672	0 5%	3,423	0 7%	1,353	0 3%	2,558	0 5%	3,733	0 7%	3,917	0 7%	0 5%	**0.0%**
Incentive Pool	525	0 1%	(24)	(0 0%)	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 0%	
Claims Adjustment Expenses[b]	40,447	7 9%	36,459	7 1%	35,335	7 0%	28,502	5 4%	31,309	5 6%	31,860	5 5%	6 6%	
Net Reinsurance Recoveries	(305)	(0 1%)	(1,303)	(0 3%)	(810)	(0 2%)	(1,343)	(0 3%)	(2,987)	(0 5%)	(3,562)	(0 6%)	(0 3%)	
Total Underwriting Deduction	**453,311**	**89.1%**	**469,201**	**90.9%**	**472,327**	**93.9%**	**487,613**	**92.1%**	**520,275**	**92.5%**	**543,741**	**93.6%**	**91.7%**	**90.5%**
Underwriting Gross Margin	**55,688**	**10.9%**	**47,040**	**9.1%**	**30,945**	**6.1%**	**41,688**	**7.9%**	**42,000**	**7.5%**	**36,895**	**6.4%**	**8.3%**	**9.5%**
Operating Expenses:														
General & Administrative	45,696	9 0%	44,126	8 5%	43,900	8 7%	42,578	8 0%	41,414	7 4%	42,347	7 3%	8 3%	
Depreciation & Amortization - PP&E	3,198	0 6%	3,733	0 7%	4,653	0 9%	5,299	1 0%	5,974	1 1%	6,297	1 1%	0 9%	
Total Operating Expense	48,894	9 6%	47,859	9 3%	48,554	9 6%	47,877	9 0%	47,387	8 4%	48,644	8 4%	9 2%	**7.7%**
Net Underwriting Profit	6,794	1 3%	(820)	(0 2%)	(17,609)	(3 5%)	(6,189)	(1 2%)	(5,388)	(1 0%)	(11,749)	(2 0%)	(0 9%)	**1.9%**
Other Income (Expense):														
Investment Income[c]	13,736	2 7%	17,407	3 4%	6,069	1 2%	6,178	1 2%	9,031	1 6%	8,048	1 4%	2 0%	**1.9%**
Realized Capital Gains / (Loss)	2,477	0 5%	(627)	(0 1%)	(258)	(0 1%)	(192)	(0 0%)	(449)	(0 1%)	(2,201)	(0 4%)	0 0%	**0.1%**
Other Income	1,245	0 2%	400	0 1%	113	0 0%	615	0 1%	497	0 1%	794	0 1%	0 1%	**-0.1%**
Total Other Income (Exp)	17,458	3 4%	17,180	3 3%	5,923	1 2%	6,601	1 2%	9,078	1 6%	6,640	1 1%	2 2%	**1.9%**
Pretax Profit	24,252	4 8%	16,360	3 2%	(11,686)	(2 3%)	412	0 1%	3,691	0 7%	(5,110)	(0 9%)	1 3%	**3.9%**
Total Income Taxes	3,032	0 6%	(1,327)	(0 3%)	(1,903)	(0 4%)	(913)	(0 2%)	555	0 1%	(155)	(0 0%)	(0 0%)	**0.8%**
Net Income	21,220	4 2%	17,687	3 4%	(9,783)	(1 9%)	1,325	0 3%	3,136	0 6%	(4,954)	(0 9%)	1 3%	**3.0%**
Capital Expenditures[d]	169	0 0%	12,417	2 4%	6,808	1 4%	2,293	0 4%	5,489	1 0%	NA	NA	1 0%	

Notes

Financial statements prepared under Statutory Accounting Principals (SAP)

a Consists of stop loss claims

b Claims adjustment expense includes cost containment expense

c Investment income consists primarily of interest and dividends, and is recorded net of related investment expense

d Capital expenditures includes purchases of real estate, property, equipment and software development costs

e SNL peer analysis as represented by the average 2011 data for the companies shown in Exhibit 11, per SNL Financial LC database

EXHIBIT 4

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL COMMON SIZE BALANCE SHEET, STATUTORY BASIS ($000)

Fiscal Year Ended December 31	Statutory 2007	Percent	Statutory 2008	Percent	Statutory 2009	Percent	Statutory 2010	Percent	Statutory 2011	Percent	Interim 06/30/12	Percent	Average FY 07-11	*SNL 2011*[a]
Cash & Invested Assets:														
Cash Equivalents & Short-Term Investments	22,719	8 6%	11,372	4 7%	7,052	2 9%	19,955	7 3%	11,075	4 0%	7,366	2 6%	5 5%	*3.1%*
Bonds	79,177	29 8%	71,073	29 3%	68,863	28 3%	69,328	25 2%	74,164	26 9%	75,415	26 8%	27 9%	*49.9%*
Equity Interests	92,887	35 0%	73,309	30 2%	86,436	35 6%	98,208	35 7%	102,420	37 1%	106,392	37 8%	34 7%	*19.3%*
Real Estate	8,528	3 2%	11,281	4 6%	10,901	4 5%	10,496	3 8%	10,076	3 7%	9,776	3 5%	4 0%	*1.8%*
Other Long-Term Investments	13,531	5 1%	15,120	6 2%	16,819	6 9%	15,999	5 8%	15,091	5 5%	15,009	5 3%	5 9%	*1.5%*
Total Cash & Invested Assets:	216,842	81 6%	182,154	75 1%	190,072	78 2%	213,987	77 9%	212,826	77 1%	213,959	75 9%	78 0%	*75.5%*
Receivables														
Premiums Due and Unpaid	14,141	5 3%	21,121	8 7%	14,518	6 0%	17,532	6 4%	17,092	6 2%	17,352	6 2%	6 5%	*8.5%*
Health Care and Other Receivables	7,500	2 8%	8,726	3 6%	8,014	3 3%	7,850	2 9%	9,277	3 4%	12,356	4 4%	3 2%	
Investment Income Due & Accrued	1,262	0 5%	1,021	0 4%	941	0 4%	914	0 3%	898	0 3%	895	0 3%	0 4%	
Amounts Due from Subsidiaries & Affiliates	323	0 1%	268	0 1%	281	0 1%	315	0 1%	381	0 1%	371	0 1%	0 1%	*2.0%*
Amounts Recoverable from Reinsurers	534	0 2%	1,817	0 7%	332	0 1%	124	0 0%	869	0 3%	0	0 0%	0 3%	*0.2%*
Amounts Relating to Uninsured Plans	8,355	3 1%	10,419	4 3%	10,671	4 4%	10,330	3 8%	12,792	4 6%	12,458	4 4%	4 0%	
Total Receivables	32,114	12 1%	43,372	17 9%	34,759	14 3%	37,066	13 5%	41,309	15 0%	43,432	15 4%	14 5%	
Other Assets:														
Federal Income Tax Recoverable	5,042	1 9%	2,643	1 1%	3,676	1 5%	5,861	2 1%	3,380	1 2%	5,584	2 0%	1 6%	
Net Deferred Tax Asset	0	0 0%	1,950	0 8%	1,165	0 5%	3,762	1 4%	2,989	1 1%	2,989	1 1%	0 7%	
Electronic Data Processing Equip & Software	502	0 2%	386	0 2%	241	0 1%	203	0 1%	788	0 3%	625	0 2%	0 2%	
Cash Surrender Value of Life Insurance	11,167	4 2%	12,118	5 0%	13,022	5 4%	13,835	5 0%	14,681	5 3%	15,221	5 4%	5 0%	
Total Investments & Other Assets	16,711	6 3%	17,096	7 0%	18,105	7 5%	23,661	8 6%	21,838	7 9%	24,419	8 7%	7 5%	
Total Assets	265,667	100 0%	242,623	100 0%	242,936	100 0%	274,713	100 0%	275,974	100 0%	281,810	100 0%	100 0%	*100.0%*
Aggregate Reserves for Policy Contracts:														
Claims Unpaid	50,689	19 1%	53,403	22 0%	49,549	20 4%	55,453	20 2%	59,983	21 7%	66,535	23 6%	20 7%	*18.5%*
Aggregate Health Policy Reserves	5,178	1 9%	3,502	1 4%	2,978	1 2%	4,008	1 5%	1,917	0 7%	1,375	0 5%	1 4%	*10.5%*
Unpaid Claims Adjustment Expenses	1,646	0 6%	1,686	0 7%	1,531	0 6%	1,729	0 6%	1,729	0 6%	1,729	0 6%	0 6%	*1.5%*
Risk Sharing Payments Accrued	24	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 0%	
Total Reserves for Policy Contracts	57,536	21 7%	58,591	24 1%	54,058	22 3%	61,190	22 3%	63,628	23 1%	69,639	24 7%	22 7%	
Other Liabilities:														
Premiums Received in Advance	11,780	4 4%	8,457	3 5%	11,010	4 5%	12,415	4 5%	14,247	5 2%	17,069	6 1%	4 4%	
Accrued General Expense	43,549	16 4%	52,537	21 7%	47,997	19 8%	52,278	19 0%	56,147	20 3%	74,208	26 3%	19 4%	*2.4%*
Remittances & Items Not Allocated	5,244	2 0%	3,686	1 5%	3,210	1 3%	4,607	1 7%	3,902	1 4%	3,466	1 2%	1 6%	
Liability for Amounts Held Under Uninsured Plans	0	0 0%	0	0 0%	0	0 0%	0	0 0%	1,105	0 4%	0	0 0%	0 1%	
Ceded Reinsurance Premiums Payable	0	0 0%	0	0 0%	0	0 0%	365	0 1%	764	0 3%	511	0 2%	0 1%	*0.0%*
Amounts Due to Subsidiaries & Affiliates	842	0 3%	317	0 1%	355	0 1%	561	0 2%	536	0 2%	663	0 2%	0 2%	*1.7%*
Other Liabilities	1,729	0 7%	1,025	0 4%	3,750	1 5%	4,870	1 8%	4,870	1 8%	4,870	1 7%	1 2%	
Total Other Liabilities	63,144	23 8%	66,022	27 2%	66,322	27 3%	75,096	27 3%	81,570	29 6%	100,787	35 8%	27 0%	
Total Liabilities	120,680	45 4%	124,613	51 4%	120,380	49 6%	136,286	49 6%	145,198	52 6%	170,425	60 5%	49 7%	*45.7%*
Statutory Surplus:	144,987	54 6%	118,010	48 6%	122,556	50 4%	138,428	50 4%	130,776	47 4%	111,385	39 5%	50 3%	*54.3%*
Total Liabilities & Surplus	265,667	100 0%	242,623	100 0%	242,936	100 0%	274,713	100 0%	275,974	100 0%	281,810	100 0%	100 0%	*100.0%*

Notes

Financials presented under Statutory Accounting Principals (SAP), excluding non-admitted assets

a SNL peer analysis as represented by the average 2011 data for the companies shown in Exhibit 11, per SNL Financial LC database

EXHIBIT 5

BLUE CROSS BLUE SHIELD OF MONTANA, INC

NON-CORE ASSETS, GAAP BASIS ($000)

	Net Book Value 06/30/12	Fair Market Value 06/30/12
Great Falls - Land, Building & Improvements	425	2,000
Common Stock - TriWest	1,132	22,117
Investment in Subsidiaries - WPMI	1,189	196
Investment in Subsidiaries - Other CBMI	2,875	2,875
Investment in Subsidiaries - WSIA	40,153	51,092
Investment in Subsidiaries - ICMI (Peak 1)	961	961
Investment in Subsidiaries - ICMI (Other)	350	350
Other Investments - ID Residence	358	267
Other Investments - WA Residence	261	197
TOTAL	**47,703**	**80,055**

Notes:

a. Non-core assets are those which could be liquidated without impairing the central operating business of the Company, and are added to the value of its core business in the Income and Market Approaches.

b. See Exhibit 22, Page 1 Of 2 for further discussion of the non-core assets and their FMV estimates.

EXHIBIT 6

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL WORKING CAPITAL ANALYSIS ($000)

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12	Average FY 07-11	Wtd Avg FY 07-11	Selected % Sales[d]
Working Capital (WC)	(40,929)	(35,377)	(47,492)	(44,997)	(47,076)	(46,240)	NA	NA	NA
Add Current Interest-Bearing Debt	0	0	0	0	0	0	NA	NA	NA
Less Assets Reclassified as Non-Current[a]	(100)	(28)	(14)	0	0	(8,681)	NA	NA	NA
Add Liabilities Reclassified as Non-Current[b]	3,321	1,726	7,749	7,718	8,388	15,968	NA	NA	NA
Adjusted Required Annual Working Capital (AWC)	($37,708)	($33,679)	($39,757)	($37,279)	($38,688)	($38,953)	NA	NA	NA
Working Capital Ratios:[c]									
Sales/Working Capital	(15 8)	(19 4)	(14 8)	(16 7)	(17 3)	(18 8)	(16.8)	(16 8)	NA
Working Capital/Sales	(6 3%)	(5 1%)	(6 7%)	(6 0%)	(5 8%)	(5 3%)	(6 0%)	(6.0%)	NA
Sales/Adjusted WC	(17 1)	(20 4)	(17 7)	(20 1)	(21 1)	(22 3)	(19 3)	(19.8)	(21 1)
Adjusted WC/Sales	(5 8%)	(4.9%)	(5 6%)	(5 0%)	(4 7%)	(4 5%)	(5 2%)	(5.1%)	(4 7%)
Account Analysis:[c]									
% Cash & Equivalents/Sales	4 3%	2 3%	1 6%	2.7%	1 8%	0.8%	2.5%	2 2%	1 8%
% Health Care & Other Receivables/Sales	5 0%	6 2%	5 0%	5 1%	5 2%	5 2%	5 3%	5 2%	5.2%
% Due from Subsidiaries/Sales	0 5%	0 4%	0 3%	0 4%	0.4%	0 4%	0 4%	0.4%	0.4%
% Income Tax Rec, Deferred Taxes/Sales	0 4%	0 2%	0 3%	0 5%	0 8%	1 0%	0.4%	0 5%	0 8%
% Prepaid Expenses/Sales	0 4%	0 8%	0 6%	0 6%	0 5%	0 4%	0.6%	0 6%	0 5%
% Other Current Assets/Sales	0.3%	0 4%	0 4%	0.3%	0.4%	(0.9%)	0 4%	0 4%	0 4%
% Unpaid Claims/Sales	8 1%	8 0%	7 2%	7 6%	7 6%	6 7%	7 7%	7.6%	7 6%
% Rate Stabilization, Case & Claim Reserves	0.8%	0 5%	0 3%	0 5%	0 2%	0 2%	0 5%	0 4%	0.2%
% Accounts Payable/Sales	1 8%	1 7%	1 4%	1 2%	1 1%	0.4%	1 4%	1 3%	1 1%
% Premiums Received in Advance/Sales	2 5%	1 6%	1 8%	2 4%	2 0%	2 2%	2 1%	2 0%	2 0%
% Health Care & Other Claims/Sales	0 7%	1 1%	1 0%	0 8%	1 2%	1 9%	1 0%	1 0%	1 2%
% Accrued General Expenses/Sales	1 4%	0 8%	0 9%	1 1%	0 9%	0 2%	1 0%	1 0%	0 9%
% Other Current Liabilities/Sales	1 5%	1 3%	1 3%	1.0%	0 7%	0 0%	1 2%	1 0%	0.7%
% Adjusted Working Capital	(5 8%)	(4.9%)	(5 6%)	(5 0%)	(4 7%)	(4 5%)	(5 2%)	(5 1%)	(4 7%)

Notes:

NA indicates not available or not applicable

a Deferred tax asset and notes receivable reclassified as non-current assets

b Legal settlements reserve, non-current federal income taxes payable and impairment reserve for bonds and SIVs reclassified as non-current Also excludes the $7 7m claim and case reserves account which is recorded to offset seasonal differences but does not represent a true liability

c Annualized where applicable

d Based on 2011 historical working capital levels.

EXHIBIT 7

BLUE CROSS BLUE SHIELD OF MONTANA, INC

EARNINGS ANALYSIS AND ADJUSTMENTS ($000)

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12
Revenue	645,806	687,710	704,558	750,185	814,876	867,242
Claims Incurred	554,492	608,080	640,085	682,899	744,091	799,250
Operating Expense Adjustments						
Operating Expenses	83,631	78,479	79,098	71,928	71,367	74,918
Less: Depreciation Expense[a]	(3,198)	(3,733)	(4,487)	(5,140)	(3,230)	(5,191)
Less: Non-Recurring Items[b]	315	1,852	0	6,276	0	0
Adjusted Operating Expenses	80,748	76,597	74,611	73,065	68,137	69,727
Other Income (Expense) Adjustments						
Other Income (Expense)	17,146	6,004	7,183	10,209	8,160	5,847
Less: Income (Expense) from Non-Core Assets[c]	(9,515)	(3,314)	(4,106)	(4,850)	(3,806)	(3,409)
Adjusted Other Income (Expense)	7,631	2,690	3,077	5,360	4,354	2,438
Depreciation Expense Summary						
Depreciation in Cost of Sales	0	0	0	0	0	0
Depreciation in Operating Exp.	3,198	3,733	4,487	5,140	3,230	5,191
Total Depreciation Expense	3,198	3,733	4,487	5,140	3,230	5,191

Notes:

Figures are as reported in financial statements unless noted.

NA indicates not available or not applicable.

a. Reclassified

b. Expense reimbursements from discontinued Medicare administrative contracts are deemed non-recurring.

c. Non-core asset operating income and expenses are removed, as the non-core assets are added back to the income approach value, per Exhibit 15, the bulk of which is shown in the line item 'investment income - subsidiaries.' See Exhibit 5 for a list of the non-core assets.

EXHIBIT 8

BLUE CROSS BLUE SHIELD OF MONTANA, INC

ADJUSTED INCOME STATEMENT AND CASH FLOW, GAAP BASIS ($000)

Fiscal Year Ended December 31	2007	%	2008	%	2009	%	2010	%	2011	%	LTM 06/30/12	%	Average FY 07-11	Wtd Avg FY 07-11
Sales[a]	645,806	100 0%	687,710	100 0%	704,558	100.0%	750,185	100 0%	814,876	100 0%	867,242	100.0%	100 0%	100 0%
Cost of Sales[a]	554,492	85 9%	608,080	88 4%	640,085	90 8%	682,899	91 0%	744,091	91.3%	799,250	92 2%	89 5%	90 4%
Gross Profit	91,314	14 1%	79,630	11 6%	64,473	9 2%	67,286	9 0%	70,785	8 7%	67,993	7 8%	10 5%	9.6%
Operating Expenses														
Operating Expenses[a]	80,748	12 5%	76,597	11 1%	74,611	10 6%	73,065	9 7%	68,137	8 4%	69,727	8 0%	10 5%	9 8%
Depreciation Expense[a]	3,198	0 5%	3,733	0.5%	4,487	0.6%	5,140	0 7%	3,230	0.4%	5,191	0 6%	0 6%	0.5%
Operating Income	7,369	1 1%	(701)	(0 1%)	(14,625)	(2 1%)	(10,919)	(1.5%)	(582)	(0 1%)	(6,925)	(0 8%)	(0 5%)	(0 8%)
Other Income (Expense)														
Other Income (Expense)[a]	7,631	1 2%	2,690	0 4%	3,077	0 4%	5,360	0 7%	4,354	0 5%	2,438	0 3%	0.7%	0 6%
Amortization Expense[a]	0	0 0%	0	0.0%	0	0 0%	0	0 0%	0	0 0%	0	0.0%	0 0%	0 0%
Earnings Before Interest & Taxes (EBIT)	14,999	2 3%	1,990	0 3%	(11,548)	(1 6%)	(5,559)	(0.7%)	3,772	0 5%	(4,487)	(0 5%)	0.1%	(0 2%)
Interest Expense[a]	0	0.0%	0	0 0%	0	0 0%	0	0 0%	0	0.0%	0	0 0%	0 0%	0 0%
Pretax Income	14,999	2.3%	1,990	0 3%	(11,548)	(1 6%)	(5,559)	(0 7%)	3,772	0 5%	(4,487)	(0 5%)	0 1%	(0 2%)
Income Tax (*Effective Rate*)[b]	5,808	*38 7%*	765	*38.5%*	0	*0.0%*	0	*0.0%*	1,451	*38.5%*	0	*0.0%*	*23 1%*	*20 5%*
Net Income	9,191	1 4%	1,224	0 2%	(11,548)	(1 6%)	(5,559)	(0.7%)	2,321	0 3%	(4,487)	(0.5%)	(0.1%)	(0 3%)
Add Depreciation & Amortization	3,198	0 5%	3,733	0 5%	4,487	0 6%	5,140	0.7%	3,230	0 4%	5,191	0 6%	0.6%	0.5%
Gross Cash Flow	12,389	1 9%	4,958	0 7%	(7,061)	(1 0%)	(419)	(0 1%)	5,551	0 7%	704	0 1%	0 5%	0.2%
Debt-Free Data:														
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	18,197	2 8%	5,723	0 8%	(7,061)	(1 0%)	(419)	(0 1%)	7,002	0 9%	704	0 1%	0.7%	0.4%
Less Depreciation & Amortization	3,198	0 5%	3,733	0 5%	4,487	0.6%	5,140	0.7%	3,230	0 4%	5,191	0 6%	0 6%	0 5%
Earnings Before Interest & Taxes (EBIT)	14,999	2.3%	1,990	0 3%	(11,548)	(1 6%)	(5,559)	(0 7%)	3,772	0 5%	(4,487)	(0 5%)	0 1%	(0 2%)
Income Taxes on EBIT (*Effective Rate*)[b]	5,808	*38.7%*	765	*38 5%*	0	*0.0%*	0	*0.0%*	1,451	*38.5%*	0	*0.0%*	*23.1%*	*20.5%*
Net Income (Debt Free)	9,191	1 4%	1,224	0 2%	(11,548)	(1 6%)	(5,559)	(0 7%)	2,321	0 3%	(4,487)	(0 5%)	(0 1%)	(0.3%)
Depreciation & Amortization	3,198	0 5%	3,733	0 5%	4,487	0 6%	5,140	0.7%	3,230	0 4%	5,191	0.6%	0.6%	0 5%
Cash Flow (Debt Free)	12,389	1 9%	4,958	0 7%	(7,061)	(1 0%)	(419)	(0.1%)	5,551	0 7%	704	0 1%	0 5%	0 2%
Capital Expenditures	3,904	0 6%	10,306	1 5%	6,735	1 0%	2,487	0 3%	5,461	0 7%	NA	NA	0 8%	0 7%

Notes:

NA indicates not available or not applicable.

a Adjusted as shown in Exhibit 7

b At state and federal corporate income tax rates, based on a hypothetical buyer's expected tax rate.

EXHIBIT 9

BLUE CROSS BLUE SHIELD OF MONTANA, INC

ADJUSTED HISTORICAL FINANCIAL RATIOS - GAAP BASIS

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12	Average FY 07-11	*RMA* 11/12*	*Public Co.* Average	*Public Co.* Median
Growth Rates:										
Sales Growth	NA	6 5%	2 4%	6 5%	8 6%	NA	6 0% [b]	*NA*	*3.9%* [c]	*4.3%* [c]
Pretax Income Growth	NA	(86 7%)	NMF	NMF	NMF	NA	(29 2%) [b]	*NA*	*NA*	*NA*
Total Asset Growth	NA	(6 8%)	0 0%	7 3%	5 3%	NA	1 3% [b]	*NA*	*3.9%* [c]	*2.6%* [c]
Profitability (% of Sales):										
Gross Profit	14 1%	11 6%	9 2%	9 0%	8 7%	7 8%	10 5%	*NA*	*29.6%*	*27.2%*
Operating Profit	1 1%	(0 1%)	(2 1%)	(1 5%)	(0 1%)	(0 8%)	(0 5%)	*3.3%*	*10.1%*	*8.3%*
Pretax Profit	2 3%	0 3%	(1 6%)	(0 7%)	0 5%	(0 5%)	0 1%	*3.2%*	*9.2%*	*7.7%*
Dupont Analysis - Adjust to operating company assets only										
Sales to Assets	2 8	3 2	3 3	3 2	3 3	3 3	3 2	*3.4*	*0.6*	*0.3*
Times EBIT Margin[a]	2 3%	0 3%	(1 6%)	(0 7%)	0 5%	(0 5%)	0 1%	*1.8%*	*10.1%*	*8.3%*
Equals Debt-Free Return on Assets[a]	6 5%	0 9%	(5 4%)	(2 4%)	1 5%	(1 7%)	0 2%	*6.1%*	*4.8%*	*3.5%*
Times Pretax to EBIT[a]	1 00	1 00	NMF	NMF	1 00	NMF	1 00	*0.85*	*0.87*	*0.90*
Equals Pretax Return on Assets	6 5%	0 9%	NMF	NMF	1 5%	NMF	3 0%	*5.2%*	*4.7%*	*4.0%*
Times Assets to Equity[a]	2 73	3 02	2 91	2 89	3 01	3 26	2 91	*2.25*	*4.73*	*4.31*
Equals Pretax Return on Equity	17 7%	2 8%	NMF	NMF	4 6%	NMF	8 4%	*11.7%*	*17.2%*	*16.5%*
Other Asset Utilization Ratios:										
Sales to Net Fixed Assets	36 2	28 2	26 4	35 6	35 3	39 0	32 3	*70.3*	*39.1*	*41.3*
Sales to Working Capital	(15 8)	(19 4)	(14 8)	(16 7)	(17 3)	(18 8)	(16 8)	*17.1*	*6.6*	*6.8*
Sales to Adjusted Working Capital	(17 1)	(20 4)	(17 7)	(20 1)	(21 1)	(22 3)	(19 3)	*12.2*	*11.9*	*(13.0)*
Accounts Receivable Turnover	20 1	16 2	20 2	19 5	19 4	19 2	19 1	*22.5*	*17.6*	*14.6*
Liquidity:										
Current Ratio	0 6	0 7	0 5	0 6	0 6	0 6	0 6	*1.4*	*2.4*	*1.3*
Quick Ratio	0 2	0 1	0 1	0 2	0 1	0 1	0 2	*1.3*	*1.2*	*0.6*
Solvency:										
Net Worth	47 4%	45 3%	46 4%	45 8%	44 0%	41 4%	45 8%	*39.1%*	*28.0%*	*22.7%*
Long-Term Debt to Total Capital	7 1%	0 0%	0 0%	0 0%	0 0%	0 0%	1 4%	*25.1%* [a]	*24.4%*	*25.1%*

Notes

Ratios are annualized where applicable, and based on GAAP reporting

NA indicates not available or not applicable

NMF indicates not meaningful, EBIT equals earnings before interest and taxes

* NAICS 524114 - Direct Health and Medical Insurance Carriers and sales of >$25M

a. Estimated RMA ratios

b Compound annual growth rates

c Five-year compound annual growth rate

EXHIBIT 10

BLUE CROSS BLUE SHIELD OF MONTANA, INC

HISTORICAL FINANCIAL RATIOS - STATUTORY BASIS ($000's)

	BCBS of Montana, Inc.[a]	SNL Peer Group - Average[b]
Selected Financial Data:		
Total Health Enrollment (Members)	204,647	185,407
Total Assets	$ 275,974	$ 293,708
Total Liabilities	$ 145,198	$ 134,260
Capital & Surplus	$ 130,776	$ 159,448
Net Premiums Earned	$ 562,275	$ 556,927
Net Claims & Claims Adjustment Expense	$ 520,275	$ 504,035
G&A Expenses	$ 47,387	$ 42,970
Net Underwriting Gains	$ (5,388)	$ 10,696
Net Investment Income	$ 9,031	$ 10,591
Net Realized Capital Gain / (Loss)	$ (449)	$ 665
Pre-Tax Operating Income	$ 4,140	$ 20,794
Net Income	$ 3,137	$ 16,740
Profitability Measures:		
Claims / Premiums Earned	92.5%	90.5%
G&A Expenses / Premiums Earned	8.4%	7.7%
Investment Income / Premiums Earned	1.6%	1.9%
Pre-Tax Operating Income / Premiums Earned	0.7%	3.7%
Net Income / Premiums Earned	0.6%	3.0%
Net Yield on Invested Assets	4.2%	3.9%
Efficiency:		
Return on Average Assets	1.1%	5.8%
Return on Average Equity	2.2%	10.7%
Combined Ratio:	101.0%	97.3%
Growth Rates:		
Direct Premiums Written Growth	7.3%	6.6%
Net Premiums Written Growth	7.0%	6.7%
Pre-Tax Operating Income Growth	585.1%	17.6%
Cash & Invested Assets Five-year CAGR	2.4%	10.0%
Capital & Surplus Five-year CAGR	2.2%	7.8%

Notes:

a. Based on the Company's 2011 Statutory results, per SNL Financial LC. The figures reflect the Company's and Peer Group's fully insured line of business.

b. Per SNL Financial LC, as of December 31, 2011. See Exhibit 11 for selected peer group companies.

EXHIBIT 11

BLUE CROSS BLUE SHIELD OF MONTANA, INC

SELECTED PEER GROUP, STATUTORY REPORTING BASIS

Company Name	Business Focus	Geographic Focus	State	Year Established
Allegiance L&H Insurance Co.	Comprehensive Health	West	MT	2006
Blue Cross & Blue Shield of NE	Comprehensive Health	Midwest	NE	1939
Blue Cross Blue Shield of WI	Comprehensive Health	Midwest	WI	1939
Blue Cross Blue Shield of WY	Comprehensive Health	West	WY	1976
Coventry Health Care of IA Inc	Comprehensive Health	Midwest	IA	1986
Coventry Health Care of NE Inc	Comprehensive Health	Midwest	NE	1987
HCSC Insurance Services Co.	Health - Other Focus	Midwest	IL	1958
New West Health Services	Comprehensive Health	West	MT	1998
PacificSource Health Plans	Comprehensive Health	West	OR	1939
Regence BCBS of OR	Comprehensive Health	West	OR	1942
Regence BlueShield of ID Inc.	Comprehensive Health	West	ID	1946
Wellmark Health Plan of IA Inc	Comprehensive Health	Midwest	IA	1997
Wellmark of South Dakota Inc.	Comprehensive Health	Midwest	SD	1996

Notes:

a. Per SNL Financial LC, as of December 31, 2011.

b. The companies included in the Peer Group analysis were selected based on their Business Focus and Geographic Region. The companies may differ from BCBSMT in certain ways but are considered reasonably similar, and representative of the health services and insurance industry.

EXHIBIT 12

BLUE CROSS BLUE SHIELD OF MONTANA, INC

INCOME APPROACH - DISCOUNTED CASH FLOW ANALYSIS - ($000)

Forecast Year Ending December 31	Adjusted[a] 2011	LTM 06/30/12	Projected* 2012	Projected* 2013	Projected* 2014	Projected* 2015	Projected 2016	Residual
Sales	814,876	867,242	941,243	880,071	949,482	1,036,251	1,088,064	1,120,706
Cost of Sales - Excluding Dep	744,091	799,250	865,968	792,880	856,015	927,015	973,366	1,002,567
Gross Profit	70,785	67,993	75,275	87,191	93,467	109,236	114,698	118,139
Operating Expenses:								
Operating Exp - Excluding Dep	68,137	69,727	73,311	78,420	87,323	94,023	98,724	101,686
Depreciation Expense	3,230	5,191	5,634	5,600	6,421	7,449	8,314	9,102
Operating Income	(582)	(6,925)	(3,670)	3,171	(277)	7,764	7,660	7,351
Other Income (Expense):								
Other Income (Exp) - Excluding Interest & Amortization Exp[b]	4,354	2,438	4,941	5,065	5,165	5,665	5,949	6,127
Amortization Expense	0	0	0	0	0	0	0	0
Earnings Before Interest & Taxes	3,772	(4,487)	1,271	8,236	4,888	13,429	13,609	13,478
Income Taxes on EBIT[c]	1,451	0	489	3,167	1,880	5,189	5,260	5,209
Net Income (Debt Free)	2,321	(4,487)	782	5,069	3,008	8,240	8,349	8,269
Depreciation & Amortization	3,230	5,191	5,634	5,600	6,421	7,449	8,314	9,102
Cash Flow (Debt Free)	5,551	704	6,416	10,669	9,429	15,689	16,663	17,371
Adj Working Capital Changes[d]	NA	NA	6,000	(2,904)	3,295	4,120	2,460	1,550
Capital Expenditures[e]	NA	NA	(7,644)	(7,148)	(7,711)	(8,416)	(8,837)	(9,102)
Free Cash Flow (Debt Free)	NA	NA	4,771	617	5,013	11,393	10,286	9,819
OPERATIONS (Debt-Free Basis)								
Sales Growth	8 6%	NA	15 5%	-6 5%	7 9%	9 1%	5 0%	3 0%
Cost of Sales/Sales	91.3%	92.2%	92 0%	90 1%	90 2%	89 5%	89.5%	89 5%
Gross Margin	8 7%	7.8%	8.0%	9.9%	9 8%	10 5%	10 5%	10 5%
Operating Expense/Sales	8 4%	8 0%	7 8%	8 9%	9 2%	9 1%	9 1%	9 1%
Other Income and Expense/Sales	0 5%	0 3%	0.5%	0 6%	0 5%	0 5%	0 5%	0 5%
EBITDA Margin	0 9%	0 1%	0.7%	1 6%	1 2%	2 0%	2 0%	2 0%
Depreciation/Sales	0.4%	0.6%	0 6%	0 6%	0 7%	0 7%	0 8%	0 8%
EBIT Margin	0 5%	-0.5%	0 1%	0 9%	0 5%	1.3%	1 3%	1.2%
WORKING CAPITAL/SALES								
Working Capital[d]	-4 7%	-4 5%	-4 7%	-4.7%	-4 7%	-4 7%	-4.7%	-4 7%
Working Capital - $ Value	(38,688)	(38,953)	(44,687)	(41,783)	(45,079)	(49,198)	(51,658)	(53,208)
PROPERTY, PLANT & EQUIP								
Total Capital Expenditures/Sales[e]	0 7%	NA	0 8%	0 8%	0.8%	0 8%	0.8%	0 8%
TAXES								
EBIT Tax Rate	38.5%	NA	38 5%	38 5%	38.5%	38 6%	38 7%	38 6%

Notes

NA indicates not available or not applicable

* Based on management's projections through 2015

a Adjusted per Exhibit 8

b Projected other income excludes non-core asset related income. See Exhibit 5

c At state and federal corporate income tax rates, based on a hypothetical buyer's expected tax rate

d Required working capital level per Exhibit 6

e Projected recurring capital expenditures, excluding additional non-recurring upgrades per Exhibit 13

EXHIBIT 13

BLUE CROSS BLUE SHIELD OF MONTANA, INC

INCOME APPROACH - ADDITIONAL REQUIRED CAPITAL EXPENDITURES & RELATED DEPRECIATION - ($000)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Additional Capital Expenditures[a]	4,000	4,000	4,000	4,000	4,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0
Beginning BV of Asset	8,000	12,000	17,400	22,200	26,400	26,000	25,000	23,800	22,400	20,800	19,000	17,000	15,400	14,200	13,400	13,000	13,000	13,000	13,000	13,000	11,000	9,000	7,200	5,600	4,200	3,000	2,000	1,200	600	200
Depreciation[b]		600	600	600	600	600	600	600	600	600	600																			
			600	600	600	600	600	600	600	600	600	600																		
				600	600	600	600	600	600	600	600	600	600																	
					600	600	600	600	600	600	600	600	600	600																
						600	600	600	600	600	600	600	600	600	600															
							200	200	200	200	200	200	200	200	200	200														
								200	200	200	200	200	200	200	200	200	200													
									200	200	200	200	200	200	200	200	200	200												
										200	200	200	200	200	200	200	200	200	200											
											200	200	200	200	200	200	200	200	200	200										
												200	200	200	200	200	200	200	200	200	200									
													200	200	200	200	200	200	200	200	200	200								
														200	200	200	200	200	200	200	200	200	200							
															200	200	200	200	200	200	200	200	200	200						
																200	200	200	200	200	200	200	200	200	200					
																	200	200	200	200	200	200	200	200	200	200				
																		200	200	200	200	200	200	200	200	200	200			
																			200	200	200	200	200	200	200	200	200	200		
																				200	200	200	200	200	200	200	200	200	200	
																					200	200	200	200	200	200	200	200	200	200
Total Annual Depreciation	0	600	1,200	1,800	2,400	3,000	3,200	3,400	3,600	3,800	4,000	3,600	3,200	2,800	2,400	2,000	2,000	2,000	2,000	2,000	1,800	1,600	1,400	1,200	1,000	800	600	400	200	200
Ending BV of Assets	8,000	11,400	16,200	20,400	24,000	23,000	21,800	20,400	18,800	17,000	15,000	13,400	12,200	11,400	11,000	11,000	11,000	11,000	11,000	11,000	9,200	7,200	5,600	4,200	3,000	2,000	1,200	600	200	0
Tax Savings from Depreciation[c]	0	132	463	695	924	1,158	1,235	1,312	1,390	1,467	1,544	1,390	1,235	1,081	926	772	772	772	772	772	771	695	618	540	463	386	309	232	154	77
Net Cash Flow Effect[d]	(4,000)	(3,768)	(3,537)	(3,305)	(3,074)	(842)	(765)	(688)	(610)	(533)	(456)	(610)	(765)	(919)	(1,074)	(1,228)	(1,228)	(1,228)	(1,228)	(1,228)	772	695	618	540	463	386	309	232	154	77
Number of Periods Deferred	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0
Present Value Factor	0.97	0.75	0.66	0.57	0.50	0.43	0.37	0.32	0.28	0.25	0.21	0.18	0.16	0.14	0.12	0.11	0.09	0.08	0.07	0.06	0.05	0.05	0.04	0.03	0.03	0.03	0.02	0.02	0.02	0.01
Present Value of Cash Flows	(3,213)	(4,334)	(3,611)	(3,025)	(2,512)	(362)	(286)	(223)	(172)	(133)	(97)	(113)	(123)	(128)	(130)	(129)	(112)	(98)	(85)	(74)	40	31	24	18	14	10	7	5	3	1
Total	(28,842)																													

Notes:

a. The Company projects significant capital expenditures over the next 20 years in addition to the recurring capital expenditures shown in Exhibit 12 largely related to QNXT and other software upgrades

b. Depreciation based on an assumed 10 year tax life

c. Tax savings equals depreciation expense multiplied by a hypothetical buyer's expected corporate tax rate

d. Net cash flow effect equals capital expenditures less tax savings from related future depreciation of the asset

EXHIBIT 14

BLUE CROSS BLUE SHIELD OF MONTANA, INC

DISCOUNT RATE AND CAPITALIZATION RATE ANALYSIS

Weighted Average Cost of Capital (WACC) — **Notes**

$$WACC = (D/V \times K_d \times (1 - T)) + (E/V \times K_e)$$
$$WACC = (25.1\% \times 5.1\% \times 61.4\%) + (74.9\% \times 19.1\%) = 15.1\%$$

where:

WACC = weighted average cost of capital		
D/V = ratio of interest bearing debt capital to total invested capital	25.1%	a
E/V = ratio of equity capital to total invested capital (= 1 - D/V)	74.9%	a
K_d = cost of interest bearing debt capital	5.1%	b
K_e = levered cost of equity capital (see CAPM equation)	19.1%	
T = marginal tax rate	38.6%	c

Capital Asset Pricing Model (CAPM)

$$K_e = R_f + (B_l \times R_e) + R_s + R_c$$
$$K_e = 2.4\% + (1.15 \times 5.0\%) + 6.0\% + 5.0\% = 19.1\%$$

and

$$B_l = B_u \times (1.00 + (1 - T) \times D/E))$$
$$B_l = 0.95 \times (1.00 + (61.4\% \times 33.5\%)) = 1.15$$

where:

K_e = levered cost of equity capital		
B_l = levered "beta"		
R_f = risk free rate	2.4%	d
B_u = unlevered "beta"	0.95	e
R_e = equity risk premium	5.0%	f
R_s = small stock risk premium (Size Premium)	6.0%	g
R_c = subject company risk premium	5.0%	h
D/E = ratio of interest bearing debt capital to equity capital	33.5%	a

Capitalization Rate

$$C = (WACC - G)$$
$$C = (15.1\% - 3.0\%) = 12.1\%$$

where:

C = capitalization rate		
WACC = weighted average cost of capital	15.1% See above	
G = growth rate into perpetuity	3.0%	i

Notes:

a Industry capital structure based on the median debt to MVIC level of the publicly traded guideline companies, per Exhibit 16. This reflects the industry average capital structure, not the Company's historical capital structure, as a potential investor in the Company may alter its historical capital structure going forward

b Based on Moody's Baa rate, as of the date of valuation

c. At state and federal corporate income tax rates, based on a hypothetical buyer's expected tax rate

d U.S. Treasury Constant Maturities (20-year) as of the date of value

e. Based on the median unlevered beta from the publicly traded guideline companies, per Exhibit 16

f This represents the premium demanded by investors in equity securities over and above the risk free rate

g This represents the premium for size demanded by investors in small capitalization stocks over and above the premium demanded by equity investors, as determined by the Duff & Phelps 2011 regression

h. Estimated additional risk premium that would be demanded by investors in the subject Company

i. Estimated growth rate of free cash flows into perpetuity for the subject Company

EXHIBIT 15

BLUE CROSS BLUE SHIELD OF MONTANA, INC

INCOME APPROACH - DISCOUNTED CASH FLOW ANALYSIS - ($000)

Forecast Year Ending December 31	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Residual
Free Cash Flow (Debt Free)	4,771	617	5,013	11,393	10,286	9,819
Less Six Months Earned	(2,386)					
	2,386					
Residual Capitalization Rate						12 1%
Future Value of Free Cash Flows	2,386	617	5,013	11,393	10,286	81,148
Number of Periods Deferred	0 25	1 00	2 0	3 0	4 0	4 0
Present Value Factor	0 97	0 87	0 75	0 66	0 57	0 57
Present Value of Free Cash Flows	2,303	536	3,784	7,471	5,861	46,238

Present Value of FY 2012-2016 Free Cash Flows	19,955
Present Value of Residual	46,238
Less. PV of Additional Capital Expenditures[a]	(20,842)
Indicated Total Enterprise Value	45,351
Less. Interest Bearing Debt	0
Indicated Equity Value	45,351
Add FMV of Non-Core Assets[b]	80,055
Concluded Surplus Value - Income Approach	**125,406**

Notes.

a Present value of additional non-recurring capital expenditures and related tax savings from depreciation. See Exhibit 13

b Per Exhibit 5

EXHIBIT 16

BLUE CROSS BLUE SHIELD OF MONTANA, INC

COMPARABLE PUBLIC COMPANY ANALYSIS, GAAP BASIS - ($MM)

Date of Value 6/30/2012

Trading Data:

Ticker	Name	Exchange	Last Sale Price	% of 52 Week High	% of 52 Week Low	5 Yr Vol	1 Yr Vol	3 Mnth Vol	5 Yr Beta	R-squared	Eff. Tax Rate (LTM)	Beta Adj (Blume)	Unlevered Adj Beta	S&P LT Credit Rating	Credit Rating Date
1 CVH	Coventry Health Care Inc	NYSE	$31 79	84%	123%	61 0%	37 9%	28 3%	1 78	0 54	37%	1 50	1 23	NA	NA
2 WLP	WellPoint Inc	NYSE	$63 79	79%	113%	40 2%	32 0%	23 5%	0 94	0 27	33%	0 97	0 73	NA	NA
3 UNH	UnitedHealth Group Incorporated	NYSE	$58 50	96%	142%	46 2%	29 4%	20 4%	0 90	0 26	35%	0 94	0 83	NA	NA
4 AET	Aetna Inc	NYSE	$38 77	76%	116%	43 8%	34 6%	29 3%	1 21	0 40	36%	1 14	0 95	NA	NA
5 CI	Cigna Corp	NYSE	$44 00	83%	113%	52 9%	29 8%	19 9%	1 38	0 41	34%	1 25	0 98	BBB	3/18/2009
6 AMIC	American Independence Corp	NasdaqGM	$5 00	81%	147%	61 6%	40 1%	70 1%	0 56	0 06	29%	0 73	0 73	NA	NA
7 IHC	Independence Holding Co	NYSE	$9 85	91%	159%	67 9%	47 0%	41 3%	1 49	0 25	33%	1 32	1 11	NA	NA
8 CIA	Citizens Inc	NYSE	$9 75	85%	164%	47 8%	42 6%	48 6%	0 67	0 09	23%	0 79	0 79	NA	NA
9 AFL	AFLAC Inc	NYSE	$42 59	85%	136%	51 4%	41 9%	32 9%	1 82	0 55	34%	1 53	1 35	A-	1/23/2009
10 CNO	CNO Financial Group, Inc	NYSE	$7 80	95%	165%	105 4%	42 6%	38 0%	2 52	0 31	1%	1 97	0 76	NA	NA
11 UNM	Unum Group	NYSE	$19 13	72%	104%	45 2%	29 9%	23 5%	1 64	0 59	6%	1 41	0 94	BBB-	7/17/2008
12 SYA	Symetra Financial Corporation	NYSE	$12 62	92%	167%	NA	39 5%	30 9%	1 21	0 44	28%	1 14	0 96	BBB	11/18/2008
13 TMK	Torchmark Corp	NYSE	$50 55	99%	154%	44 5%	24 3%	18 0%	1 59	0 60	31%	1 38	1 19	A	11/15/2007
	Max					105 4%	47 0%	70 1%	2 52	0 60	37%	1 97	1 35		
	Min					40 2%	24 3%	18 0%	0 56	0 06	1%	0 73	0 73		
	Median					49 6%	37 9%	29 3%	1 38	0 40	33%	1 25	0 95		
	Mean					55 7%	36 3%	32 7%	1 36	0 37	28%	1 24	0 97		
	1st Quartile					45 0%	29 9%	23 5%	0 94	0 26	28%	0 97	0 79		
	3rd Quartile					61 2%	41 9%	38 0%	1 64	0 54	34%	1 41	1 11		

Size Data:

Ticker	Name	FYE	LTM Date	Market Cap	MVIC	Revenue LTM	Revenue CY2012	Book Equity	Total Assets	5 Yr Avg	EBITDA LTM	EBITDA CY2012	Net Income 5 Yr Avg	Net Income LTM	Fulltime Employees
1 CVH	Coventry Health Care Inc	12/31/2011	3/31/2012	$4,541 5	$6,126 3	$12,849 4	$14,153 4	$4,702 7	$9,017 8	$850 1	$949 3	$806 2	$446 4	$603 6	NA
2 WLP	WellPoint Inc	12/31/2011	3/31/2012	$21,103 7	$31,292 9	$61,231 6	$61,402 0	$23,528 4	$52,496 5	$5,245 7	$4,991 0	$4,573 4	$3,223 2	$2,576 6	NA
3 UNH	UnitedHealth Group Incorporated	12/31/2011	3/31/2012	$60,690 7	$73,544 7	$103,712 0	$109,898 3	$28,856 0	$72,690 0	$8,126 0	$9,333 0	$9,619 6	$4,245 8	$5,184 0	NA
4 AET	Aetna Inc	12/31/2011	3/31/2012	$13,468 7	$17,597 0	$34,307 8	$35,541 1	$10,299 0	$39,336 1	$3,180 3	$3,796 4	$3,261 8	$1,648 8	$1,910 7	NA
5 CI	Cigna Corp	12/31/2011	3/31/2012	$12,686 1	$17,915 1	$23,375 0	$28,468 1	$8,561 0	$52,785 0	$1,867 2	$2,407 0	$2,917 4	$1,076 2	$1,285 0	NA
6 AMIC	American Independence Corp	12/31/2011	3/31/2012	$41 4	$41 4	$88 6	NA	$95 0	$140 8	$4 3	$5 5	NA	$1 9	$2 7	NA
7 IHC	Independence Holding Co	12/31/2011	3/31/2012	$177 2	$225 9	$415 8	NA	$280 3	$1,364 4	$2 8	$29 1	NA	$0 3	$13 7	NA
8 CIA	Citizens Inc	12/31/2011	3/31/2012	$487 2	$487 2	$196 9	$201 3	$251 2	$1,106 1	$16 7	$14 9	NA	$8 4	$8 3	NA
9 AFL	AFLAC Inc	12/31/2011	3/31/2012	$19,916 3	$24,076 3	$23,215 0	$25,259 3	$13,643 0	$115,552 0	$2,809 4	$3,791 5	$5,951 0	$1,738 6	$2,360 0	NA
10 CNO	CNO Financial Group, Inc	12/31/2011	3/31/2012	$1,866 1	$4,870 2	$4,199 3	$4,200 2	$4,683 0	$33,046 2	$756 3	$965 2	$749 3	($112 9)	$396 2	NA
11 UNM	Unum Group	12/31/2011	3/31/2012	$5,468 3	$8,424 5	$10,326 2	$10,446 3	$8,179 9	$59,571 8	$1,178 7	$463 0	$1,827 0	$641 3	$225 7	NA
12 SYA	Symetra Financial Corporation	12/31/2011	3/31/2012	$1,742 2	$2,191 4	$2,050 9	$2,059 8	$3,154 7	$28,544 7	$247 6	$358 8	NA	$143 6	$221 5	NA
13 TMK	Torchmark Corp	12/31/2011	3/31/2012	$4,976 9	$6,116 3	$3,446 1	$3,514 7	$3,834 2	$16,734 4	$786 3	$869 5	$851 2	$483 9	$536 4	NA
	Max			$60,690 7	$73,544 7	$103,712 0	$109,898 3	$28,856 0	$115,552 0	$8,126 0	$9,333 0	$9,619 6	$4,245 8	$5,184 0	
	Min			$41 4	$41 4	$88 6	$201 3	$95 0	$140 8	$2 8	$5 5	$749 3	($112 9)	$2 7	
	Median			$4,976 9	$6,126 3	$10,326 2	$14,153 4	$4,702 7	$33,046 2	$850 1	$949 3	$2,917 4	$483 9	$536 4	
	Mean			$11,320 5	$14,839 2	$21,493 4	$26,831 3	$8,466 8	$37,106 6	$1,928 6	$2,151 9	$3,395 2	$1,042 0	$1,178 8	
	1st Quartile			$1,742 2	$2,191 4	$2,050 9	$3,857 4	$3,154 7	$9,017 8	$247 6	$358 8	$851 2	$8 4	$221 5	
	3rd Quartile			$13,468 7	$17,915 1	$23,375 0	$32,004 6	$10,299 0	$52,785 0	$2,809 4	$3,791 5	$4,573 4	$1,648 8	$1,910 7	

Notes

Source Capital IQ, In reported millions, except per share data Financial statement data is per filings as of the date of value

Unlevered Beta = Levered Beta / (1 + ((D/E) * (1 - T)) + Pref/E)

MVIC = Market Capitalization + Total Debt + Total Preferred Equity + Minority Interest

CY = Calendar Year

EXHIBIT 17

BLUE CROSS BLUE SHIELD OF MONTANA, INC

COMPARABLE PUBLIC COMPANY ANALYSIS, GAAP BASIS - ($MM)

Date of Value 6/30/2012

Trading Multiples:

Ticker	Name	Price to Earnings LTM	Price to Earnings CY2012	Price to Earnings CY2013	Market Cap / EBT LTM	Market Cap / Gross CF LTM	Price to BV LTM	Price to Tangible BV LTM	MVIC / Total Revenue LTM	MVIC / Total Revenue CY2012	MVIC / Total Revenue CY2013	MVIC / EBITDA LTM	MVIC / EBITDA CY2012	MVIC / EBITDA CY2013	MVIC / EBIT LTM
1 CVH	Coventry Health Care Inc	9 2x	11 5x	9 7x	5 7x	7 6x	1 0x	2 6x	0 5x	0 4x	0 4x	6 5x	7 6x	7 2x	7 3x
2 WLP	WellPoint Inc	9 3x	8 2x	7 5x	5 4x	6 6x	0 9x	11 8x	0 5x	0 5x	0 5x	6 3x	6 8x	6 6x	7 2x
3 UNH	UnitedHealth Group Incorporated	12 6x	11 7x	10 5x	7 6x	10 0x	2 1x	NM	0 7x	0 7x	0 6x	7 9x	7 6x	7 1x	8 6x
4 AET	Aetna Inc	7 4x	7 7x	6 9x	4 3x	5 9x	1 3x	4 2x	0 5x	0 5x	0 5x	4 6x	5 4x	5 2x	5 3x
5 CI	Cigna Corp	9 9x	8 1x	7 3x	6 4x	8 3x	1 5x	6 2x	0 8x	0 6x	0 6x	7 4x	6 1x	5 7x	8 1x
6 AMIC	American Independence Corp	13 9x	NA	NA	8 5x	12 3x	0 4x	0 6x	0 5x	NA	NA	7 5x	NA	NA	8 5x
7 IHC	Independence Holding Co	12 3x	NA	NA	7 7x	9 8x	0 7x	0 9x	0 5x	NA	NA	7 8x	NA	NA	9 0x
8 CIA	Citizens Inc	72 3x	63 7x	62 9x	45 2x	50 2x	1 9x	2 1x	2 5x	2 4x	2 3x	32 8x	NA	NA	45 2x
9 AFL	AFLAC Inc	8 9x	6 5x	6 2x	5 5x	7 6x	1 5x	1 5x	1 0x	1 0x	0 9x	6 4x	4 0x	3 8x	6 5x
10 CNO	CNO Financial Group, Inc	9 3x	11 5x	9 9x	4 6x	2 2x	0 4x	0 4x	1 2x	1 2x	1 2x	5 0x	6 5x	6 2x	9 4x
11 UNM	Unum Group	38 0x	6 2x	5 6x	22 8x	18 4x	0 7x	0 7x	0 8x	0 8x	0 8x	18 2x	4 6x	4 5x	22 1x
12 SYA	Symetra Financial Corporation	9 1x	8 8x	8 5x	5 7x	7 7x	0 6x	0 6x	1 1x	1 1x	1 0x	6 1x	NA	NA	6 5x
13 TMK	Torchmark Corp	10 9x	9 6x	8 8x	6 3x	9 4x	1 3x	1 5x	1 8x	1 7x	1 7x	7 0x	7 2x	7 1x	7 1x
	Count	13	11	11	13	13	13	12	13	11	NA	13	9	NA	13
	Max	72 3x	63 7x	62 9x	45 2x	50 2x	2 1x	11 8x	2 5x	2 4x	NA	32 8x	7 6x	NA	45 2x
	Min	7 4x	6 2x	5 6x	4 3x	2 2x	0 4x	0 4x	0 5x	0 4x	NA	4 6x	4 0x	NA	5 3x
	Median	9 9x	8 8x	8 5x	6 3x	8 3x	1 0x	1 5x	0 8x	0 8x	NA	7 0x	6 5x	NA	8 1x
	Mean	17 2x	13 9x	13 1x	10 5x	12 0x	1 1x	2 8x	0 9x	1 0x	NA	9 5x	6 2x	NA	11 6x
	1st Quartile	9 2x	7 9x	7 1x	5 5x	7 6x	0 7x	0 7x	0 5x	0 6x	NA	6 3x	5 4x	NA	7 1x
	3rd Quartile	12 6x	11 5x	9 8x	7 7x	10 0x	1 5x	3 0x	1 1x	1 1x	NA	7 8x	7 2x	NA	9 0x

Trading Multiple Adjustments (size, growth, unique risk):

Ticker	Name	Price to Earnings LTM	Price to Earnings CY2012	Price to Earnings CY2013	Market Cap / EBT LTM	Market Cap / Gross CF LTM	Price to BV LTM	Price to Tangible BV LTM	MVIC / Total Revenue LTM	MVIC / Total Revenue CY2012	MVIC / Total Revenue CY2013	MVIC / EBITDA LTM	MVIC / EBITDA CY2012	MVIC / EBITDA CY2013	MVIC / EBIT LTM
1 CVH	Coventry Health Care Inc	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%	-23%
2 WLP	WellPoint Inc	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
3 UNH	UnitedHealth Group Incorporated	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
4 AET	Aetna Inc	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
5 CI	Cigna Corp	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
6 AMIC	American Independence Corp	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	-9%
7 IHC	Independence Holding Co	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
8 CIA	Citizens Inc	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
9 AFL	AFLAC Inc	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
10 CNO	CNO Financial Group, Inc	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
11 UNM	Unum Group	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
12 SYA	Symetra Financial Corporation	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
13 TMK	Torchmark Corp	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%	-11%

EXHIBIT 17

BLUE CROSS BLUE SHIELD OF MONTANA, INC

COMPARABLE PUBLIC COMPANY ANALYSIS, GAAP BASIS - ($MM)

Adjusted Trading Multiples:

		Price to Earnings			Market Cap / EBT	Market Cap / Gross CF	BV	Tangible BV	MVIC / Total Revenue			MVIC / EBITDA			MVIC / EBIT
Ticker	Name	LTM	CY2012	CY2013	LTM	LTM	LTM	LTM	LTM	CY2012	CY2013	LTM	CY2012	CY2013	LTM
1 CVH	Coventry Health Care Inc	11 3x	14 1x	12 0x	7 0x	9 4x	1 2x	3 2x	0 6x	0 5x	0 5x	7 9x	9 3x	8 8x	9 0x
2 WLP	WellPoint Inc	7 5x	6 6x	6 1x	4 4x	5 3x	0 7x	9 6x	0 4x	0 4x	0 4x	5 1x	5 5x	5 4x	5 9x
3 UNH	UnitedHealth Group Incorporated	8 3x	7 7x	6 9x	5 0x	6 6x	1 4x	NA	0 5x	0 4x	0 4x	5 2x	5 0x	4 7x	5 7x
4 AET	Aetna Inc	6 2x	6 4x	5 8x	3 6x	4 9x	1 1x	3 5x	0 4x	0 4x	0 4x	3 8x	4 5x	4 3x	4 4x
5 CI	Cigna Corp	7 8x	6 4x	5 8x	5 1x	6 5x	1 2x	4 9x	0 6x	0 5x	0 5x	5 9x	4 9x	4 5x	6 4x
6 AMIC	American Independence Corp	15 2x	NA	NA	9 3x	13 4x	0 5x	0 6x	0 5x	NA	NA	8 2x	NA	NA	9 3x
7 IHC	Independence Holding Co	10 2x	NA	NA	6 4x	8 1x	0 6x	0 7x	0 5x	NA	NA	6 5x	NA	NA	7 5x
8 CIA	Citizens Inc	61 4x	54 2x	53 5x	38 5x	42 7x	1 6x	1 8x	2 1x	2 1x	2 0x	27 9x	NA	NA	38 4x
9 AFL	AFLAC Inc	5 5x	4 0x	3 8x	3 4x	4 7x	0 9x	0 9x	0 6x	0 6x	0 6x	3 9x	2 5x	2 4x	4 0x
10 CNO	CNO Financial Group, Inc	9 3x	11 5x	9 9x	4 6x	2 2x	0 4x	0 4x	1 2x	1 2x	1 2x	5 0x	6 5x	6 2x	9 4x
11 UNM	Unum Group	29 6x	4 8x	4 4x	17 8x	14 4x	0 5x	0 5x	0 6x	0 6x	0 6x	14 2x	3 6x	3 5x	17 3x
12 SYA	Symetra Financial Corporation	8 9x	8 6x	8 4x	5 6x	7 5x	0 5x	0 5x	1 0x	1 0x	1 0x	6 0x	NA	NA	6 3x
13 TMK	Torchmark Corp	12 1x	10 7x	9 8x	7 0x	10 4x	1 5x	1 6x	2 0x	1 9x	1 9x	7 8x	8 0x	7 9x	7 9x
	Count	13	11	11	13	13	13	12	13	11	11	13	9	9	13
	Max	61 4x	54 2x	53 5x	38 5x	42 7x	1 6x	9 6x	2 1x	2 1x	2 0x	27 9x	9 3x	8 8x	38 4x
	Min	5 5x	4 0x	3 8x	3 4x	2 2x	0 4x	0 4x	0 4x	0 4x	0 4x	3 8x	2 5x	2 4x	4 0x
	Median	9 3x	7 7x	6 9x	5 6x	7 5x	0 9x	1 3x	0 6x	0 6x	0 6x	6 0x	5 0x	4 7x	7 5x
	Mean	14 9x	12 3x	11 5x	9 0x	10 5x	0 9x	2 4x	0 8x	0 9x	0 9x	8 3x	5 5x	5 3x	10 1x
	1st Quartile	7 8x	6 4x	5 8x	4 6x	5 3x	0 5x	0 6x	0 5x	0 5x	0 4x	5 1x	4 5x	4 3x	5 9x
	3rd Quartile	12 1x	11 1x	9 8x	7 0x	10 4x	1 2x	3 3x	1 0x	1 1x	1 1x	7 9x	6 5x	6 2x	9 3x

EXHIBIT 18

BLUE CROSS BLUE SHIELD OF MONTANA, INC

COMPARABLE PUBLIC COMPANY ANALYSIS SUMMARY, GAAP BASIS - ($000's)

Valuation Ratios	Adjusted Median Valuation Ratio	Number of Ratios	Subject Company Financial Basis[a]	Indicated Value	Indicated Equity Value	Weight
Total Surplus (Equity) Multiples						
Price to BV	0.90x	13	75,349	67,814	67,814	0 0%
Price to Tangible BV	1.26x	12	75,349	94,939	94,939	50.0%
Price to 3 YR Avg BV[b]	1.10x	13	75,349	82,983	82,983	0.0%
Price to 3 YR Avg Tangible BV[b]	1.28x	12	75,349	96,253	96,253	50 0%
Indicated Surplus Value					95,596	
Add: FMV of Non-Core Assets[c]					80,055	
Concluded Value - Public Company Analysis					**175,651**	

Notes:

a. For price-to-book multiples, the Company's book value of equity is adjusted to exclude its non-core assets, as well as its $7.7m claim and case reserves liability which is adjusted to $0 The adjusted bv of $87.6m = $127.6m - $47 7m + $7.7m

b. Calculated using book values as of 6/30/2012, 12/31/2011 and 12/31/2010

c. Per Exhibit 5

EXHIBIT 19, Page 1 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

MERGER & ACQUISITION ANALYSIS ($MM) - GAAP BASIS

Trans. Number	Acquirer	Target	Industry Classifications [Target/Issuer]	Closed Date
Capital IQ M&A Database				
1	AFLAC Inc. (NYSE:AFL)	Continental American Insurance Company, Inc.	Health and Medical Insurance	10/1/09
2	Humana Inc. (NYSE:HUM)	KMG America Corporation	Health and Medical Insurance	11/30/07
3	National Financial Partners Corp. (NYSE:NFP)	Balser Financial Corporation	Health and Medical Insurance	2/22/07
4	Great American Financial Resources, Inc.	Ceres Group, Inc.	Health and Medical Insurance	8/7/06
5	AMERIGROUP Corporation (NYSE:AGP)	AMERIGROUP New York, LLC	Health and Medical Insurance	1/3/05
6	Pacificare Health Systems Inc.	American Medical Security Group, Inc.	Health and Medical Insurance	12/13/04
7	PacificSource Health Plans	Clear One Health Plans, Inc.	Managed Healthcare	5/21/10

Notes:

a. Data provided by CapitalIQ.

EXHIBIT 19, Page 2 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

MERGER & ACQUISITION ANALYSIS ($MM) - GAAP BASIS

												Adjustments		Adjusted Ratios				
Number	Net Sales	Net Income	EBIT	EBITDA	MVE	TEV	Total Equity to Net Income	Equity Value to Book Value	TEV to Revenue	TEV to EBITDA	TEV to EBIT	Subject Company Adj.	TEV	Total Equity to Net Income	Equity Value to Book Value	TEV to Revenue	TEV to EBITDA	TEV to EBIT
Capital IQ M&A Database																		
1	79 00	7 00	NA	-	100 00	100 00	14 3x	-	1 3x	-	-	NA	100%	NA	NA	NA	NA	NA
2	202 99	(4 74)	NA	7 04	137 74	161 03	-	0 79x	0 8x	22 9x	69 1x	4%	100%	NA	0 8x	0 8x	22 0x	66 5x
3	13 20	-	NA	-	52 80	52 80	-	-	4 0x	-	-	NA	100%	NA	NA	NA	NA	NA
4	478 98	15 74	NA	26 28	203 75	185 77	12 9x	0 99x	0 4x	7 1x	7 8x	16%	100%	10 9x	0 8x	0 3x	5 9x	6 6x
5	-	-	NA	-	126 00	147 00	-	-	0 5x	-	-	NA	100%	NA	NA	NA	NA	NA
6	740 38	33 90	NA	64 92	448 13	458 68	13 2x	1 91x	0 6x	7 1x	8 3x	24%	100%	10 0x	1 4x	0 5x	5 4x	6 3x
7	220 90	(0 29)	NA	3 16	44 38	50 94	-	0 92x	0 2x	16 1x	28 2x	-4%	100%	NA	0 9x	0 2x	16 7x	29 2x
						Count	3	4	7	4	4		Count	2	4	4	4	4
						Max	14 3x	1 9x	4 0x	22 9x	69 1x		Max	10 9x	1 45x	0 8x	22 0x	66 5x
						Min	12 9x	0 8x	0 2x	7 1x	7 8x		Min	10 0x	0 76x	0 2x	5 4x	6 3x
						Median	13 2x	1 0x	0 6x	11 6x	18 2x		Median	10 5x	0 89x	0 4x	11 3x	17 9x
						Mean	13 5x	1 2x	1 1x	13 3x	28 4x		Mean	10 5x	1 00x	0 4x	12 5x	27 2x

EXHIBIT 20

BLUE CROSS BLUE SHIELD OF MONTANA, INC

MARKET APPROACH - M&A COMPARISON, GAAP BASIS - ($000)

Valuation Ratios	Selected Valuation Ratio	Number of Ratios	Subject Company Financial Basis[a]	Indicated Value	Subtract Debt[b]	Indicated Equity Value	Weight
Total Surplus (Equity) Multiples (Latest 12 Months):							
Price to Book (LTM)	0.89x	4	75,349	67,192	NA	67,192	100.0%
Indicated Surplus (Equity) Value						$67,192	
Add: FMV of Non-Core Assets[c]						80,055	
Concluded Surplus Value - Merger & Acquisition Analysis						147,247	

Notes:

* Data provided by CapitalIQ, on a GAAP reporting basis.

a. For price-to-book multiples, the Company's book value of equity is adjusted to exclude its non-core assets, as well as its $7.7m claim and case reserves liability which is adjusted to $0. The adjusted bv of $87.6m = $127.6m - $47.7m + $7.7m

b. For Total Equity Multiples: not applicable (NA), for MVIC Multiples: subtract interest bearing debt.

c. Per Exhibit 5.

EXHIBIT 21

BLUE CROSS BLUE SHIELD OF MONTANA, INC

RESIDUAL INCOME APPROACH, GAAP BASIS - ($000's)

			Notes
Adjusted Book Value of Surplus (Equity)		146,557	a
Plus: PV of Residual Income	+	17,611	b
Concluded Surplus Value - Residual Income Approach		**164,168**	

Notes:

* The residual income approach relies on the book value of equity plus the present value of future residual income, where residual income is earnings in excess of the required return on equity.

a. See Exhibit 22, Page 2 Of 2 for the adjusted book value of surplus.

b. See third party analysis performed by Actuarial Services & Financial Modeling, Inc. as of June 30, 2012.

EXHIBIT 22, Page 1 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC
ASSET-BASED APPROACH ANALYSIS, GAAP BASIS ($000) TOTAL ASSETS

	Book Value[a] 06/30/12	Adjustment	Adjusted Book Value	Notes
General Assets:				
Cash	7,366	0	7,366	
Health Receivables - Premium Related	4,295	0	4,295	
Health Care Receivables - Other Health	39,260	0	39,260	
Medicare Risk Reinsurance Receivable	1,026	0	1,026	
Receivables from Affiliates	3,770	0	3,770	
Other Miscellaneous Receivables	499	0	499	
Dividends & Interest Receivable	895	0	895	
Deferred Taxes	8,659	(12,247)	(3,587)	b
Notes Receivable	22	0	22	
Prepaid Expenses	3,512	0	3,512	
Property, Plant & Equipment (Net):				
Great Falls - Land, Building & Improvements	425	1,575	2,000	c
Fuller - Land, Building & Improvements	1,841	1,159	3,000	d
Park Ave - Land, Building & Improvements	3,857	(557)	3 300	d
Donovan - Land, Building & Improvements	2,718	1,382	4,100	d
Leasehold Improvements	0	0	0	
Building Improvements	179	0	179	
Fixed Asset Clearing	2	0	2	
Land - Helena	0	3,166	3,166	e
Software (Net):				
Purchased Software	6,511	(6,511)	0	f
Operating System Software	0	0	0	
Furniture, Equipment & Automobiles (Net):				
Office Furniture	678	0	678	
Office Equipment	38	0	38	
Telephone Equipment	1,504	0	1,504	
Automobiles	62	0	62	
Computer Equipment	696	420	1,116	g
Artwork	1	0	1	
Projects in Progress:	3,749	(3,613)	136	h
Invested Assets:				
Bonds Account - Wells Fargo	75,415	5,830	81,246	i
Fidelity Funds - Top Hat Plan	578	0	578	
Common Stock Account - Wells Fargo Specialty	8,442	0	8,442	i
Common Stock Account - Wells Fargo Premier	27,503	0	27,503	i
Common Stock - TriWest	1,132	20,986	22,117	j
Common Stock - BCSI	0 35	0	0	
Other Plans Liability Insurance	137	0	137	
Common Stock - Allowance for FMV Other	1,338	0	1,338	
Investment in Subsidiaries - WPMI	1,189	(992)	196	k
Investment in Subsidiaries - Other CBMI	2,875	0	2,875	
Investment in Subsidiaries - WSIA	40,153	10,939	51,092	l
Investment in Subsidiaries - ICMI (Peak 1)	961	0	961	m
Investment in Subsidiaries - ICMI (Other)	350	0	350	
Investment in Subsidiaries - Health-e-Web	2,688	1,193	3,881	n
Investment in Regional Advantage	8	0	8	o
Chatham Feasibility Plan	25	0	25	
Other Investments - ID Residence, Net	358	(91)	267	p
Other Investments - WA Residence, Net	261	(64)	197	q
Other Investments - Prime Therapeutics	2,546	373	2,919	r
Benefit Restoration Annuity	12,482	0	12,482	s
Cash Surrender Value of Life Insurance	15,221	0	15,221	t
New West Assets (Net)	23,003	0	23,003	u
TOTAL ASSETS	**308,230**	**22,948**	**331,178**	

Notes

a Per internal financials prepared on a GAAP basis, as of June 30, 2012
b Based on an analysis of deferred taxes prepared by Eide Bailly
c The Company's Great Falls property is currently listed for sale at $2 5m, FMV estimate based on 80% of listed price
d Preliminary estimate of FMV, pending completion of real property valuation procedures
e Purchase price for real property in Helena, MT
f Purchased software is non-transferable, and a hypothetical buyer would be expected to rely on its own existing software
g Based on discussions with management, FMV of computer equipment is estimated at 30% of gross cost
h. Projects in progress consist of a data warehouse under construction and 'quote to card' software, based on costs incurred to date
i Book values presented net of FMV allowance Adjusted values based on Wells Fargo accounts statements as of June 30, 2012
j The Company invested in TriWest in 1991, which is a contractor providing health care to federal employees and military personnel The investment is carried at cost under GAAP, and the FMV estimate is based on discussions with management
k The Company owns a 1% interest in Wellpoint Premier Montana Idaho, a third party administrator operating in China The FMV estimate is based on 1% of WPMI's book value of equity at June 30, 2012
l Based on preliminary estimate of expected sale price for WSIA of $65m in an asset purchase deal, plus $1 85m of net assets not transferred, less $2 5m of unrecorded contingent liabilities No estimate of any potential tax liability from the sale was available
m. 49% joint venture interest in Peak 1 Administrators, a small third party administrator The other 51% is held by Blue Cross of Idaho
n. Based on preliminary estimate of FMV for Health-E-Web per Moss Adams appraisal, as of June 30, 2012
o Regional Advantage Services, LLC ("RAS") administers the BCBS Northern Plans Alliance Medicare Advantage and Medicare Part D programs RAS was formed in 2006 by the Company, other Blue plans and Wellmark, Inc
p The Company's residential house in Lewiston, ID recently sold for $290,000
q The Company's residential house in Clarkston, WA is listed for sale at $215,000 The FMV estimate is 80% of the listed price
r The Company purchased a 1 92% interest in Prime Therapeutics, LLC, a pharmaceutical third party administrator
s The Benefit Restoration Annuity is intended, but not legally liable, to service the Company's unfunded, non-qualified benefit restoration plan ("BRP") for selected corporate officers
t The life insurance policies on current and former key executives are intended, but not legally liable, to service the Company's BRP According to management, the Company is the beneficiary on all policies
u Intangible assets consist of value premiums to be collected during 6-year New West Hospital System employee health insurance contract, amortized over the life of the contract, Intangible liabilities consist of the purchase price paid for contract, with interest accruing over the life of the contract

EXHIBIT 22, Page 2 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

ASSET-BASED APPROACH ANALYSIS, GAAP BASIS ($000) LIABILITIES & SURPLUS

	Book Value[a] 06/30/12	Adjustment	Adjusted Book Value	Notes
General Liabilities:				
Pending & Unreported Claims	58,028	0	58,028	
Rate Stabilization Reserves	1,375	0	1,375	
Claim & Case Reserves	7,700	(7,700)	0	v
Health Care & Other Claim Liabilities	16,146	0	16,146	
Trade Accounts Payable	727	0	727	
Compensation Related Liabilities	2,978	0	2,978	
Other Accrued Liabilities	1,568	0	1,568	
Federal Income Taxes Payable (Non-Current)	(2,185)	0	(2,185)	
Deferred Subscription Revenue	18,755	0	18,755	
Other Miscellaneous Liabilities	5,583	3,000	8,584	
Pension & Related Obligations:				
Defined Benefit Pension Liability	20,022	6,078	26,100	w
Defined Contribution Plan Liability (ARC)	223	0	223	
BRP Retirement Liability	23,587	2,610	26,197	x
Accounts Payable - Deferred Compensation	660	0	660	
Post Retirement Life	15	0	15	
Post Retirement Medical	548	0	548	
Intangible Liability (Net):	20,033	0	20,033	u
Contingent Liabilities:	4,870	0	4,870	y
TOTAL LIABILITIES	**180,632**	**3,988**	**184,620**	
SURPLUS	**127,598**	**18,959**	**146,557**	
Asset-Based Approach Summary:				
Concluded Surplus Value - Asset Based Approach			**146,557**	

Notes:

u. Intangible assets consist of value premiums to be collected during 6-year New West Hospital System employee health insurance contract, amortized over the life of the contract; Intangible liabilities consist of the purchase price paid for contract, with interest accruing over the life of the contract.

v. The Company's interim internal financials record a liability reserve to offset future expect increases in seasonal claims at year end, but the account has no related asset or revenue, and does not represent a true liability

w. Per plan adjustments and analysis prepared by AonHewitt.

x. Per plan adjustments, provided by management.

y. The Company's estimate of its legal settlement exposure to various class action lawsuits, based on correspondence and opinions from the Company's outside legal representatives.

EXHIBIT 23

BLUE CROSS BLUE SHIELD OF MONTANA, INC

VALUATION SUMMARY

	Indicated Value	Weight	Notes
Concluded Income Approach Value	$125,406,000	5.0%	a
Concluded Market Approach Value - Public Companies	$175,651,000	35.0%	b
Concluded Market Approach Value - M&A Transactions	$147,247,000	0.0%	c
Concluded Residual Income Approach Value	$164,168,000	60.0%	d
Concluded Asset Approach Value	$146,557,000	0.0%	e
Concluded Fair Market Value of Surplus	**$166,200,000**		

Notes:

a. See Exhibit 15.
b. See Exhibit 18.
c. M&A data provided by CapitalIQ, see Exhibit 20.
d. See Exhibit 21.
e. See Exhibit 22, Page 2 Of 2.

EXHIBIT 24, Page 1 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

BREAKOUT OF ADJUSTED BALANCE SHEET w/ LIVES, GAAP BASIS ($000) TOTAL ASSETS

	Adjusted Book Value[a]	Destination NewCo	Destination OldCo
General Assets:			
Cash	7,366		
Cash Accounts to OldCo			30,279
Cash Accounts / Claims to NewCo		(5,302)	
Health Receivables - Premium Related	4,295	4,295	
Health Care Receivables - Other Health	39,260	39,260	
Medicare Risk Reinsurance Receivable	1,026	1,026	
Receivables from Affiliates	3,770		
Health-E-Web Receivables		250	
ICMI, CBMI Receivables			3,520
Other Miscellaneous Receivables	499	499	
Dividends & Interest Receivable	895		895
Deferred Taxes	(3,587)		(3,587)
Notes Receivable	22		22
Prepaid Expenses	3,512	3,512	
Property, Plant & Equipment (Net):			
Great Falls - Land, Building & Improvements	2,000		2,000
Fuller - Land, Building & Improvements	3,000		3,000
Park Ave - Land, Building & Improvements	3,300		3,300
Donovan - Land, Building & Improvements	4,100		4,100
Leasehold Improvements	0		0
Building Improvements	179		179
Fixed Asset Clearing	2		2
Land - Helena	3,166	3,166	
Software (Net):			
Purchased Software	0	0	
Operating System Software	0	0	
Furniture, Equipment & Automobiles (Net):			
Office Furniture	678	678	
Office Equipment	38	38	
Telephone Equipment	1,504	1,504	
Automobiles	62	62	
Computer Equipment	1,116	1,116	
Artwork	1	1	
Projects in Progress:	136		136
Invested Assets:			
Bonds Account - Wells Fargo	81,246		
Bonds to NewCo[b]		48,886	
Bonds to OldCo			32,360
Fidelity Funds - Top Hat Plan	578	578	
Common Stock Account - Wells Fargo Specialty	8,442		8,442
Common Stock Account - Wells Fargo Premier	27,503		27,503
Common Stock - TriWest	22,117	22,117	
Common Stock - BCSI	0 35		0 35
Other Plans Liability Insurance	137		137
Common Stock - Allowance for FMV Other	1,338		1,338
Investment in Subsidiaries - WPMI	196	196	
Investment in Subsidiaries - Other CBMI	2,875		2,875
Investment in Subsidiaries - WSIA	51,092		51,092
Investment in Subsidiaries - ICMI (Peak 1)	961		961
Investment in Subsidiaries - ICMI (Other)	350		350
Investment in Subsidiaries - Health-e-Web	3,881	3,881	
Investment in Regional Advantage	8	8	
Chatham Feasibility Plan	25		25
Other Investments - ID Residence, Net	267	267	
Other Investments - WA Residence, Net	197	197	
Other Investments - Prime Therapeutics	2,919	2,919	
Benefit Restoration Annuity	12,482	12,482	
Cash Surrender Value of Life Insurance	15,221	15,221	
New West Assets (Net)	23,003	23,003	
Value of Business	17,611	17,611	
TOTAL ASSETS	**348,789**	**197,473**	**168,927**

Notes.

a See Exhibit 21 for adjustments to book value

b Bonds to NewCo is adjusted so that NewCo's assets less liabilities equals zero

c 'Excess asset value' is the excess of the concluded surplus value per Exhibit 23 above that shown in Exhibit 22, Page 2 Of 2

EXHIBIT 24, Page 2 of 2

BLUE CROSS BLUE SHIELD OF MONTANA, INC

BREAKOUT OF ADJUSTED BALANCE SHEET, GAAP BASIS ($000) LIABILITIES AND SURPLUS

	Adjusted Book Value[a]	Destination NewCo	Destination OldCo
General Liabilities:			
Pending & Unreported Claims	58,028	58,028	
Rate Stabilization Reserves	1,375	1,375	
Claim & Case Reserves	0	0	
Health Care & Other Claim Liabilities	16,146	16,146	
Trade Accounts Payable	727	727	
Compensation Related Liabilities	2,978	2,978	
Other Accrued Liabilities	1,568		
Other Accrued Liabilities			177
A/P Commissions		1,391	
Federal Income Taxes Payable (Non-Current)	(2,185)		(2,185)
Deferred Subscription Revenue	18,755	18,755	
Other Miscellaneous Liabilities	8,584		
Other Miscellaneous Liabilities		7,069	
Secutities Lending Liability			1,514
Pension & Related Obligations:			
Defined Benefit Pension Liability	26,100		
NewCo Liability		25,717	
OldCo Liability			383
Defined Contribution Plan Liability (ARC)	223	223	
BRP Retirement Liability	26,197	26,197	
Accounts Payable - Deferred Compensation	660	660	
Post Retirement Life	15	15	
Post Retirement Medical	548	548	
New West Liability (Net)	20,033	20,033	
Contingent Liabilities:	4,870		4,870
TOTAL LIABILITIES	**184,620**	**179,861**	**4,759**
ADJUSTED ASSETS LESS LIABILITIES	**164,168**	**17,611**	**164,168**

Notes:

a. See Exhibit 21 for adjustments to book value.

b. Includes 'excess asset value' identified in Exhibit 23. See also footnote c in Exhibit 24, Page 1 Of 2.

EXHIBIT 25

HEALTH-E-WEB

HISTORICAL COMMON SIZE INCOME STATEMENT ($000)

Fiscal Year Ended December 31	Audit 2007	Percent	Audit 2008	Percent	Audit 2009	Percent	Audit 2010[a]	Percent	Audit 2011	Percent	LTM 06/30/12	Percent	Average FY 07-11	*RMA** *11/12*
Revenue	2,185	100 0%	2,533	100 0%	2,676	100.0%	3,857	100 0%	4,429	100 0%	4,411	100 0%	100 0%	100 0%
Operating Expenses:														
Depreciation & Amortization	186	8 5%	247	9 7%	313	11 7%	315	8 2%	275	6 2%	223	5 1%	8 9%	*NA*
Salaries & Related Expenses	1,361	62 3%	1,545	61 0%	1,535	57 4%	2,171	56 3%	2,410	54 4%	2,614	59 3%	58.3%	
Lease & Occupancy Expense	14	0 6%	43	1 7%	46	1 7%	182	4 7%	240	5 4%	241	5 5%	2 8%	
Professional Fees	22	1 0%	46	1 8%	61	2 3%	206	5 3%	322	7 3%	276	6 3%	3 5%	
Lodging & Transportation	11	0 5%	8	0 3%	16	0.6%	23	0 6%	25	0 6%	25	0 6%	0 5%	
Management Service Fee	53	2 4%	53	2 1%	53	2 0%	53	1 4%	32	0 7%	32	0 7%	1 7%	
Insurance	2	0 1%	3	0 1%	3	0 1%	4	0 1%	3	0 1%	(2)	(0 0%)	0 1%	
Printing & Supplies	9	0.4%	12	0 5%	9	0 3%	19	0 5%	19	0 4%	18	0 4%	0 4%	
Postage & Shipping	53	2 4%	48	1 9%	43	1 6%	52	1 3%	45	1 0%	38	0 9%	1 7%	
Meals	3	0 1%	2	0 1%	6	0.2%	5	0 1%	7	0 2%	8	0 2%	0 1%	
Contracted Services	267	12 2%	118	4 7%	50	1 9%	50	1 3%	50	1.1%	75	1 7%	4 2%	
Other Operating Expenses	72	3.3%	123	4.9%	202	7 5%	328	8 5%	367	8 3%	407	9.2%	6 5%	
Total Operating Expense	2,053	94 0%	2,249	88 8%	2,338	87.4%	3,407	88 3%	3,795	85.7%	3,956	89 7%	88 8%	*87.7%*
Operating Income/(Loss)	132	6 0%	284	11 2%	338	12 6%	450	11 7%	634	14 3%	455	10 3%	11 2%	*12.3%*
Other Income (Expense):														
Interest & Dividend Income	44	2 0%	12	0 5%	6	0 2%	4	0 1%	4	0 1%	4	0 1%	0 6%	
Other Income	0	0 0%	9	0 4%	11	0 4%	11	0 3%	11	0 2%	13	0 3%	0 3%	
Total Other Income (Exp)	44	2 0%	21	0 8%	17	0 6%	15	0 4%	15	0 3%	18	0 4%	0 8%	*0.6%*
Pretax Profit	176	8 1%	304	12 0%	355	13 3%	465	12 1%	649	14 6%	472	10 7%	12 0%	*12.9%*
Total Income Taxes	68	3 1%	114	4 5%	136	5 1%	182	4 7%	267	6 0%	191	4 3%	4 7%	*NA*
Net Income	108	4 9%	190	7 5%	218	8.2%	283	7 3%	382	8 6%	281	6 4%	7 3%	*NA*
Dividends/Distributions[b] (-)	0	0.0%	0	0 0%	0	0 0%	0	0 0%	910	140 2%	NA	NA	28.0%	

Notes.

NA indicates not available or not applicable

* NAICS 524292 - Third Party Administration of Insurance & Pension Funds and sales of $3-5M

a Health-E-Web acquired Electronic Translations & Transmittals, Inc in April of 2010 for $1 5 million

b Percentages represent dividends as a percentage of pretax profit

EXHIBIT 26

HEALTH-E-WEB

HISTORICAL COMMON SIZE BALANCE SHEET ($000)

Fiscal Year Ended December 31	Audit 2007	Percent	Audit 2008	Percent	Audit 2009	Percent	Audit 2010[a]	Percent	Audit 2011	Percent	Interim 06/30/12	Percent	Average FY 07-11	*RMA** *11/12*
Current Assets:														
Cash	533	33 5%	845	44 6%	1,025	47 5%	1,361	35 3%	825	23 5%	811	20 9%	36 9%	***30.3%***
Trade Accounts Receivable	224	14 1%	239	12 6%	292	13 6%	448	11 6%	515	14 7%	680	17 5%	13 3%	***4.8%***
Related Party Receivables	35	2 2%	38	2 0%	40	1 9%	108	2 8%	169	4 8%	277	7 1%	2 7%	
Prepaid Expenses	67	4 2%	46	2 4%	116	5 4%	91	2 4%	91	2 6%	133	3 4%	3 4%	
Deferred Taxes	(22)	(1 4%)	(23)	(1 2%)	8	0 4%	48	1 3%	57	1 6%	58	1 5%	0 1%	***16.4%***
Total Current Assets	838	52 8%	1,147	60 6%	1,481	68 7%	2,057	53 4%	1,657	47 1%	1,959	50 4%	56 5%	***51.5%***
PP&E, Net	737	46 4%	733	38 7%	660	30 6%	710	18 4%	769	21 9%	549	14 1%	31 2%	***17.9%***
Other Non-Current Assets:														
Other Assets[b]	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	219	5 6%	0 0%	
Deferred Income Taxes	0	0 0%	0	0 0%	1	0 1%	9	0 2%	12	0 3%	12	0 3%	0 1%	
Total Other Non-Current Assets	0	0 0%	0	0 0%	1	0 1%	9	0 2%	12	0 3%	232	6 0%	0 1%	***16.1%***
Goodwill & Other Intangibles	14	0 9%	14	0 7%	14	0 6%	1,078	28 0%	1,078	30 7%	1,148	29 5%	12 2%	***14.5%***
Total Assets	1,589	100 0%	1,893	100 0%	2,156	100 0%	3,854	100 0%	3,516	100 0%	3,887	100 0%	100 0%	***100.0%***
Current Liabilities:														
Trade Accounts Payable	0	0 0%	6	0 3%	2	0 1%	29	0 8%	109	3 1%	29	0 7%	0 9%	***15.8%***
Related Party Payables	166	10 5%	135	7 1%	127	5 9%	219	5 7%	278	7 9%	477	12 3%	7 4%	
Income Taxes Payable	57	3 6%	113	6 0%	171	7 9%	224	5 8%	278	7 9%	359	9 2%	6 2%	***1.3%***
Accrued Expenses	227	14 3%	310	16 4%	309	14 3%	291	7 6%	289	8 2%	235	6 0%	12 2%	
Total Current Liabilities	451	28 4%	564	29 8%	609	28 2%	764	19 8%	954	27 1%	1,100	28 3%	26 7%	***52.4%***
Long Term Liabilities:														
Other Non-Current Liabilities[c]	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	99	2 6%	0 0%	***8.8%***
Total Long-Term Liabilities	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	99	2 6%	0 0%	***19.3%***
Total Liabilities	451	28 4%	564	29 8%	609	28 2%	764	19 8%	954	27 1%	1,199	30 8%	26 7%	***71.7%***
Equity:														
Capital Stock	25	1 6%	25	1 3%	25	1 2%	25	0 6%	25	0 7%	25	0 6%	1 1%	
Additional Paid-In Capital	625	39 3%	625	33 0%	625	29 0%	1,875	48 7%	1,875	53 3%	1,875	48 2%	40 7%	
Retained Earnings	488	30 7%	679	35 9%	897	41 6%	1,190	30 9%	662	18 8%	788	20 3%	31 6%	
Total Equity	1,138	71 6%	1,329	70 2%	1,547	71 8%	3,090	80 2%	2,562	72 9%	2,688	69 2%	73 3%	***28.3%***
Total Liabilities & Equity	1,589	100 0%	1,893	100 0%	2,156	100 0%	3,854	100 0%	3,516	100 0%	3,887	100 0%	100 0%	***100.0%***

Notes.

NA indicates not available or not applicable

* NAICS 524292 - Third Party Administration of Insurance & Pension Funds and sales of $3-5M

a Health-E-Web acquired Electronic Translations & Transmittals in April of 2010 for $1 5 million

b Other non-current assets consists of projects in progress

c Other non-current liabilities includes earned personal time and taxes payable to parent

EXHIBIT 27

HEALTH-E-WEB

HISTORICAL WORKING CAPITAL ANALYSIS ($000)

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12	Average FY 07-11	Wtd Avg FY 07-11	*RMA** *11/12*	Selected % Sales[c]
Working Capital (WC)	388	583	872	1,293	703	859	NA	NA	*NA*	NA
Add Current Interest-Bearing Debt	0	0	0	0	0	0	NA	NA	*NA*	NA
Adjusted Required Annual Working Capital (AWC)	$388	$583	$872	$1,293	$703	$859	NA	NA	*NA*	NA
Working Capital Ratios: [a]										
Sales/Working Capital	5 6	4 3	3 1	3 0	6 3	5 1	4 5	4 5	*(117.1)*	NA
Working Capital/Sales	17 7%	23 0%	32 6%	33 5%	15 9%	19 5%	24 5%	25 0%	*(0.9%)*	NA
Sales/Adjusted WC	5 6	4 3	3 1	3 0	6 3	5 1	4 5	4 5	*12.1* b	6 3
Adjusted WC/Sales	17 7%	23 0%	32 6%	33 5%	15 9%	19 5%	24 5%	25 0%	*8.2%* b	15 9%
Account Analysis: [a]										
% Cash & Equivalents/Sales	24 4%	33 4%	38 3%	35.3%	18 6%	18 4%	30 0%	29 4%	*24.7%* b	18 6%
% Trade Accounts Receivables/Sales	10 3%	9 5%	10 9%	11 6%	11 6%	15 4%	10 8%	11 1%	*3.9%* b	11 6%
% Other Accounts Receivables/Sales	1 6%	1 5%	1 5%	2 8%	3 8%	6 3%	2.2%	2.6%	*NA*	3 8%
% Prepaid Expenses/Sales	3 1%	1 8%	4 3%	2 4%	2 1%	3 0%	2 7%	2 6%	*NA*	2 1%
% Other Current Assets/Sales	(1 0%)	(0 9%)	0 3%	1 3%	1 3%	1 3%	0 2%	0 6%	*13.4%* b	1 3%
% Trade Accounts Payable/Sales	0.0%	0 2%	0 1%	0 8%	2 4%	0 6%	0 7%	1 1%	*12.9%* b	2 4%
% Other Accounts Payable/Sales	7 6%	5 3%	4 7%	5 7%	6 3%	10 8%	5 9%	5 8%	*NA*	6 3%
% Taxes Payable/Sales	2 6%	4 5%	6 4%	5 8%	6 3%	8 1%	5 1%	5 7%	*1.1%* b	6 3%
% Accrued Expenses/Sales	10 4%	12 2%	11 5%	7 6%	6 5%	5 3%	9 6%	8 8%	*NA*	6.5%
% Other Current Liabilities/Sales	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	*19.8%* b	0 0%
% Adjusted Working Capital	17 7%	23 0%	32 6%	33 5%	15 9%	19 5%	24 5%	25 0%	*8.2%* b	15 9%

Notes.

NA indicates not available or not applicable

* NAICS 524292 - Third Party Administration of Insurance & Pension Funds and sales of $3-5M

a Annualized where applicable

b Estimated based on RMA percentage of total assets ratios

c Based on historical 2011 levels

EXHIBIT 28

HEALTH-E-WEB

EARNINGS ANALYSIS AND ADJUSTMENTS ($000)

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12
Sales	2,185	2,533	2,676	3,857	4,429	4,411
Operating Expense Adjustments						
Operating Expenses	2,053	2,249	2,338	3,407	3,795	3,956
Less: Depreciation & Amortization Expense[a]	(186)	(247)	(313)	(315)	(275)	(223)
Adjusted Operating Expenses	1,867	2,002	2,024	3,093	3,520	3,733
Other Income (Expense) Adjustments						
Other Income (Expense)	44	21	17	15	15	18
Add: Interest Expense[a]	0	0	0	0	0	0
Adjusted Other Income (Expense)	44	21	17	15	15	18
Depreciation & Amort. Expense Summary						
D&A in Cost of Sales	0	0	0	0	0	0
D&A in Operating Exp.	186	247	313	315	275	223
Total Depreciation & Amort. Expense	186	247	313	315	275	223

Notes:

Figures are as reported in financial statements unless noted.

NA indicates not available or not applicable.

a. Reclassified

EXHIBIT 29

HEALTH-E-WEB

ADJUSTED INCOME STATEMENT AND CASH FLOW ($000)

Fiscal Year Ended December 31	2007	%	2008	%	2009	%	2010	%	2011	%	LTM 06/30/12	%	Average FY 07-11	Wtd Avg FY 07-11
Revenue	2,185	100 0%	2,533	100.0%	2,676	100 0%	3,857	100 0%	4,429	100 0%	4,411	100 0%	100 0%	100 0%
Operating Expenses.														
Operating Expenses[a]	1,867	85 5%	2,002	79 1%	2,024	75 7%	3,093	80 2%	3,520	79 5%	3,733	84.6%	80 0%	79 2%
Depreciation Expense[a]	186	8 5%	247	9 7%	313	11.7%	315	8 2%	275	6 2%	223	5 1%	8 9%	8 5%
Operating Income	132	6 0%	284	11 2%	338	12.6%	450	11 7%	634	14.3%	455	10.3%	11 2%	12 3%
Other Income (Expense).														
Other Income (Expense)[a]	44	2 0%	21	0.8%	17	0 6%	15	0 4%	15	0 3%	18	0 4%	0 8%	0 6%
Amortization Expense[a]	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 0%	0 0%
Earnings Before Interest & Taxes (EBIT)	176	8.1%	304	12.0%	355	13.3%	465	12 1%	649	14.6%	472	10 7%	12 0%	12 9%
Interest Expense[a]	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0	0 0%	0 0%	0 0%
Pretax Income	176	8 1%	304	12 0%	355	13 3%	465	12 1%	649	14 6%	472	10 7%	12 0%	12 9%
Income Tax (*Effective Rate*)[b]	59	*33 6%*	115	*37.6%*	136	*38.4%*	179	*38.5%*	250	*38.5%*	182	*38 5%*	*37.3%*	*38.0%*
Net Income	117	5 4%	190	7.5%	219	8 2%	286	7 4%	399	9 0%	291	6.6%	7.5%	8 0%
Add Depreciation & Amortization	186	8 5%	247	9 7%	313	11 7%	315	8 2%	275	6 2%	223	5 1%	8 9%	8 5%
Gross Cash Flow	303	13 9%	437	17.2%	532	19 9%	601	15 6%	675	15 2%	514	11 7%	16 4%	16 4%
Debt-Free Data:														
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	362	16 6%	551	21.8%	668	25 0%	780	20.2%	924	20 9%	696	15 8%	20 9%	21 3%
Less Depreciation & Amortization	186	8.5%	247	9 7%	313	11 7%	315	8 2%	275	6 2%	223	5 1%	8 9%	8 5%
Earnings Before Interest & Taxes (EBIT)	176	8 1%	304	12 0%	355	13 3%	465	12 1%	649	14 6%	472	10 7%	12 0%	12 9%
Income Taxes on EBIT (*Effective Rate*)[b]	59	*33 6%*	115	*37.6%*	136	*38.4%*	179	*38.5%*	250	*38.5%*	182	*38.5%*	*37 3%*	*38.0%*
Net Income (Debt Free)	117	5 4%	190	7 5%	219	8 2%	286	7 4%	399	9 0%	291	6 6%	7 5%	8 0%
Depreciation & Amortization	186	8 5%	247	9 7%	313	11 7%	315	8 2%	275	6 2%	223	5 1%	8 9%	8 5%
Cash Flow (Debt Free)	303	13 9%	437	17 2%	532	19.9%	601	15 6%	675	15 2%	514	11 7%	16 4%	16 4%

Notes.

NA indicates not available or not applicable

a Adjusted as shown in Exhibit 28

b At state and federal corporate income tax rates

EXHIBIT 30

HEALTH-E-WEB

ADJUSTED HISTORICAL FINANCIAL RATIOS

Fiscal Year Ended December 31	2007	2008	2009	2010	2011	LTM 06/30/12	Average FY 07-11	*RMA** *11/12*	*Public Co.* Average	*Public Co.* Median
Growth Rates:										
Sales Growth	NA	15 9%	5 6%	44 2%	14 8%	NA	19 3% [b]	*NA*	*30.4%* [c]	*22.9%* [c]
Pretax Income Growth	NA	72 9%	16 5%	31 1%	39 6%	NA	38 5% [b]	*NA*	*NA*	*NA*
Total Asset Growth	NA	19 1%	13 9%	78 7%	(8 8%)	NA	22 0% [b]	*NA*	*26.3%* [c]	*16.1%* [c]
Profitability (% of Sales):										
Operating Profit	6 0%	11 2%	12 6%	11 7%	14 3%	10 3%	11 2%	*12.3%*	*10.2%*	*10.5%*
Pretax Profit	8 1%	12 0%	13 3%	12 1%	14 6%	10 7%	12 0%	*12.9%*	*8.8%*	*9.9%*
Dupont Analysis - Adjust to operating company assets only										
Sales to Assets	1 4	1 3	1 2	1 0	1 3	1 1	1 2	*1.2*	*1.6*	*1.1*
Times EBIT Margin[a]	8 1%	12 0%	13 3%	12 1%	14 6%	10 7%	12 0%	*11.0%*	*10.2%*	*10.5%*
Equals Debt-Free Return on Assets[a]	11 1%	16 1%	16 5%	12 1%	18 5%	12 1%	14 8%	*13.2%*	*12.4%*	*13.1%*
Times Pretax to EBIT[a]	1 00	1 00	1 00	1 00	1 00	1 00	1 00	*0.98*	*0.79*	*0.90*
Equals Pretax Return on Assets	11 1%	16 1%	16 5%	12 1%	18 5%	12 1%	14 8%	*13.0%*	*7.7%*	*5.8%*
Times Assets to Equity[a]	1 41	1 44	1 41	1 92	2 37	2 52	1 71	*NMF*	*1.79*	*1.52*
Equals Pretax Return on Equity	15 7%	23 2%	23 1%	23 1%	43 7%	30 7%	25 8%	*NMF*	*12.3%*	*11.5%*
Other Asset Utilization Ratios:										
Sales to Net Fixed Assets	3 0	3 5	4 1	5 4	5 8	8 0	4 3	*17.5*	*33.4*	*10.2*
Sales to Working Capital	5 6	4 3	3 1	3 0	6 3	5 1	4 5	*NMF*	*5.7*	*9.0*
Sales to Adjusted Working Capital	5 6	4 3	3 1	3 0	6 3	5 1	4 5	*12.1*	*32.3*	*31.8*
Accounts Receivable Turnover	9 7	10 6	9 2	8 6	8 6	6 5	9 3	*NA*	*7.7*	*6.8*
Liquidity:										
Current Ratio	1 9	2 0	2 4	2 7	1 7	1 8	2 2	*0.9*	*2.2*	*1.8*
Quick Ratio	1 7	1 9	2 2	2 4	1 4	1 4	1 9	*0.6*	*1.9*	*1.4*
Days' Receivables	37	35	40	42	42	56	39	*NMF*	*56*	*54*
Solvency:										
Debt to Worth	0 4	0 4	0 4	0 4	0 6	0 8	0 4	*3.2*	*(0.6)*	*0.5*
Long-Term Debt to Total Capital	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	*47.3%* [a]	*24.7%*	*14.3%*

Notes

Ratios are annualized where applicable

NA indicates not available or not applicable

NMF indicates not meaningful, EBIT equals earnings before interest and taxes

* NAICS 524292 - Third Party Administration of Insurance & Pension Funds and sales of $3-5M

a Estimated RMA ratios

b Compound annual growth rates

c Five-year compound annual growth rate

EXHIBIT 31

HEALTH-E-WEB

INCOME APPROACH - DISCOUNTED CASH FLOW ANALYSIS - ($000)

Forecast Year Ending December 31	Adjusted[a] 2011	LTM 06/30/12	Projected* 2012	Projected* 2013	Projected* 2014	Projected* 2015	Projected 2016	Residual
Revenue	4,429	4,411	4,424	4,500	4,680	4,774	4,917	5,065
Operating Expenses								
Operating Exp - Excluding Dep	3,520	3,733	3,919	3,811	3,891	4,017	3,932	4,050
Depreciation Expense	275	223	151	341	356	350	360	135
Operating Income	634	455	354	348	433	407	625	880
Other Income (Expense):								
Other Income (Exp) - Excluding Interest & Amortization Exp.	15	18	14	15	15	15	15	15
Earnings Before Interest & Taxes	649	472	368	363	448	422	640	895
Income Taxes on EBIT[b]	250	182	142	140	172	162	246	344
Net Income (Debt Free)	399	291	226	223	276	260	394	551
Depreciation & Amortization	275	223	151	341	356	350	360	135
Cash Flow (Debt Free)	675	514	377	564	632	610	754	686
Adj Working Capital Changes[c]	NA	NA	1	(12)	(29)	(15)	(23)	(23)
Capital Expenditures[d]	NA	NA	(591)	(320)	(127)	(127)	(131)	(135)
Free Cash Flow (Debt Free)	NA	NA	(213)	232	476	468	600	528
OPERATIONS (Debt-Free Basis)								
Sales Growth	14 8%	NA	-0 1%	1 7%	4 0%	2 0%	3 0%	3 0%
Operating Expense/Sales	79 5%	84.6%	88 6%	84 7%	83 1%	84 1%	80 0%	80 0%
Other Income and Expense/Sales	0 3%	0 4%	0 3%	0 3%	0 3%	0 3%	0 3%	0 3%
EBITDA Margin	20 9%	15 8%	11 7%	15 6%	17 2%	16 2%	20 3%	20.3%
Depreciation/Sales	6 2%	5 1%	3 4%	7 6%	7 6%	7 3%	7 3%	2 7%
EBIT Margin	14 6%	10 7%	8.3%	8 1%	9 6%	8 8%	13.0%	17 7%
WORKING CAPITAL/SALES								
Working Capital	15 9%	19 5%	15 9%	15 9%	15 9%	15 9%	15 9%	15 9%
Working Capital - $ Value	703	859	702	714	743	757	780	804
PROPERTY, PLANT & EQUIP								
Total Capital Expenditures/Sales	7 5%	NA	13 4%	7 1%	2 7%	2 7%	2 7%	2 7%
TAXES								
EBIT Tax Rate	38.5%	38 5%	38 6%	38 6%	38 4%	38 4%	38 4%	38 4%

Notes.

NA indicates not available or not applicable

* Projections through 2015 provided by management

a Adjusted per Exhibit 28

b At state and federal corporate income tax rates

c Estimated required working capital level, per Exhibit 27

d Capital expenditures through 2015 provided by management

EXHIBIT 32

HEALTH-E-WEB

DISCOUNT RATE AND CAPITALIZATION RATE ANALYSIS

Weighted Average Cost of Capital (WACC) — **Notes**

$$WACC = (D/V \times K_d \times (1 - T)) + (E/V \times K_e)$$
$$WACC = (14.3\% \times 5.1\% \times 61.6\%) + (85.7\% \times 17.7\%) = 15.6\%$$

where.

WACC = weighted average cost of capital		
D/V = ratio of interest bearing debt capital to total invested capital	14.3%	a
E/V = ratio of equity capital to total invested capital (= 1 - D/V)	85.7%	a
K_d = cost of interest bearing debt capital	5.1%	b
K_e = levered cost of equity capital (see CAPM equation)	17.7% See below	
T = marginal tax rate	38.4%	c

Capital Asset Pricing Model (CAPM)

$$K_e = R_f + (B_l \times R_e) + R_s + R_c$$
$$K_e = 2.4\% + (0.92 \times 5.0\%) + 9.7\% + 1.0\% = 17.7\%$$

and

$$B_l = B_u \times (1.00 + ((1 - T) \times D/E))$$
$$B_l = 0.84 \times (1.00 + (61.6\% \times 16.6\%)) = 0.92$$

where

K_e = levered cost of equity capital		
B_l = levered "beta"		
R_f = risk free rate	2.4%	d
B_u = unlevered "beta"	0.84	e
R_e = equity risk premium	5.0%	f
R_s = small stock risk premium (Size Premium)	9.7%	g
R_c = subject company risk premium	1.0%	h
D/E = ratio of interest bearing debt capital to equity capital	16.6%	a

Capitalization Rate

$$C = (WACC - G)$$
$$C = (15.6\% - 3.0\%) = 12.6\%$$

where

C = capitalization rate		
WACC = weighted average cost of capital	15.6% See above	
G = growth rate into perpetuity	3.0%	i

Notes:

a Industry capital structure based on the median debt to MVIC level of the publicly traded guideline companies, per Exhibit 16. This reflects the industry average capital structure, not HEW's historical capital structure, as a potential investor in HEW may alter its historical capital structure going forward

b. Based on Moody's Baa rate, as of the date of valuation

c At state and federal corporate income tax rates.

d U.S. Treasury Constant Maturities (20-year) as of the date of value

e. Based on the median unlevered beta from the publicly traded guideline companies, per Exhibit 34

f This represents the premium demanded by investors in equity securities over and above the risk free rate

g This represents the premium for size demanded by investors in small capitalization stocks over and above the premium demanded by equity investors, as determined by the Duff & Phelps 2011 regression

h Estimated additional risk premium that would be demanded by investors in HEW

i Estimated growth rate of free cash flows into perpetuity for HEW

EXHIBIT 33

HEALTH-E-WEB

INCOME APPROACH - DISCOUNTED CASH FLOW ANALYSIS - ($000)

Forecast Year Ending December 31	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Residual
Free Cash Flow (Debt Free)	(213)	232	476	468	600	528
Less: Six Months Earned	106					
	(106)					
Residual Capitalization Rate						12.6%
Future Value of Free Cash Flows	(106)	232	476	468	600	4,188
Number of Periods Deferred	0.25	1 0	2 0	3.0	4 0	4.0
Present Value Factor	0.96	0.87	0.75	0 65	0 56	0 56
Present Value of Free Cash Flows	(103)	200	357	303	336	2,345

Present Value of FY 2012-2016 Free Cash Flows	1,093
Present Value of Residual	2,345
Concluded Value - Income Approach Method	**3,438**

EXHIBIT 34

HEALTH-E-WEB

COMPARABLE PUBLIC COMPANY ANALYSIS - ($MM)

Date of Value 6/30/2012

Trading Data:

Ticker	Name	Exchange	Last Sale Price	% of 52 Week High	% of 52 Week Low	5 Yr Vol	1 Yr Vol	3 Mnth Vol	5 Yr Beta	R-squared	Eff. Tax Rate (LTM)	Beta Adj (Blume)	Unlevered Adj Beta	S&P LT Credit Rating	Credit Rating Date
1 CRVL	CorVel Corporation	NasdaqGS	$49 00	90%	129%	42 5%	39 4%	35 5%	0 73	0 18	39%	0 84	0 84	NA	NA
2 EXLS	Exlservice Holdings, Inc	NasdaqGS	$24 64	85%	121%	51 9%	30 7%	27 4%	1 22	0 27	28%	1 14	1 14	NA	NA
3 NasdaqCM STRM	Streamline Health Solutions, Inc	NasdaqCM	$3 70	97%	274%	63 2%	52 1%	71 1%	0 69	0 04	4%	0 81	0 69	NA	NA
4 ATHN	athenahealth, Inc	NasdaqGS	$79 17	91%	194%	NA	52 4%	36 4%	0 84	0 11	44%	0 90	0 90	NA	NA
5 AH	Accretive Health, Inc	NYSE	$10 96	33%	141%	NA	90 6%	128 0%	0 94	0 06	39%	0 97	0 97	NA	NA
6 TSX CCT	Catamaran Corporation	TSX	$101 11	96%	244%	44 8%	46 7%	41 7%	0 23	0 01	34%	0 52	0 51	BB	5/22/2012
7 MDRX	Allscripts Healthcare Solutions, Inc	NasdaqGS	$10 93	50%	122%	NA	58 8%	94 3%	0 86	0 13	39%	0 92	0 84	BB+	7/28/2011
8 HMSY	HMS Holdings Corp	NasdaqGS	$33 31	95%	168%	40 7%	44 0%	41 1%	0 16	0 01	41%	0 47	0 44	NA	NA
9 MMS	MAXIMUS, Inc	NYSE	$51 75	100%	166%	25 2%	30 8%	27 8%	0 71	0 30	38%	0 82	0 82	NA	NA
10 MDAS	MedAssets, Inc	NasdaqGS	$13 45	92%	158%	NA	49 6%	32 4%	0 89	0 17	NA	0 93	NA	B+	10/28/2010
11 WNS	WNS (Holdings) Ltd	NYSE	$9 73	75%	124%	57 1%	45 1%	26 1%	0 89	0 08	48%	0 94	0 86	NA	NA
	Max					63 2%	90 6%	128 0%	1 22	0 30	48%	1 14	1 14		
	Min					25 2%	30 7%	26 1%	0 16	0 01	4%	0 47	0 44		
	Median					44 8%	46 7%	36 4%	0 84	0 11	39%	0 90	0 84		
	Mean					46 5%	49 1%	51 1%	0 74	0 12	35%	0 84	0 80		
	1st Quartile					41 6%	41 7%	30 1%	0 70	0 05	35%	0 81	0 72		
	3rd Quartile					54 5%	52 3%	56 4%	0 89	0 18	41%	0 94	0 89		

Size Data:

Ticker	Name	FYE	LTM Date	Market Cap	MVIC	Revenue LTM	Revenue CY2012	Book Equity	Total Assets	5 Yr Avg	EBITDA LTM	EBITDA CY2012	Net Income 5 Yr Avg	Net Income LTM	Fulltime Employees
1 CRVL	CorVel Corporation	3/31/2012	3/31/2012	$556 9	556 93	$412 7	$432 1	$110 4	$171 9	$53 2	$58 2	NA	$24 0	$26 6	3,145
2 EXLS	Exlservice Holdings, Inc	12/31/2011	3/31/2012	$786 2	792 019	$392 2	$445 9	$305 6	$383 4	$36 9	$70 1	$81 9	$23 7	$35 3	NA
3 NasdaqCM STRM	Streamline Health Solutions, Inc	1/31/2012	4/30/2012	$38 6	45 72	$18 4	$21 1	$8 7	$24 6	$0 6	$2 1	$5 2	($0 8)	$0 8	NA
4 ATHN	athenahealth, Inc	12/31/2011	3/31/2012	$2,837 9	2837 85	$350 7	$428 9	$253 5	$350 9	$24 7	$52 9	$85 7	$13 0	$18 2	NA
5 AH	Accretive Health, Inc	12/31/2011	3/31/2012	$1,088 4	1088 4	$916 3	$980 9	$255 4	$408 4	$22 5	$58 8	$88 2	$11 7	$30 5	2,858
6 TSX CCT	Catamaran Corporation	12/31/2011	3/31/2012	$6,966 7	7066 68	$5,594 9	$7,096 1	$711 3	$1,284 1	$86 5	$188 0	$257 2	$46 2	$99 9	NA
7 MDRX	Allscripts Healthcare Solutions, Inc	12/31/2011	3/31/2012	$2,086 0	2431 64	$1,473 5	$1,504 8	$1,489 5	$2,551 6	$116 0	$246 7	$349 3	$30 3	$66 8	NA
8 HMSY	HMS Holdings Corp	12/31/2011	3/31/2012	$2,863 4	3209 055	$388 7	$508 1	$412 1	$865 4	$68 8	$117 1	$172 5	$30 9	$45 0	2,102
9 MMS	MAXIMUS, Inc	9/30/2011	3/31/2012	$1,756 8	1758 517	$971 5	$1,101 5	$410 7	$615 8	$97 8	$136 8	$155 1	$39 3	$77 4	NA
10 MDAS	MedAssets, Inc	12/31/2011	3/31/2012	$784 4	1757 949	$597 6	$608 5	$421 0	$1,718 3	$98 8	$182 0	$197 7	($2 1)	$0 4	NA
11 WNS	WNS (Holdings) Ltd	3/31/2012	3/31/2012	$487 3	573 94	$474 1	$412 5	$284 1	$525 0	$66 7	$71 5	$76 2	$10 4	$12 5	23,874
	Max			$6,966 7	$7,066 7	$5,594 9	$7,096 1	$1,489 5	$2,551 6	$116 0	$246 7	$349 3	$46 2	$99 9	23,874
	Min			$38 6	$45 7	$18 4	$21 1	$8 7	$24 6	$0 6	$2 1	$5 2	($2 1)	$0 4	2,102
	Median			$1,088 4	$1,757 9	$474 1	$508 1	$305 6	$525 0	$66 7	$71 5	$121 6	$23 7	$30 5	3,002
	Mean			$1,841 1	$2,010 8	$1,053 7	$1,230 9	$423 8	$809 0	$61 1	$107 6	$146 9	$20 6	$37 6	7,995
	1st Quartile			$670 7	$683 0	$390 5	$430 5	$254 4	$367 2	$30 8	$58 5	$82 8	$11 0	$15 4	2,669
	3rd Quartile			$2,461 9	$2,634 7	$943 9	$1 041 2	$416 5	$1,074 7	$92 2	$159 4	$191 4	$30 6	$55 9	8,327

Notes

Source Capital IQ. In reported millions, except per share data Financial statement data is per filings as of the date of value

Unlevered Beta = Levered Beta / (1 + ((D/E) * (1 - T)) + Pref/E)

MVIC = Market Capitalization + Total Debt + Total Preferred Equity + Minority Interest

EXHIBIT 35

HEALTH-E-WEB

COMPARABLE PUBLIC COMPANY ANALYSIS - ($MM)

Date of Value **6/30/2012**

Trading Multiples.

	Ticker	Name	Price to Earnings LTM	Price to Earnings CY2012	Price to Earnings CY2013	Market Cap / EBT LTM	Market Cap / Gross CF LTM	Price to BV LTM	Price to Tangible BV LTM	MVIC / Total Revenue LTM	MVIC / Total Revenue CY2012	MVIC / Total Revenue CY2013	MVIC / EBITDA LTM	MVIC / EBITDA CY2012	MVIC / EBITDA CY2013	MVIC / EBIT LTM
1	CRVL	CorVel Corporation	21.0x	22.0x	16.1x	12.8x	13.7x	5.0x	8.2x	1.3x	1.3x	1.2x	9.6x	NA	NA	12.8x
2	EXLS	Exlservice Holdings, Inc	25.2x	16.1x	13.5x	15.7x	12.8x	2.5x	4.4x	2.0x	1.8x	1.5x	11.3x	9.7x	8.2x	17.4x
3	NasdaqCM STRM	Streamline Health Solutions, Inc	58.9x	28.5x	20.0x	38.2x	25.2x	4.5x	NM	2.5x	2.2x	1.8x	21.7x	8.8x	7.0x	33.4x
4	ATHN	athenahealth, Inc	127.9x	81.0x	59.4x	78.7x	77.5x	11.2x	15.8x	8.1x	6.6x	5.2x	53.7x	33.1x	25.1x	79.3x
5	AH	Accretive Health, Inc	35.8x	24.5x	17.3x	21.8x	35.5x	4.3x	4.3x	1.2x	1.1x	1.0x	18.5x	12.3x	8.9x	21.8x
6	TSX CCT	Catamaran Corporation	67.4x	40.3x	28.0x	46.1x	47.9x	9.8x	63.6x	1.3x	1.0x	0.8x	37.6x	27.5x	18.6x	45.7x
7	MDRX	Allscripts Healthcare Solutions, Inc	22.9x	15.0x	12.7x	14.3x	14.0x	1.4x	NM	1.7x	1.6x	1.5x	9.9x	7.0x	6.2x	15.1x
8	HMSY	HMS Holdings Corp	57.3x	35.7x	28.7x	35.0x	31.6x	7.0x	NM	8.3x	6.3x	5.1x	27.4x	18.6x	14.9x	37.3x
9	MMS	MAXIMUS, Inc	23.7x	21.6x	16.9x	14.3x	18.0x	4.3x	5.7x	1.8x	1.6x	1.4x	12.9x	11.3x	9.2x	14.8x
10	MDAS	MedAssets, Inc	137.5x	12.7x	11.2x	87.6x	7.2x	1.9x	NM	2.9x	2.9x	2.7x	9.7x	8.9x	8.3x	22.3x
11	WNS	WNS (Holdings) Ltd	30.2x	28.6x	19.3x	20.3x	8.3x	1.7x	5.9x	1.2x	1.4x	1.3x	8.0x	7.5x	6.9x	22.1x
		Count	11	11	11	11	11	11	7	11	11	NA	11	10	NA	11
		Max	137.5x	81.0x	59.4x	87.6x	77.5x	11.2x	63.6x	8.3x	6.6x	NA	53.7x	33.1x	NA	79.3x
		Min	21.0x	12.7x	11.2x	12.8x	7.2x	1.4x	4.3x	1.2x	1.0x	NA	8.0x	7.0x	NA	12.8x
		Median	35.8x	24.5x	17.3x	21.8x	18.0x	4.3x	5.9x	1.8x	1.6x	NA	12.9x	10.5x	NA	22.1x
		Mean	55.2x	29.6x	22.1x	35.0x	26.7x	4.9x	15.4x	2.9x	2.5x	NA	20.0x	14.5x	NA	29.3x
		1st Quartile	24.5x	18.8x	14.8x	15.0x	13.3x	2.2x	5.1x	1.3x	1.3x	NA	9.8x	8.8x	NA	16.2x
		3rd Quartile	63.2x	32.1x	24.0x	42.2x	34.5x	6.0x	12.0x	2.7x	2.5x	NA	24.5x	17.0x	NA	35.3x

Trading Multiple Adjustments (size, growth, unique risk).

	Ticker	Name	Price to Earnings LTM	Price to Earnings CY2012	Price to Earnings CY2013	Market Cap / EBT LTM	Market Cap / Gross CF LTM	Price to BV LTM	Price to Tangible BV LTM	MVIC / Total Revenue LTM	MVIC / Total Revenue CY2012	MVIC / Total Revenue CY2013	MVIC / EBITDA LTM	MVIC / EBITDA CY2012	MVIC / EBITDA CY2013	MVIC / EBIT LTM
1	CRVL	CorVel Corporation	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
2	EXLS	Exlservice Holdings, Inc	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
3	NasdaqCM STRM	Streamline Health Solutions, Inc	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
4	ATHN	athenahealth, Inc	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%
5	AH	Accretive Health, Inc	58%	58%	58%	58%	58%	58%	58%	58%	58%	58%	58%	58%	58%	58%
6	TSX CCT	Catamaran Corporation	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%
7	MDRX	Allscripts Healthcare Solutions, Inc	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
8	HMSY	HMS Holdings Corp	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
9	MMS	MAXIMUS, Inc	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%
10	MDAS	MedAssets, Inc	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%
11	WNS	WNS (Holdings) Ltd	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%

Adjusted Trading Multiples.

	Ticker	Name	Price to Earnings LTM	Price to Earnings CY2012	Price to Earnings CY2013	Market Cap / EBT LTM	Market Cap / Gross CF LTM	BV LTM	Tangible BV LTM	MVIC / Total Revenue LTM	MVIC / Total Revenue CY2012	MVIC / Total Revenue CY2013	MVIC / EBITDA LTM	MVIC / EBITDA CY2012	MVIC / EBITDA CY2013	MVIC / EBIT LTM
1	CRVL	CorVel Corporation	14.5x	15.2x	11.1x	8.8x	9.5x	3.5x	5.7x	0.9x	0.9x	0.8x	6.6x	NA	NA	8.8x
2	EXLS	Exlservice Holdings, Inc	11.3x	7.3x	6.1x	7.1x	5.8x	1.1x	2.0x	0.9x	0.8x	0.7x	5.1x	4.4x	3.7x	7.8x
3	NasdaqCM STRM	Streamline Health Solutions, Inc	34.8x	16.8x	11.8x	22.5x	14.9x	2.6x	NA	1.5x	1.3x	1.0x	12.8x	5.2x	4.1x	19.7x
4	ATHN	athenahealth, Inc	58.8x	37.3x	27.3x	36.2x	35.6x	5.1x	7.3x	3.7x	3.0x	2.4x	24.7x	15.2x	11.5x	36.5x
5	AH	Accretive Health, Inc	15.0x	10.3x	7.3x	9.1x	14.9x	1.8x	1.8x	0.5x	0.5x	0.4x	7.8x	5.2x	3.7x	9.1x
6	TSX CCT	Catamaran Corporation	22.9x	13.7x	9.5x	15.7x	16.3x	3.3x	21.6x	0.4x	0.3x	0.3x	12.8x	9.3x	6.3x	15.5x
7	MDRX	Allscripts Healthcare Solutions, Inc	9.2x	6.0x	5.1x	5.7x	5.6x	0.6x	NA	0.7x	0.6x	0.6x	3.9x	2.8x	2.5x	6.0x
8	HMSY	HMS Holdings Corp	25.8x	16.0x	12.9x	15.8x	15.1x	3.1x	NA	3.7x	2.8x	2.3x	12.3x	8.4x	6.7x	16.8x
9	MMS	MAXIMUS, Inc	9.7x	8.8x	6.9x	5.9x	7.4x	1.8x	2.4x	0.7x	0.7x	0.6x	5.3x	4.6x	3.8x	6.1x
10	MDAS	MedAssets, Inc	60.5x	5.6x	4.9x	38.5x	3.2x	0.8x	NA	1.3x	1.3x	1.2x	4.2x	3.9x	3.7x	9.8x
11	WNS	WNS (Holdings) Ltd	13.6x	12.8x	8.7x	9.1x	3.8x	0.8x	2.7x	0.5x	0.6x	0.6x	3.6x	3.4x	3.1x	9.9x
		Count	11	11	11	11	11	11	7	11	11	11	11	10	10	11
		Max	60.5x	37.3x	27.3x	38.5x	35.6x	5.1x	21.6x	3.7x	3.0x	2.4x	24.7x	15.2x	11.5x	36.5x
		Min	9.2x	5.6x	4.9x	5.7x	3.2x	0.6x	1.8x	0.4x	0.3x	0.3x	3.6x	2.8x	2.5x	6.0x
		Median	15.0x	12.8x	8.7x	9.1x	9.5x	1.8x	2.7x	0.9x	0.8x	0.7x	6.6x	4.9x	3.8x	9.8x
		Mean	25.1x	13.6x	10.1x	15.9x	12.0x	2.2x	6.2x	1.4x	1.2x	1.0x	9.0x	6.2x	4.9x	13.3x
		1st Quartile	12.5x	8.0x	6.5x	8.0x	5.7x	1.0x	2.2x	0.6x	0.6x	0.6x	4.7x	4.0x	3.7x	8.3x
		3rd Quartile	30.3x	15.6x	11.4x	19.1x	15.0x	3.2x	6.5x	1.4x	1.3x	1.1x	12.6x	7.6x	5.8x	16.2x

EXHIBIT 36

HEALTH-E-WEB

MARKET APPROACH - PUBLIC COMPANY COMPARISON - ($000)

Valuation Ratios	Adjusted Median Valuation Ratio	Number of Ratios	Subject Company Financial Basis	Indicated Value	Subtract Debt[a]	Indicated Equity Value	Weight
Total Equity Multiples							
Price to Earnings (LTM)	15 0x	11	291	4,366	NA	4,366	25%
Market Cap / EBT	9 1x	11	472	4,316	NA	4,316	25%
MVIC Multiples							
MVIC / Total Revenue (LTM)	0 9x	11	4,411	4,014	0	4,014	25%
MVIC / EBITDA (LTM)	6 6x	11	696	4,597	0	4,597	25%
Concluded Value - Public Company Analysis						**4,323**	

Notes:

a Not Applicable (NA) for total equity multiples

b. CY is calendar year.

EXHIBIT 37

HEALTH-E-WEB

ASSET-BASED APPROACH ANALYSIS ($000)

	Book Value[a] 6/30/2012	Adjustment	Adjusted Book Value[b]
Current Assets:			
Cash & Marketable Securities	811	0	811
Trade Accounts Receivable	680	0	680
Other Accounts Receivable	277	0	277
Other Current Assets	191	0	191
PP&E, Net	549	0	549
Other Non-Current Assets:	232	0	232
Intangibles, Net	1,148	0	1,148
Total Assets	3,887	0	3,887
Total Liabilities	1,199	0	1,199
Total Equity	2,688	0	2,688

Asset Based Approach Summary:	
Concluded Value - Asset Based Approach	**2,688**

Notes:

a. Per Exhibit 26.

b. At book value unless noted.

EXHIBIT 38

HEALTH-E-WEB

VALUATION SUMMARY

	Indicated Value	Weight	Notes
Concluded Income Approach Value	$3,438,000	50%	a
Concluded Market Approach Value - Public Companies	$4,323,000	50%	b
Concluded Asset Based Approach Value	$2,688,000	0%	c
Concluded Fair Market Value of Total Equity	**$3,881,000**		

Notes:

a. See Exhibit 33.
b. See Exhibit 36.
c. See Exhibit 37.

Schedule 1: Statement of Contingent and Limiting Conditions

Information, estimates, statements of fact, and opinions contained in this report are obtained from sources considered reliable; however, Moss Adams LLP has not independently verified such information and assumes no responsibility for any information provided by any such sources, including but not limited to the Company.

This report and the conclusions of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of value are not intended by the authors and should not be construed by a reader to be investment advice of any kind whatsoever. The conclusion of value represents the considered opinion of Moss Adams LLP, based on information furnished to them by the Client and other sources.

Moss Adams LLP does not provide assurance on the achievability of the results forecasted by the Client or the Client's affiliated Company. Events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

The subject Company, Client, and all representatives of the Company and Client have warranted to Moss Adams LLP that the information supplied was complete and accurate to the best of their knowledge and that any reports, analysis, or other documents prepared for it by appraisers will be used only in compliance with all applicable laws and regulations.

Possession of this report or a copy thereof does not carry with it the right of publication of all or part of it, nor may it be used for any purpose other than that stated in the report without the previous written consent of the appraisers, and in any event, only with proper attribution. Authorized copies of this report will be signed by an authorized representative of Moss Adams LLP. Unsigned copies or copies not signed by an authorized representative should be considered incomplete.

Appraisers are not required to give testimony in court or to be in attendance during any hearings or depositions with reference to the Company being appraised unless previous arrangements have been made with appraisers.

The various estimates of value presented in this report apply to this appraisal only and may not be used out of the context presented herein.

Moss Adams LLP has made no explicit or implicit assumptions that are hidden or unapparent to a reader regarding the business. All factors considered materially important to the appraisal of the Company have been clearly delineated in this report. No other factors are known to the appraisers at the time this report is written.

Moss Adams LLP assumes no responsibility for the legal description of the business being appraised and expressly assumes the transferability of title in the business without encumbrance unless otherwise stated in this report. We further assume the subject interest in the business is free and clear of all liens or encumbrances unless otherwise stated.

Moss Adams LLP takes no responsibility for changes in market or economic conditions that may affect this Company following the date of value and assumes no liability to revise this report to reflect events or conditions that occur after the appraisal date of this report.

The estimate of Fair Market Value reached in this report is based only on the definition of Fair Market Value as stated in the Introduction section of this report. An actual transaction in the shares may be concluded at a higher or lower value, depending on the circumstances surrounding the Company, the business interest being bought or sold, and/or the motivations and knowledge of the buyers and sellers at the time the transaction is consummated. Moss Adams LLP makes no guarantees whatsoever as to the value that individual buyers and sellers might reach in an actual transaction.

Moss Adams LLP has not been engaged to apply, and therefore has not applied, procedures prescribed by the American Institute of Certified Public Accountants or the Auditing Standards Board to any historical or forecasted financial statements included or incorporated in this report. Accordingly, Moss Adams LLP is not assuming the role of a reporting Certified Public Accountant and is not separately reporting on the financial statement or forecast into the value of the Company by virtue of their consideration.

To ensure compliance with the requirements imposed on us by IRS Circular 230 (31 C.F.R. part 10), we inform you that any tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties under the Internal Revenue Code or promoting, marketing or recommending to another party any tax-related matter(s) addressed herein.

Schedule 2: Certificate of Appraiser

We certify that, to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.

We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the American Society of Appraisers and the Uniform Standards of Professional Appraisal Practice.

No one, other than those whose signatures appear below, provided significant business valuation assistance in the preparation of this report.

The American Society of Appraisers has a mandatory re-accreditation program for all of its senior members. Each senior member signing below is in compliance with that program.

Respectfully submitted,

D. ALAN HUNGATE, CFA, ASA
Principal

CALVIN E. SWARTLEY, CFA, ASA
Senior Manager

Schedule 3: Sources of Information

As part of our analysis, we reviewed the following documents:

- Financial and Other Data for Blue Cross Blue Shield of Montana and its Subsidiaries
  - The Company's audited GAAP financial statements for 2007-2011.
  - The Company's audited SAP financial statements for 2007-2011.
  - The Company's internal financial statements for the six months ended June 30, 2011 and June 30, 2012 under both GAAP and SAP principals.
  - CBMI's audited GAAP financial statements for 2007-2011.
  - CBMI's internal financial statements for the six months ended June 30, 2011 and June 30, 2012.
  - The Company's four year financial projections.
  - Health-E-Web's four year financial projections.
  - Health-E-Web's 2012 Business Plan.
  - The Company's Board of Directors Meeting Minutes for April 6, 2012.
  - The Company's Accounts Receivable Aging as of June 30, 2012.
  - Actuarial Valuation for the Company's Benefit Restoration Plan. David Dougherty, LLC. Prepared as of December 31, 2011.
  - Life Insurance Statement for Blue Cross Blue Shield of Montana. Northwest Mutual Life Insurance Company, as of June 30, 2012.
  - Account Statements for Blue Cross Blue Shield of Montana. Wells Fargo, as of June 30, 2012.
  - TriWest Alliance, Inc. book value of equity and financial statement summary as of June 30, 2012.
  - WPMI, LLC internal financial statements for the six months ending June 30, 2012.
  - Additional financial and company data.
- Economic data:
  - *Annual Statement Studies: Financial Ratio Benchmarks, 2011-2012.* The Risk Management Association.
  - National Economic Outlook Update, Q2 2012. Business Valuation Resources.[1]
  - Wall St. Cheat Sheet. "Consumer Confidence: A New Type of Record Low." Accessed 23 Feb. 2012. <http://wallstcheatsheet.com>.

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[1] "All of the contents of the national economic outlook section of this valuation report are quoted from the Economic Outlook Update™ 2Q 2012 published by Business Valuation Resources, LLC, © 2012, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report."

- *Regional Perspectives: Montana Economic Outlook.* JPMorgan Chase & Co., August 29, 2012.

- Industry data:
  - Medical Claims Processing Services in the U.S. IBISWorld. Oct. 2011.
  - Medical Services Industry. Value Line. 14 Sep. 2012.
  - Standard & Poor's Monthly Industry Surveys: Insurance: Life & Health. Standard & Poor's. 12 Apr. 2012.
  - Standard & Poor's Monthly Investment Review: Life & Health Insurance. Standard & Poor's. Sep. 2012.
  - Health & Medical Insurance in the U.S. IBISWorld. Aug. 2012.
  - Health Insurance Carriers. First Research. 6 Aug. 2012.
  - Medical Services Industry. Value Line. 14 Sep. 2012.
  - Standard & Poor's Monthly Industry Surveys: Insurance: Life & Health. Standard & Poor's. 12 Apr. 2012.
  - Standard & Poor's Monthly Investment Review: Life & Health Insurance. Standard & Poor's. Sep. 2012.
- Capital market data:
  - *Ibbotson Cost of Capital 2011 Yearbook.* Morningstar.
  - *Cost of Capital Yearbook Quarterly Update: 2012 Update.* Morningstar.
  - *Ibbotson SBBI 2011 Valuation Yearbook,* Morningstar.
  - *Duff & Phelps, LLC Risk Premium Report 2011* Ibbotson Associates.
  - *Federal Reserve Statistical Release: H.15 (519) selected interest rates.* The Federal Reserve Board. June 30, 2012. Accessed August 22, 2012 <www.federalreserve.gov>.
  - Public Company Market Data and Private Company Merger & Acquisitions Data. Capital IQ, Inc., a division of Standard & Poor's. September 2012.
  - Insurance Industry Data, SNL Financial Database, SNL Financial, LC, accessed September 2012.
- Howitt, Idelle A., Federal Tax Valuation Digest – 2009/2010 Cumulative Edition. Thomson RIA. 2009.

Appendix A

Financial Ratio Definitions

Financial Ratio Definitions

Definitions and interpretations of the financial ratios used in the Financial Review section of this report are presented below.

Growth

Annual growth rates are measured as the percentage change from one year to the next. A compound annual growth rate (CAGR) is computed by dividing the later year's result by the earlier year's result, taking the nth root (where "n" is equal to the difference in years minus one), and then subtracting one from the overall figure.

Profitability

Various types of ratios are available to indicate the firm's profitability, measured as a return on sales. Comparison of these profit margins with industry benchmarks may be complicated by differences in accounting policies between the firm and the industry norm.

Each profitability ratio is computed by dividing the selected profit or cash flow figure by net sales.

- **Gross Profit Margin** – measures the effectiveness of a firm's pricing policies and its efficiency in producing and delivering products or services. Differences in classification of overhead expenses can make comparisons with industry norms difficult.
- **Operating Profit Margin** – indicates the productivity of company operations, before taking financing and non-operating activities into account.
- **EBITDA Margin** – where EBITDA equals earnings before interest, taxes, depreciation and amortization. It measures cash flow (before non-cash charges) after accounting for non-operating activities but before financing decisions.
- **EBIT Margin** – where EBIT equals earnings before interest and taxes. It indicates profitability after accounting for non-operating activities but before financing decisions.
- **Pretax Profit Margin** – measures a firm's overall efficiency after taking financing and non-operating activities into account but before accounting for its tax position.
- **Net Profit Margin** – indicates overall efficiency after taking all activities into account.
- **Gross Cash Flow Margin** – where gross cash flow equals net income plus depreciation and amortization. It measures cash flow after taking all activities into account.

Efficiency

Efficiency ratios are used to assess management's performance and to provide additional insight into a firm's profitability. Caution must be used in interpreting individual ratios, which should be used in conjunction with other efficiency ratios.

Pretax Return on Equity – equals pretax profit divided by tangible net worth (total owners' equity less net intangible assets). It expresses the rate of return to equity owners and can be an indicator of management performance. A high return could indicate either effective management or an undercapitalized company. Conversely, a low ratio may indicate inefficient management performance or a highly capitalized, conservatively managed firm. Additional insight can be gained by breaking this ratio down into components.

Stock investors are more interested in the return on equity than the return on assets. Debt financing increases risk to stockholders. As long as a higher rate of return can be earned on assets than is paid for debt capital, then higher leverage will increase the return on equity. Leverage can enhance an owners' rate of return in good years, but in bad years, owners will be worse off than they would be without the borrowing because debt service may be more difficult.

Debt-Free Return on Assets – equals EBIT (earnings before interest and taxes) divided by total assets. This ratio measures the rate of return on assets before the effect of financing decisions and indicates how efficiently assets are being employed. This measurement may be distorted by highly depreciated fixed assets, large intangible assets, or unusual income or expenses. Breaking this ratio down into components provides additional understanding of a company's efficiency.

Pretax Return on Assets – equals pretax profit divided by total assets. Unlike **Debt-Free Return on Assets**, this ratio uses after-interest income. Although widely used, the use of this ratio can be criticized because it makes leveraged firms appear less profitable by charging interest costs against assets. As with other measures of return, additional insight can be gained into this ratio by analyzing its component parts.

Sales to Assets Ratio – equal to net sales divided by total assets. This ratio indicates how effectively the firm employs its assets. A low ratio may indicate inadequate sales volume or excessive asset levels.

Pretax to EBIT Ratio – equals pretax income divided by EBIT (earnings before interest and taxes). This ratio, which is always less than one, represents earnings leverage and is equivalent to the inverse of financial leverage and so decreases return on equity relative to return on assets.

Assets to Equity Ratio – equal to total assets divided by tangible net worth (total owners' equity less net intangible assets). It is also equal to 1.0 plus the **Debt to Equity Ratio**, discussed below. This ratio indicates the degree to which assets are financed by equity capital, as opposed to debt capital. A high ratio indicates a high level of financial leverage, or a low level of equity financing, while a low ratio indicates the reverse. This ratio is always greater than or equal to one and has the effect of increasing return on equity relative to return on assets.

Sales to Net Fixed Assets Ratio – equal to net sales divided by net fixed assets. It measures how productively the company's fixed assets are employed. Viewed over time, this ratio can indicate changing productivity or non-operating assets. This ratio may be distorted by highly depreciated assets or labor intensive operations. Changes in the sales to net fixed assets turnover ratio must be interpreted carefully. Investments in fixed assets are often made several periods before they begin generating sales. Therefore, a low or decreasing ratio may indicate that the firm is expanding in preparation for future growth. Conversely, a firm may reduce capital expenditures if the near-term outlook for sales is poor, producing an increase in the plant asset turnover ratio.

Sales to Working Capital Ratio – equal to net sales divided by net working capital (current assets less current liabilities). Working capital reflects the ability to finance current operations and provides an indication of the margin of protection for current creditors. The sales to working capital ratio shows how efficiently working capital is used. Low ratios may indicate the inefficient employment of working capital. A high ratio can indicate the efficient use of current assets or, conversely, it could indicate inadequate liquidity or overextended credit.

Accounts Receivable Turnover Ratio – equal to net sales divided by trade receivables. This ratio indicates the number of times receivables turn over during the year and provides an indication of the firm's control over credit and collections. The higher the turnover, the shorter the time between the sale date and the date cash is collected. Lower turnover places a strain on short-term liquidity and indicates a greater likelihood that there are delinquent accounts. However, this ratio can also be affected by variations in terms granted to customers. High turnover may indicate overly stringent credit terms, which may be limiting sales. One problem with this ratio is that it compares receivables at one date with sales for an entire year and does not take into account seasonal fluctuations. Interpretation of this ratio will be difficult if a large percentage of a firm's sales are cash sales.

Inventory Turnover Ratio – equal to cost of sales divided by inventory. This ratio measures the number of times inventory turns over in a year. High turnover could indicate better liquidity or merchandising or, alternately, it could indicate a shortage of inventory. Low turnover can place a strain on short-term liquidity and may indicate overstocking, obsolescence or, conversely, a planned inventory buildup in anticipation of material shortages or higher sales. Trade-offs are required in choosing an optimum level of inventory and the desired rate of turnover. Like the previous ratio, this measurement ignores seasonal fluctuations in inventory. Also, industry norms usually do not take differences in inventory valuation methods into account.

Payables Turnover Ratio – equal to cost of sales divided by trade payables. This ratio indicates the number of times trade payables turn over in a given year. The higher the ratio, the shorter the time between purchases and payments by the firm. A low ratio may indicate cash shortages, invoice disputes, expanded use of trade credit or favorable terms from suppliers. If a company typically buys on 30 days' terms, then this ratio can be expected to indicate a turnover period of about 30 days. Similar to the previous two ratios, this ratio does not take into account seasonal fluctuations.

Liquidity

Liquidity ratios measure the ability of a company to meet its current obligations as they come due. These ratios can help determine whether a firm has any assets in excess of those required for normal operations or whether the assets fall short of normal needs. However, the composition and quality of current assets is an important factor in assessing a firm's overall liquidity.

One problem with liquidity ratios is that they are computed at one date and do not take into account seasonal variations. In addition, they may not accurately reflect a firm's use of short-term credit to finance its liquidity needs.

Current Ratio – equal to total current assets (those which will convert to cash within one year) divided by total current liabilities (those due within one year). This ratio gives a rough measure of a company's overall ability to service its current obligations. If this ratio is too low, the firm may have difficulty in meeting its short-term obligations as they come due. A ratio that is too high may reflect excessive investments in current assets or under-utilization of short-term credit.

Quick Ratio – equal to cash and equivalents plus trade receivables divided by total current liabilities. Also called the "acid-test ratio," it is a more conservative measure of liquidity than the current ratio. It illustrates the degree to which the firm's current liabilities are covered by the most liquid current assets. If the quick ratio is too low, a company may have difficulty meeting its immediate credit obligations. A ratio that is too high may indicate excessive investments in cash and securities or poor accounts receivable collections.

Days' Receivables – equal to 365 days divided by the accounts receivable turnover ratio. It measures the average number of days that receivables remain uncollected. Interpretation of this ratio depends on a firm's terms of sale. A ratio that is greater than a firm's standard terms indicates that collections need improvement. Conversely, a ratio that is less than a company's standard terms indicates that collections are being handled well. See the **Accounts Receivable Turnover Ratio** definition for more comments.

Days' Inventory – equal to 365 days divided by the inventory turnover ratio. It measures the average number of days items remain in inventory. See the **Inventory Turnover Ratio** definition for other comments.

Operating Cycle – equal to days' receivables plus days' inventory. It represents the average number of days it takes to convert inventory to cash and indicates the relationship of sales and collections.

Days' Payables – equal to 365 days divided by the payables turnover ratio. This ratio indicates the average number of days that trade payables are outstanding. See the **Payables Turnover Ratio** definition for additional comments.

Cash Cycle – equal to the operating cycle minus days' payables. It represents the average number of days a firm's cash is tied up in the operating cycle and indicates the relationship of sales, collections, and credit in a way the individual ratios do not.

Solvency

Solvency ratios are used to measure a firm's ability to meet interest and principal payments on long-term debt and other obligations as they become due. These ratios can be further classified into two categories, leverage, and coverage.

Leverage

Leverage ratios indicate whether or not there are sufficient assets to pay off debt if a firm has to liquidate and measure a company's vulnerability to business downturns.

Debt to Worth Ratio – equals total liabilities divided by tangible net worth (total owners' equity less net intangible assets). This ratio indicates the relationship between capital contributed by creditors and by equity owners. It measures the margin of protection provided by the owners to the creditors. A higher ratio indicates that creditors are assuming greater risk and that the firm has limited capacity to take on additional debt. Lower ratios generally indicate higher long-term financial safety for creditors and a greater ability to borrow in the future.

Long-Term Debt to Total Capital – equal to long-term debt (including current portion) divided by the sum of long-term debt and tangible net worth. This ratio measures the extent that long-term debt is used to finance the company.

Coverage

Coverage ratios measure a company's ability to service its interest-bearing debt. Like all financial ratios, a coverage ratio should be compared to an appropriate benchmark such as an industry norm rather than to a single absolute standard.

Interest Coverage Ratio – equal to EBIT (earnings before interest and taxes) divided by interest expense. This ratio expresses a company's ability to meet interest payments as well as its capacity to take on additional interest-bearing debt. High coverage indicates that the firm has little problem

meeting its current loan obligations and can take on additional debt. This ratio can be criticized as a measure of solvency because it uses earnings rather than cash flows. Interest payments are paid in cash, not earnings.

Cash Flow to Current Debt Ratio – equal to net income plus depreciation and amortization, divided by the current portion of long-term debt. It measures a firm's ability to cover current debt maturities with cash flow from operations. Cash flow is the primary source for debt payments, so this ratio indicates a company's ability to make principal repayments and to take on additional interest-bearing debt. Although in reality all cash flow is not available for debt service, this ratio provides a useful indication of the firm's ability to service its long-term debt.

Appendix B

Discount Rate

Discount Rate

The discount rate is a market-driven rate representing the rate of return necessary to induce investors to bear the risk of committing funds to an investment. The discount rate is applied to the expected free cash flows to estimate a total capital value (interest-bearing debt plus stockholders' equity).

The discount rate used is the weighted average cost of capital. The equation for the weighted average cost of capital (WACC) is as follows:

$$WACC = [(D \div V) \times K_d \times (1 - T)] + [(E \div V) \times K_e]$$

where:

$(D \div V)$ = ratio of market value of interest-bearing debt to total capital

$(E \div V)$ = ratio of equity capital to total capital = $1 - (D \div V)$

Kd = cost of interest-bearing debt capital

Ke = levered cost of equity capital, which relies on a beta estimate reflecting the industry average debt level, per the publicly traded guideline companies. See calculation below.

T = marginal tax rate

The leverage ratios $(D \div V)$ and $(E \div V)$ are forecasted based on specific assumptions of the Company's leverage in the future. Our estimates of leverage are generally based on observed industry average leverage ratios, on an analysis of the subject's historical leverage, or on leverage ratios for comparable publicly-traded companies. Leverage ratios are typically forecasted to remain constant in the future.

The cost of interest-bearing debt (K_d) was based on the subject's actual borrowing costs as of the date of value. A combined state and federal marginal tax rate (T) was used.

There are several widely used and effective methods to estimate the levered cost of equity capital, including the capital asset pricing model (CAPM), the discounted cash flow method, arbitrage pricing theory (APT), and the Fama-French three factor model. We selected the Capital Asset Pricing Model (CAPM) in our analysis.

The CAPM is modified to account for a small stock premium and subject company risk, as follows:

$$K_e = R_f + (B_l \times R_e) + R_s + R_c$$

where:

K_e	=	levered cost of equity capital
R_f	=	risk-free rate
B_l	=	levered beta
R_e	=	equity risk premium
R_s	=	small stock risk premium

R_c = subject company risk premium, as discussed in the Income Approach section of this report

The levered beta (B_l) is computed using the following equation:

$$B_l = B_u \times [1 + \{(1 - T) \times (D \div E)\}]$$

where:

B_u = unlevered beta

T = marginal tax rate

$D \div E$ = ratio of market value of interest-bearing debt to equity capital

Risk Free Rate

The CAPM implicitly assumes the presence of a single riskless asset. U.S. Treasury securities are considered to be default-free for all practical purposes and, therefore, a useful proxy for the riskless asset.

The horizon of the chosen Treasury security should match the anticipated holding period for the investment considered. For valuations involving going concerns, we utilize the 20 year Treasury Coupon (Treasury Constant Maturity) Bond Yield.

Beta

Systematic, or market, risk is measured in CAPM by the beta coefficient. As used herein, the beta coefficient is a measure of a stock's volatility in relation to the rest of the market. Stocks with a beta that is higher than 1 have historically demonstrated higher volatility of return than the broad market average, while stocks with betas below 1 have exhibited lower overall volatility than the broad market average. Similarly, stocks with betas above 1 have required rates of return (ROI) which are higher than the market average, while stocks with betas less than 1 have lower ROI relative to the market.

There are a number of different methodologies used for the purpose of estimating betas. Among the more common methods employed is the "Excess Return" method. Alternative measures include: accounting betas; fundamental betas; bottom-up betas; and forward-looking betas derived from option pricing data.

There are a number of different commercial sources of betas available for use in estimating betas. The more common providers include: Bloomberg, Standard & Poor's Compustat/Capital IQ database, Ibbotson, Valueline, and Merrill Lynch. Each of the foregoing providers utilizes similar, but slightly different calculation methodologies, which in turn yield differing results. Our estimates of beta is generally based on a survey of, or selected from, beta information published by Ibbotson, Aswath Damodaran, Factiva, and Capital IQ.

Equity Risk Premium (R_e)

The equity risk premium is defined as the additional return over and above the return on investments in the riskless assets that an investor expects to receive as compensation for the additional risk associated with investing in equities. An increase in the equity risk premium indicates that investors are charging a higher price for investing in the same risky cash flows. In general, there are three main approaches used to derive an indication of the equity risk premium:

1) From actual observed historical returns between stocks and bonds;

2) Using fundamental information such as earnings and dividends, or macroeconomic or general equilibrium models to calculate the implied or required equity risk premium; and

3) From the opinions of financial professionals through broad surveys or calculations based on earnings expectations to estimate the expected equity risk premium. Such opinions likely incorporate elements from the two other methods.

As with betas, there are a number of different sources of estimates of the equity risk premium. However, many of the available sources of equity risk premium data are updated infrequently and viewed as less reliable indications of the current equity risk premium. The basis of our equity risk premium selection was based on regularly updated, respected sources in the industry, which cover each of the three general approaches listed above.

Survey of Indicators for U.S. Equity Risk Premium in 2011

Historical Equity Risk Premium	Arithmetic	Geometric
Ibbotson Associates (2010) [a]	6.7%	4.6%
Implied or Required Equity Risk Premium		
Ibbotson Associates (2010) [a]	6.0%	3.9%
Damodaran (1960-2010) [b]	4.0%	NA
Expected Equity Risk Premium		
	Arithmetic	Geometric
Damodaran (2010) [b]	NA	6.5%
Global CFO Outlook Survey [c]	NA	3.7%
Selected Equity Risk Premium	5.0%	

Sources

a. *Ibbotson SBBI 2011 Valuation Yearbook.* Morningstar. 2011.

b. Implied Equity Risk Premiums - United States. Damodaran On-Line. Aswath Damodaran. Accessed 07 Nov. 2011, <http://pages.stern.nyu.edu/~adamodar/New_Home_Page/>. Based on a 2-stage DDM and reflect the risk premium which would justify the current level of the index, given the dividend yield, expected growth in earnings and the level of the long term bond rate.

c. Duke/CFO Magazine Global Business Outlook Survey. Graham, J. and Harvey, C. Duke University. March 9, 2011. ERP is calculated as the expected 10 year annual return of the S&P 500 less the current 10-yr Treasury bond yield.

Small Stock Risk Premium (R_s)

Many studies have looked at the effect of firm size on return. Rolf W. Banz was the first to document this phenomenon in a 1981 Journal of Financial Economics article titled "The Relationship Between Returns and Market Value of Common Stocks." Because of significant statistical support for a relationship between firm size and return, an additional premium is applied to account for the small relative size of the subject company under consideration.

We consider size premium data from two primary sources: Morningstar's *Ibbotson SBBI Valuation Yearbook* which is updated annually, and Morningstar's *Duff & Phelps Risk Premium Report*, which is also updated annually.

The former looks at size in terms of market capitalization, whereas the latter considers other measures of size in an effort to isolate the effects that are purely due to small size as opposed to a combination of size and risk which is by definition reflected in the market capitalization of a given company. The Duff & Phelps study considers eight different measures of size, including: market value of common equity; book value of common equity; five-year average net income before extraordinary items; market value of invested capital; total assets as reported on the balance sheet; five-year average EBITDA for the previous five fiscal years; sales; and number of employees. The results show that the average historical equity risk premiums for the smallest companies are generally lower when sorted by criteria other than market value, and that differences in leverage have little effect on returns in their sample. From the results of the 2011 study (based on data available through December 31, 2010), the indicated premiums over CAPM for the smallest companies are as follows:

Data for year ending December 31, 2010

Size Measure	Portfolio Rank By Size	Average Size ($MM)	Sum Beta	Arithmetic Average Return	Arithmetic Equity Risk Premium	Indicated CAPM Premium	Premium Over CAPM	Smoothed Premium Over CAPM
Market Value of Equity	25	68.0	1.29	23.28%	16.37%	5.67%	10.71%	8.02%
Book Value of Equity	25	60.0	1.27	18.89%	11.98%	5.57%	6.41%	6.36%
5-Year Avg Net Income	25	4.0	1.33	21.67%	14.76%	5.85%	8.91%	7.34%
Market Value of Invested Capital	25	94.0	1.28	22.54%	15.64%	5.63%	10.01%	7.70%
Total Assets	25	117.0	1.29	21.36%	14.45%	5.65%	8.80%	6.94%
5-Year Avg EBITDA	25	14.0	1.31	20.79%	13.89%	5.76%	8.13%	7.14%
Sales	25	117.0	1.26	20.00%	13.09%	5.52%	7.58%	6.57%
Employees*	25	251.0	1.24	20.27%	13.36%	5.45%	7.91%	6.88%

* Total employees, not in dollar terms

The 2011 SBBI study stratifies the market capitalization levels into deciles – the largest decile has a negative size premium of 0.38 percent, which increases steadily through to the smallest decile, which has a size premium of 6.36 percent. The smallest company contained in the 10th decile has a market capitalization of $1.222 million; the largest, $235.647 million.

Data for year ending December 31, 2010

Decile	Market Capitalization of Smallest Company ($MM)	Market Capitalization of Largest Company ($MM)	Size Premium (Return in Excess of CAPM)
10 - Smallest	1.222	235.647	6.36
10a	143.887	235.647	4.55
10w	179.554	235.647	3.99
10x	143.887	179.316	4.96
10b	1.122	143.379	10.06
10y	85.706	143.379	9.15
10z	1.222	85.670	12.06

Apart from the different measures of size considered by the two studies, they employ different data sources. The data used by SBBI comes from the Center for Research in Security Prices ("CRSP") at the University of Chicago's Graduate School of Business. A 1997 Journal of Finance article by Tyler Shumway titled "The Delisting Bias in CRSP Data," provided evidence that the CRSP database omits delisting returns for a large number of companies. Shumway found that investors incurred an average loss of about 30 percent after delisting. Shumway also showed that delisting for non-performance reasons such as mergers or changes of exchange tended to have a neutral impact during the month that the delisting occurred. The Duff & Phelps study gets its data from the Compustat database and incorporates the findings of Shumway's study into their rate of return calculations.

Appendix C

Description of Moss Adams LLP –Consulting Division

Description of Moss Adams LLP – Consulting Division

Moss Adams LLP is a partnership with its headquarters in Seattle which provides accounting and consulting services from nineteen offices in Washington, Oregon, California, Arizona, and New Mexico. The firm was founded in 1913 and currently has more than 250 partners and over 1,900 employees. The firm is recognized for its niche concept which emphasizes focusing attention on specific industries and specialty areas as part of the firm's strategic plan. Moss Adams LLP's Consulting Division offers a wide range of general and specialized consulting services which extend beyond traditional accounting activities.

Business valuations is a significant service specialty within the firm. The group specializes in services to commercial and industrial sector clients; principally in the areas of ESOPs, merger, acquisition and divestment services; financial feasibility, financing, ad valorem, estate and gift tax, insurance, property records, and litigation support. Asset valuations include all tangible and intangible assets.

The securities side of our business is broadly based. We provide valuations of business enterprises, common and preferred stock, partnership interests and limited liability company interests.

In addition to valuation services we have developed a great deal of experience and success in following up in the final disposition of these matters through IRS conferences, informal negotiations, sworn depositions and court appearances. We believe this is absolutely essential in the overall package and dedicate a great deal of resources to insuring success of our position. Our work product has been tested before Federal and state courts, including U.S. Tax Court and other governing bodies.

Working Relationships

Our services by and large add to the existing strengths of our client's organization as well as to our client's outside advisors. Valuation and economic analysis is a unique field. However, it is not unusual for us to work closely with other advisors such as investment bankers, auditors, financial institutions, legal staff, etc., as they depend upon our work product as support for their activities.

Professional Capabilities and Credentials

Our valuation personnel and associates carry a number of appraisal and financial designations such as Chartered Financial Analyst (CFA), Accredited Senior Appraiser, American Society of Appraisers (ASA), Certified Financial Planner (CFP), Certified Public Accountant (CPA) and CPA Accredited in Business Valuation (CPA/ABV). Undergraduate degrees are in business administration, accounting, economics, engineering, finance, and industrial design, with graduate degrees in business administration, finance, tax, and civil engineering.

Appendix D

Qualifications of Valuation Consultants

D. Alan Hungate, CFA, ASA

D. Alan Hungate is a Principal of Moss Adams LLP. He has an MBA in finance from the University of Chicago, as well as a BA in mathematical economics from Pomona College. A Chartered Financial Analyst (CFA), Mr. Hungate has been active in business valuation, capital planning, financial analysis, and real estate analysis since 1987.

He is an Accredited Senior Appraiser (ASA) in Business Valuations from the American Society of Appraisers. He is also a member of the Portland Society of Financial Analysts and the CFA Institute and has testified as an expert witness in US Tax Court, and Oregon, California, Washington, and Montana venues. He has been published in a national journal on the subject of valuing promissory notes and has lectured on valuation and financial analysis before many professional groups.

PROFESSIONAL QUALIFICATIONS

1997 – Present	**Moss Adams LLP – Consulting Division** *Principal* Mr. Hungate's responsibilities include project management, business valuation, financial consulting, and sales development. Reviews real estate appraisals and supervises and prepares business valuations and undivided interests in real property for a wide variety of purposes including merger and acquisition, estate and gift planning, financing, litigation, and other purposes.
1995 – 1996	**Aldrich Kilbride & Tatone LLP, Lake Oswego, Oregon** *Director* Mr. Hungate's responsibilities included project management, business valuation, financial consulting, and sales development. Purposes included tax court litigation, estate and gift planning, financing, dissolution, and other purposes.
1994	**The First Princeton Corporation, Lake Oswego, Oregon** *Managing Director* Mr. Hungate's responsibilities included business valuation, financial consulting, and sales development.
1992	**Price Waterhouse, Chicago** *Analyst – Valuation Services Group* Mr. Hungate's responsibilities included business valuation. Purposes included estate and gift planning, merger and acquisition, international taxation issues, customer lists and contracts, intellectual property, financing, and other purposes.
1987 – 1991	**Desmond, Marcello & Amster, Oakland and Los Angeles** *Manager* Mr. Hungate's responsibilities included managing business valuation engagements primarily for eminent domain purposes. Assets valued included goodwill, professional, and personal goodwill, leasehold interests, majority, and minority equity interests. Special projects included lost profits damage analysis, and relocation damage analysis.

EDUCATION AND PROFESSIONAL DESIGNATIONS

University of Chicago, MBA in Finance & Accounting
Pomona College, BA in Mathematical Economics
ASA (Accredited Senior Appraiser) – Business Valuation
CFA (Chartered Financial Analyst)

PROFESSIONAL AND CIVIC AFFILIATIONS

Member, American Society of Appraisers (ASA) and the Portland Chapter of the ASA
Member, CFA Institute and the CFA Society of Portland
Associate Member, Estate Planning Council of Portland

PUBLICATIONS

Published in:

Valuing an Automobile Dealership, National Association of Automobile Dealers, 2000

"Valuation Discounts for Private Debt in Estate Administration", Estate Planning Journal, June 1998

"Valuation Important to Success", Open for Business/Eugene Area Chamber of Commerce, August/September 2010

PRESENTATIONS

Organizations Addressed Include:

- Oregon Chapter of the American College of Trust and Estate Counsel (ACTEC)
- Key Bank, CEO/CFO Speaker Series
- Excell CEO Forum
- Mid-Willamette Valley Estate Planning Council
- De Filipps Annual CPA-Auto Dealership Niche Conference
- Southwest Washington Estate Planning Council
- Union Bank of California
- Southern Oregon Estate Planning Council
- National Business Institute
- Benton-Linn Chapter of the OSCPA
- Willamette Valley Estate Planning Council
- Surety Association of Oregon
- Portland Estate Planning Group of Life Insurers
- Oregon State Bar
- Lewis & Clark Law School
- Willamette University College of Law
- Northern California municipalities and attorneys

Calvin E. Swartley, CFA, ASA

Calvin E. Swartley is a member of the Valuation & Litigation Services Group (VSG) of Moss Adams LLP. He received his Bachelor of Science in Business Administration from Lewis & Clark College, his Master of Business Administration from Washington University, and he has obtained the designations of Chartered Financial Analyst (CFA) from the CFA Institute and Accredited Senior Appraiser (ASA) from the American Society of Appraisers.

Mr. Swartley has testified as an expert witness in the State of Oregon and has participated in settlement negotiations with the Internal Revenue Service. He has also been published in various newspapers, magazines, and books, and has lectured on valuation and financial analysis before many professional groups.

PROFESSIONAL QUALIFICATIONS

1998 – Present	**Moss Adams LLP** *Senior Manager* Mr. Swartley's responsibilities are focused in the business valuation area. He analyzes and values operating companies, limited liability companies, options and warrants, notes receivable, contracts of sale, preferred stock, and family limited partnerships for a variety of purposes, including reporting purposes, corporate and estate planning, potential sale or merger, ESOPs, fractional ownership interests, and gift taxes. Mr. Swartley is an active member of the Moss Adams Wealth Services and Healthcare Industry Groups, which provide accounting and consulting services high net wealth and healthcare related clients and professional advisors.
September – December 1997 St. Louis, MO	**Technology Applications, Inc., through Washington University** *Industry Consultant* Acted as a student consultant for a software company which specializes in billing software for Internet Service Providers. Prepared industry analysis of Internet, Cable, Telecom, and Utilities industries. Prepared and presented findings of analysis.
Summer 1997 St. Louis, MO	**National CacheCard, Company** *Marketing Analyst Intern* Developed and designed a marketing database for analysis of company's product. Analyzed and created reports based on findings from database, including aspects of the products features and faults. Audited and reconciled financial accounts linked to products use.
1992 – 1996 Portland, OR	**Bottini & Bottini, PC, Attorneys at Law** *Legal Assistant/Bookkeeper* Prepared legal documents for trials, hearings, and reporting purposes. Conducted legal research. Integrated new software systems for billing and legal purposes. Maintained financial records relating to firm and clients. Prepared reports and statements for firm accountant.

EDUCATION AND PROFESSIONAL DESIGNATIONS

2003 Accredited Senior Appraiser (ASA), American Society of Appraisers (ASA)
2001 Chartered Financial Analyst designation, CFA Institute
1998 Master of Business Administration, Washington University, St. Louis, Missouri
1993 BS in Business Administration, Lewis & Clark College, Portland, Oregon

PROFESSIONAL AND CIVIC AFFILIATIONS

Present Member, American Society of Appraisers (ASA) and the Portland Chapter of the ASA
Present Member, CFA Institute
Present Member of the CFA Society of Portland

PRESENTATIONS

February 2010	"Healthcare Valuation – What's Your Practice Really Worth?", Moss Adams LLP's The Voice of Experience webinar series.
December 2009	"Capital Markets – The Impact on Long-Term Care Valuation", The Oregon Long-Term Care CFO/Owners Conference.
September 2008	"Distressed Companies, Recent Court Cases and Other Updates", Oregon Chapter of the American College of Trust and Estate Counsel (ACTEC).
September 2008	"Business Valuation - And The Impact of a Changing Economic Environment", Southern Oregon Regional Economic Development Inc. (SOREDI).
September 2008	"Current Developments in Long-Term Care Business Valuation", Oregon Health Care Association (OHCA) Webinar.
June 2008	"Unique Perspectives and Critical Considerations in Healthcare Valuation", Southern Oregon Medical Managers.
October 2007	"Current Developments Impacting Business Valuation", SW Washington Estate Planning Council.
May 2007	"The ABCs of 123(R)" Annual Meeting of the NETWORK (an association of CPA firms located throughout the Western United States and Canada).
October 2006-	"Business Valuation: Current State and Important Changes", Financial
May 2007	Planning Association of Mid-Oregon (May 2007), Seattle Estate Planning Council (February 2007), Southern Oregon Estate Planning Council (October 2006), and Willamette Valley Estate Planning Council (November 2006).
November 2006	"What Drives Value in a Medical Practice", 2006 Health Care Conference, co-presented with Darci Boyle, CPA.
April 2006	"Valuing Company Stock for Compensation Purposes", Portland Chapter of The National Association of Stock Plan Professionals (NASPP).
May 2004	"Goodwill/Asset Impairment and Testing", Annual Meeting of the NETWORK (an association of CPA firms located throughout the Western United States and Canada).

October 2003	"Business Valuation Case Studies", Hershner, Hunter, Andrews, Neill & Smith, LLP and Moss Adams LLP of Eugene Joint Education Group.
May 2002	"Topics in Business Valuation", Eugene Chapter of the Institute of Management Accountants (IMA)

ARTICLES

May 2010	"Recession Complicates Efforts to Place Values on Businesses", Portland Business Journal, May 21, 2010.
Summer 2006	"How to Value, Buy, or Sell a Financial Advisory Practice, A Manual on Mergers, Acquisitions, and Transition Planning", Bloomberg Press, 2006 (contributing author).
July 2005	"A Business Evaluator Looks at Buy/Sell Agreements", Oregon Business Lawyer, Oregon State Bar, Volume 6, Number 1, Summer 2005.
February 2005	"How to Breakup: Many Planners Have Buy/Sell Agreements. Most of Them Will Land You in Court", Investment Advisor, February 2005 (contributing author).

- PROJECT SAPPHIRE -

Transaction Summary and Analysis

Prepared for: BCBSMT Board of Directors

October 8, 2012

CONFIDENTIAL – NOT FOR DISTRIBUTION

Note added on November 15, 2012: This report was provided to the BCBSMT Board of Directors on October 8, 2012, marked, at that time, "CONFIDENTIAL – NOT FOR DISTRIBUTION." By the inclusion of this report as an exhibit to the Application for Approval of Alliance, BCBSMT agrees that this report is no longer confidential and may be distributed. Disclosure of this document does not waive any right of BCBSMT to assert a right of confidentiality or claim of privilege in any other documents and/or communications.

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A. What is the project background and BCBSMT's business rationale for the transaction?

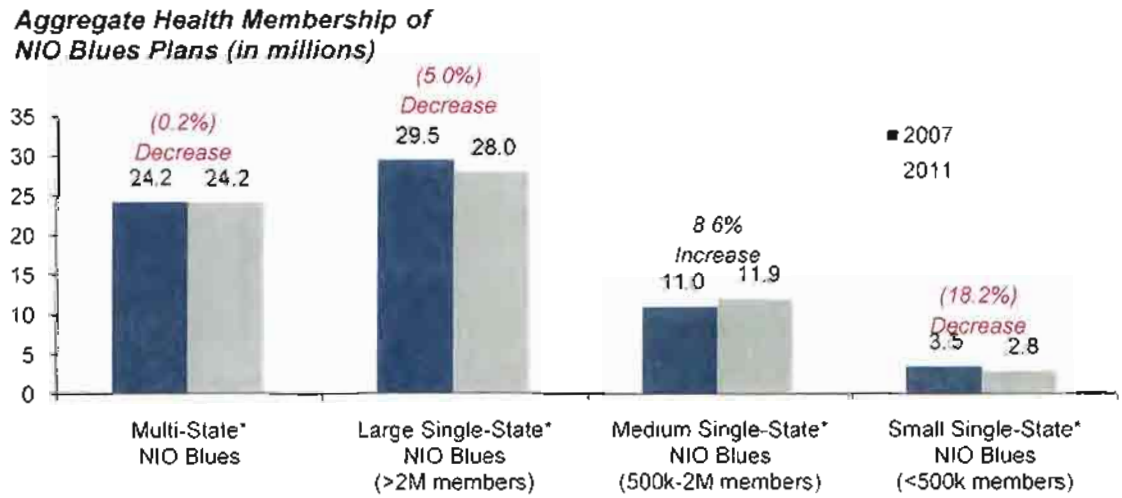
With an uncertain and increasingly competitive market ahead, Blue Cross and Blue Shield of Montana's (BCBSMT) Executive Leadership and the Board of Directors determined that a business alliance with another Blue planwould best allow BCBSMT to serve the residents of the State of Montana now and into the future. Because of BCBSMT's history and role in the State of Montana, BCBSMT's Board of Directors and Executive Leadership engaged in discussions with other non-investor owned (NIO) Blues, including Health Care Service Corporation (HCSC). A profile of HCSC can be found in Appendix A. Ultimately, HCSC's value proposition and its interest in creating a strong alliance of NIO Blues plans best aligned with BCBSMT's and Montana's interests.

The key challenges BCBSMT identified that drove the decision to pursue a business alliance include:

I. *Cost structure challenges brought on by a lack of scale*
II. *Increased competition in Montana from national players with significant financial resources*
III. *Insufficient access to capital to expand capabilities and services*
IV. *Increased risk exposure.*

i. Cost Structure challenges brought on by a lack of scale

From 2007-2011, the six large publicly-traded managed care organizations (MCOs) – UnitedHealth, WellPoint, Aetna, Cigna, Humana, and Coventry – added over 5.7 million (M) health members. During the same period, the NIO Bluesexperienced a 1.2M member decline in health membership (Appendix B and C). As shown in the chart below, a disproportionate percentage of this membership loss came from plans with less than 500k members. BCBSMT lost 1.2% of its health membership (2,756 members) between 2007 and 2011.



**Some plans serve only a portion of a state or states*
Source: Mark Farrah Associates

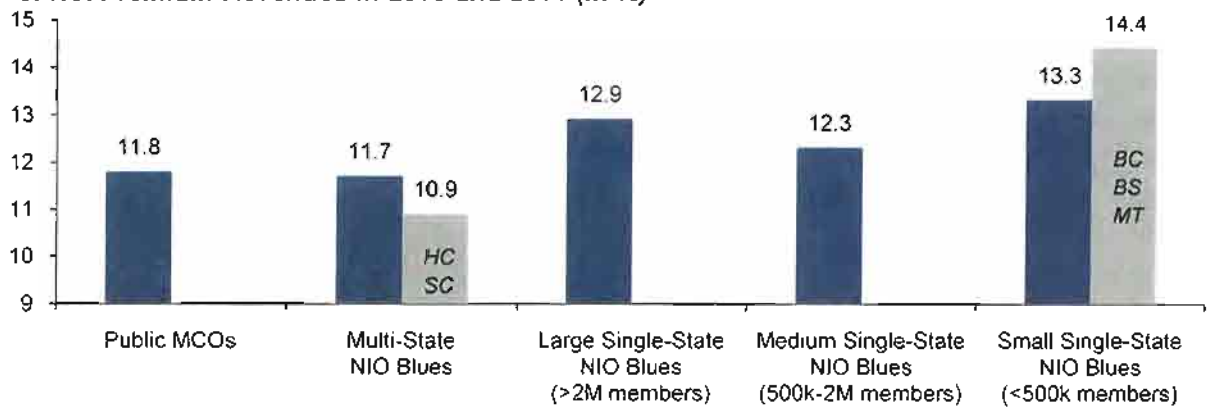
A key driver of the significant membership loss by small NIO Blues plans is the shift from risk-based to administrative services only (ASO), or self-fundedplans, by large groups and national accounts. While ASO membership increased for the aggregate NIO Blues from 2007-2011, the small single-stateplans experienced an ASO membership decrease of over 25% (Appendix B). BCBSMT increased ASO membership during the period, but is expected to experience a decrease in 2013.

Plan Type	2007 ASO Members	2011 ASO Members	Change in Membership	% Change	CAGR
Multi-State NIO Blues	13,005,661	13,310,503	304,842	2.3%	0.6%
HCSC	*7,419,109*	*7,511,559*	*92,450*	*1.2%*	*0.3%*
Large Single-StateNIO Blues	14,322,629	14,226,382	(96,247)	(0.7%)	(0.2%)
Medium Single-StateNIO Blues	4,183,060	4,854,523	671,463	16.1%	3.8%
Small Single-State NIO Blues	1,198,185	889,899	(308,286)	(25.7%)	(7.2%)
BCBSMT	*52,745*	*66,073*	*13,328*	*25.2%*	*5.8%*
NIO Blues, Total	**33,330,184**	**34,047,347**	**717,163**	**2.2%**	**0.5%**
Publicly-Traded MCOs	56,077,400	62,778,100	6,700,700	11.9%	2.9%

Source: Mark Farrah Associates

In this line of business, the spread between fees collected and administrative costs is the only determinant of profitability since the risk on claim liability remains with the employer. As a result, attributes such as greater economies of scale, significantly higher reserves (which allows for more aggressive pricing even on self-insured business), and advanced technology deliver lower costs per member for the large NIO Blue Plans and for-profit insurers. These characteristics create a distinct competitive advantage over small, single-stateplans like BCBSMT. During the period 2010-2011, the percentage of net premium revenues (not including ASO revenues) spent on total administrative costs net of ASO margins (including premium and other non-income taxes, state insurance fees, etc.) was approximately 1.5% higher for small, single-stateNIO Blues thanfor multi-state Blues and public plans (Appendix D and E). The spread between BCBSMT and HCSC was even larger, at 3.5%.

Statutory Administrative Costs as a percentage of Net Premium Revenues in 2010 and 2011 (in %)



Source Health Annual Statements, SNL Financial

The difference in cost structure will become increasingly important beginning in 2014. On fully-insured business, minimum medical loss ratios (MLRs) will take effect for severalbusiness segments (large

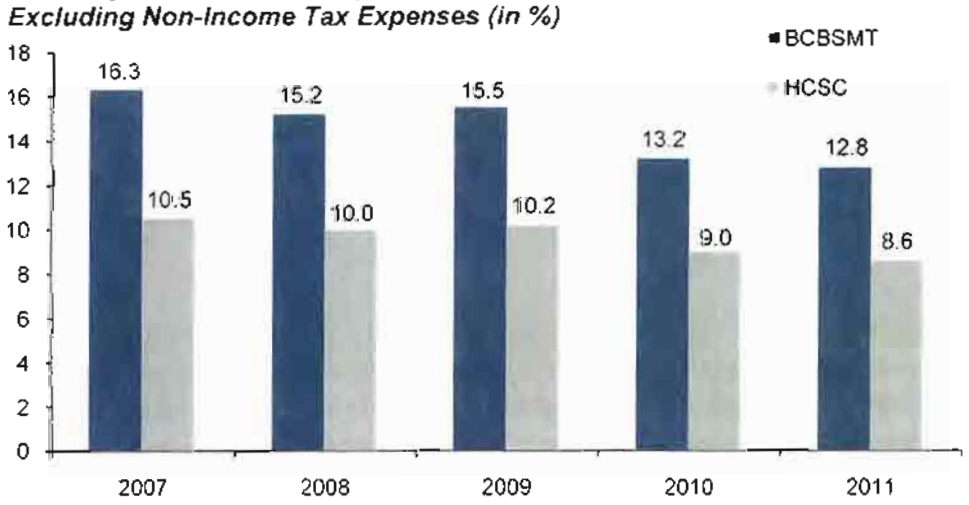
group, small group, individual, etc.), meaning that plans must pay a minimum percentage of premium revenues for medical claims. If plans fail to spend the requisite dollars on medical claims, they must return the difference to policyholders. Further still, it is expected that price competition will be heightened on business sold through the state-based exchanges.Thesechanges make low administrative costs even more important for small plans like BCBSMT,which will now face challenges realizing a level of profitability required to maintain their financial strength while investing in new products and capabilities enhancements that members and employers are demanding. In addition, because of tax changes expected in 2014, more employers are expected to offer self-funded plans, further limiting opportunities to restore needed levels of margin.

As illustrated by BCBSMT's recent difficulty in generating underwriting profits, size and the resulting scale matters in the health insurance industry. Large payors generally enjoy higher membership growth rates and better underwriting margins than small insurers. This is because larger MCOs usually have better per-member cost structures and, because of their size, are able to negotiate steeper provider discounts than their smaller counterparts.

To remain competitive with Cigna and other public MCOs in Montana, BCBSMT needs to increase scale and reduce administrative expenses as a percentage of premium revenues. Excluding non-income tax items (real estate, state, local, premium, payroll, and other non-income taxes) and regulatory authority fees, BCBSMT's statutory administrative expense ratio has decreased from 16.3% to 12.8% from 2007-2011 (Appendix F). Despite this improvement, BCBSMT still trails HCSC by better than 4% in administrative expense ratio, as shown in the chart below.

This difference in administrative expense ratio is significant for BCBSMT. If it had operated at HCSC's statutory expense ratio from 2007 to 2011, BCBSMT could have lowered premium rates or increased its underwriting margin by approximately $130M during that period (Appendix F).

Statutory Administrative Expense Ratio, Excluding Non-Income Tax Expenses (in %)



Source: Health Annual Statements, SNL Financial

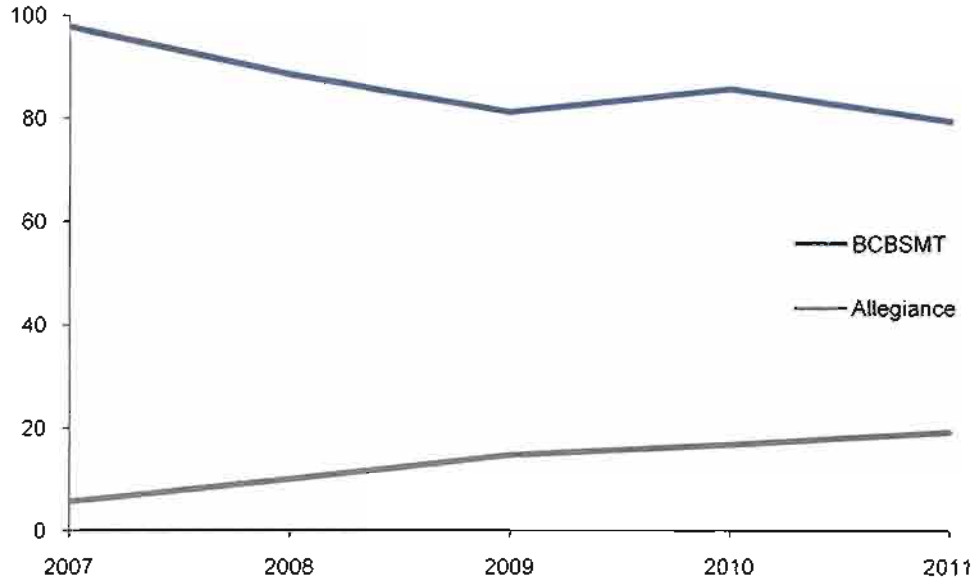
Decreasing the expense ratio would make BCBSMT more profitable and more price competitive, especially for ASO clients and price-sensitive retail customers. Overall, this transaction will allow

BCBSMT to make health insurance more accessible for Montanans by controlling costs and having the financial resources to strongly participate in risk-based business.

ii. Increased competition in Montana from national players

Compounding the difficulties for small, single-stateplans, public MCOs have continued to expand their geographic reach in an attempt to drive growth and stock price gains. In Montana specifically, Cigna has significantly increased its fully-insured group presence over the past five years through its wholly-owned subsidiary, Allegiance Life & Health Insurance Co., which is based in Missoula, Montana.

Montana Group Membership at Year End (in 000s)



Source: BCBSMT data from Mark Farrah Associates
Allegiance data from Health Annual Statements, SNL Financial

In addition to its growth in fully-insured group business, Cigna was recently awarded a three-year contract for the State of Montana employee account, which was previously held by BCBSMT. This account is expected to shift up to $4.5M in annual administrative service fee revenue from BCBSMT to Cigna in 2013.

The increased competition from public MCOs has led the NIO Blues plans, including BCBSMT and HCSC, to price more aggressively for commercial group business. For the first time since 2009, the spread between fully-insured group pricing and medical cost trend turned negative in 2012Q1 for the NIO Blues. As this spread decreases, the plan's MLR increases and underwriting margin drops unless there is a corresponding decrease in administrative costs. Unfortunately, administrative cost reductions cannot fully offset increases in utilization as administrative expenses increase with the number and complexity of claims processed, and are usually only 10%-15% of claim dollars paid.

	Spread Between Annual Pricing and Cost Trends				
Plan	2008	2009	2010	2011	2012Q1
HCSC	(2.0%)	(3.8%)	4.2%	3.0%	(3.4%)
BCBSMT	(4.8%)	(4.4%)	2.8%	0.3%	(4.1%)
NIO Blues, Total	**(1.1%)**	**(1.5%)**	**4.3%**	**1.3%**	**(2.0%)**

Source: Citigroup Research, "Managed Care: I Solemnly Swear That I'm Up To No Good: 1Q12 Non-Profit Blue Cross Pricing Analysis", July 9 2012

For BCBSMT, the effect of this trend is severe since it realized a below-average positive spread between premium revenues and medical costs in 2010 and 2011. This means that BCBSMT's commercial group MLR decreased at a slower rate than that of other NIO Blues. Whereas the NIO Blues experienced a decrease in commercial group MLR of 4.6% from 2009-2011, BCBSMT's commercial group MLR decreased by only 2.4%.

	Commercial Group Risk Medical Loss Ratio				
Plan	2007	2008	2009	2010	2011
HCSC	81 2%	82.9%	85.9%	82.4%	80.0%
BCBSMT	77.9%	81.4%	84.9%	82.8%	82 5%
NIO Blues, Total	**84.8%**	**85.7%**	**86.9%**	**83.3%**	**82.3%**

Source: HCSC and BCBSMT data from Health Annual Statements, SNL Financial; NIO Blues data from Citigroup Research, "Managed Care: I Solemnly Swear That I'm Up To No Good: 1Q12 Non-Profit Blue Cross Pricing Analysis", July 9 2012

The net effect of the factors discussed above on BCBSMT and the other small, single-stateNIO Blues is that the small plans have comparatively lower statutory underwriting margins (Appendix G and H). BCBSMT's statutory underwriting margin losses were (1.17%) and (0.96%) in 2010 and 2011, respectively. During this period, many large insurers, including HCSC, experienced substantial margins which have fortified reserves as they head into an uncertain future. Through the first half of 2012, BCBSMT's statutory underwriting lossmargin has further deteriorated to (3.48%).

BCBSMT's transaction with HCSC will help it compete with Cigna and UnitedHealth by accomplishing two goals while maintaining its NIO status. First, as discussed above, HCSC offers increased scale for BCBSMT, allowing the consolidated entity to price more competitively. Second, the alliance will enable BCBSMT to leverage the core competencies and track record of innovation of HCSC and its subsidiaries to substantially expand and improve the services and capabilities provided to its members. Due to its scale and strong financial position, HCSC has developed several market-leading systems, as listed below.

- HCSC's BlueChip claims and customer service platform and BlueStar membership and billing platform will make BCBSMT more efficient in terms of administering its core health insurance business.
- HCSC has a strong track record of improving and maintaining the customer-facing web portals of its individual plans.
- HCSC owns state-of-the-art Tier IV data centers in Waukegan, IL and Fort Worth, TX. Use of these data centers will enhance the security and reliability of BCBSMT's sensitive member data.

- HCSC's actuarial competency will help BCBSMT ensure that it grows revenues in a fiscally-responsible manner following the transaction.
- HCSC has one of the industry's best records in terms of selling business to large and national accounts, as it added over 660,000 commercial risk members from 2007-2011 – a time when most MCOs were experiencing a significant shift from risk to ASO business.
- HCSC will improve BCBSMT's marketing and distribution systems through new delivery models, public relations efforts, and increased sales support.

Many of HCSC's subsidiaries also offer services and technologies that will be new to BCBSMT. These capabilitiesoffer the opportunity toimprove BCBSMT's core health insurance business by improving the medical cost trendandimproving BCBSMT's administrative expense efficiency, both of which should help reduce premiums over the long-term and benefit current and future BCBSMT members. In addition, HCSC subsidiaries can be leveraged by BCBSMT to offer a wider range of ancillary products.

- MEDecision's care management programs reduce medical expenses for the chronically ill and improve their customers' overall managed care capabilities, including those of HCSC.
- The private exchange platform of HCSC's partially-owned subsidiary, Bloom Health, can be used to offer an exchange-based solution for either defined contribution group plans or individual retail customers.
- HCSC's individual business administrator, Hallmark, can help BCBSMT reduce its administrative expenses on a per member basis and improve its internal operations for BCBSMT's over 30,000 individual members.
- BCBSMT can offer a wide variety of ancillary products, including life and dental insurance underwritten by HCSC's life company, Dearborn National and its dental administrator Dental Network of America (DNoA).

iii. Insufficient access to capital to expand capabilities and services

With limited or no access to capital markets, smaller plans are often relatively undercapitalized compared to larger plans. This is the case for BCBSMT, which has no debt or capital notes outstanding. The average risk-based capital (RBC) ratio of NIO Blues plans with less than 500k members is 881%, while the average RBC ratio of Blues plans with more than 500k members is 911% (Appendix I). BCBSMT's RBC ratio is the third lowest of the NIO Blues, at 577%, and is forecast to drop another 60-80 points by the end of 2012 (though this projected decrease is largely the result of an acquisition that increased membership and non-admitted intangible assets that do not factor into the RBC calculation). Furthermore, BCBSMT's RBC ratio has declined over the past five years, from 637% at the end of 2006. BCBSMT's RBC ratio is not at risk of approaching the minimum value of 375% required by the Blue Cross and Blue Shield Association (BCBSA). However, the alliancewith HCSC will help reverse this trend and ensure the sustainability of a financially strong NIO Blue plan in Montana, which improves membership's protection and security. HCSC had an RBC ratio of 1,227% at the end of 2011, up from 1,086% at the end of 2006. Based on the anticipated transaction structure, the percentage point reductionto HCSC's RBC ratio should be only in the range of 35 – 45 points
With limited reserves, BCBSMT has struggled to innovate to the benefit of its members and the residents of Montana through organic product development efforts, significant technology upgrades,

and/or large one-time expenditures. BCBSMT has identified an estimated $100M in capital requirements and incremental operating expenses over the next five years to successfully compete in the changing marketplace, improve operational efficiency, and meet BCBSA and municipal regulations. Some of the largest projects, accounting for $79M of the financial requirements, include:

- $36M required to implement an ICD-10 compliant claims system
- $4M in one-time costs and $1M per year to upgrade computer systems to interface with Montana's public health insurance exchange infrastructure ($9M total five-year spend)
- $5M required to build an ICD-10 compliant data warehouse
- $200k in one-time costs and an incremental increase of $960k per year to implement various medical and care management programs, including a wellness website update, new utilization management software beginning in 2012, and new medical oncology management software beginning in 2013 ($5M total five-year spend)
- $5M in physician incentives to introduce patient-centered medical homes to approximately 50,000 members
- $860k per year to purchase excess of loss coverage ($4.3M total five-year spend)
- $1.2M in one-time costs and $600k per year to upgrade financial systems, including cost accounting, budgeting, and financial reporting tools ($4.2M total five-year spend)
- $1.5M in one-time costs and $500k per year for an information analytics platform ($4M total five-year spend)
- $2.1M in one-time costs and $250k per year to upgrade BCBSMT's Federal Employees Health Benefits Plan processing technology ($3.3M total five-year spend)
- $1.6M in one-time costs and $300k per year to create an improved online information and transaction portal ($3.1M total five-year spend).

Without increasing its access to capital, BCBSMT may not be able to implement necessary technology solutions required to compete in the changing health insurance marketplace. Aligning with HCSC, which has already begun to make many of these investments for itself, will allow BCBSMT to avoid having to individually fund the investments noted above and instead share the costs with HCSC. An alliance with HCSC also offers BCBSMT access to capital for corporate development projects (acquisitions for capabilities, joint ventures aimed at innovation, etc.) that will help it remain competitive well into the future.

As the largest NIO Blue, HCSC is in a very strong capital position even with having made investments of over $2.4 billion during the past 10 years in technology and service improvements. HCSC has over $9 billion of surplus and has shown the ability to access the public debt markets, as demonstrated by its issuance of $500M in 10-year notes in 2011.

In addition to funding necessary capital expenditures, improved access to capital will affect BCBSMT in two significant ways. First, the balance sheet strength provided by HCSC will enhance BCBSMT's risk-taking abilities, allowing it to underwrite more insured-market business. Therefore, HCSC's balance sheet may contribute to increasing BCBSMT's membership base as well as its net income. Second, the surplus of the combined entity may be invested in new subsidiaries that will meaningfully impact BCBSMT's capabilities or operations. In general, improving BCBSMT's access to capital will allow the

company to enhance memberservices, provide a wider variety of products, and ensure a competitive administrative cost structure that should ultimately help BCBSMT offer its services to Montanans at a lower price point than without the alliance with HCSC.

iv. Increased risk exposure

BCBSMT's ability to grow membership in a financially responsible manner may be negatively impacted by its size. As of June 2012, BCBSMT had 115,390 fully-insured members in individual or group plans, accounting for approximately $100M in quarterly premium revenue. With this level of membership, a small number of large claims can create a meaningful impact on the plan's annual results. For example, if BCBSMT were to incur five more $1M claims than expected in a single quarter, the plan's fully-insured quarterly MLR would increase by 5.0%. Conversely, HCSC had 3,794,843 fully-insured individual or group members at the end of 2012Q2, contributing $3.7B in quarterly premium revenue. Incurring an additional five $1M claims in a single quarter would only increase HCSC's fully-insured quarterly MLR by 0.1%. With a much larger fully-insured member base over which to spread the risk of large claims, HCSC is better equipped than small plans like BCBSMT to take on an additional high-risk member. This is also true for large national MCOs that have recently been competing more aggressively in Montana, including UnitedHealth and Cigna. UnitedHealth and Cigna, for example, have over 30 million and 12 million health members respectively, allowingthemto take on riskier individual and group accounts than may be fiscally responsible for a small plan such as BCBSMT.

This issue may become even more relevant in 2014, when a large number of individuals are expected to purchase health insurance through the new state based exchanges. Many of these individuals will not have had health insurance for several years, and therefore may not have had the same level of preventive care as an insured individual. There is the potential that these new members will have higher initial utilization rates and be more likely to incur large claims than members who have had insurance for several years. Should these new members have higher utilization rates, large insurers like the newly allied BCBSMT-HCSC will be able to better absorb the losses that may initially occur before utilization normalizes to historic levels or pricing changes can be incorporated.

B. Why did BCBSMT select HCSC as a transaction partner?

Of critical importance to BCBSMT's Board of Directors and Executive Leadership was a partner that was dedicated to the non-investor owned approach to health care. Like HCSC, BCBSMT believes that the NIO model best serves members, since NIO insurers do not have to prioritize short-term financial gains over service to customers. HCSCis a mutual health insurance company formed for the purpose of operating a non-profit health care service plan. Following BCBSMT's strategic assessment, the BCBSMT and HCSC executive leadership teams actively engaged each other to understand HCSC's value proposition, including its interest in being a leader in helping NIO Blue Plans join forces. In the end,HCSC offered the best fit as a transaction partner due to its:

- *Financial strength*: HCSC has the highest reserves of any NIO Blues plan, with over $9.4B in statutory surplus at the end of 2012Q1, providing its groups and members the security to be able to handle the risk associated with insurance while still financially strong enough to invest in

enhancements to serve members. At the end of 2011, HCSC had an RBC ratio of 1,227%. In addition, HCSC has posted strong net income figures over the past several years, generating over $1B in statutory net income in both 2010 and 2011 and over $400M in 2012Q1. Finally, HCSC's financial strength is reflected in its rating agency ratings. AM Best rates HCSC's financial strength at A+ (Superior) with a stable outlook. S&P's long-term rating for HCSC is AA-, also with a stable outlook.

- *Dedication to the NIO Model:* HCSC is organized as a mutual health insurance company formed for the purpose of operating a non-profit health care service plan; HCSC leadership strongly emphasized its commitment to remain a non-investor owned plan, believing it best allows HCSC to serve its members and remain true to the historical legacy of Blue Cross and Blue Shield plans as not-for-profit insurers started by hospitals and physicians respectively.
- *Common commitment to providing coverage to as many people as possible:* HCSC remains committed to the fundamental health insurance business at a time when many health insurers are attempting to diversify earnings by offering non-insurance services. To that end, HCSC's recent acquisitions including Bloom and Health, MEDecision, and TMG Health, are all strongly focused on the core health business.
- *A culture that emphasizes the importance of being local:* HCSC's BCBS plans have a local affiliate board and the organizational structure features a local member-facing approach, with sales and marketing services localized to the state. As part of HCSC, BCBSMT will still be recognized in its market as Blue Cross Blue Shield of Montana, not HCSC. This model ensures that HCSC's Blue plans can leverage the scale benefits of HCSC corporate services while remaining an integral and visible part of the local healthcare market.
- *Size and scale*: HCSC has over 13M members and operates the Blue Cross Blue Shield-branded plan in four states: Illinois, Texas, New Mexico and Oklahoma.
- *Employment growth opportunities:* While HCSC centralizes many functions, it has actively distributed roles dealing with localized issues, such as claims and customer service, throughout its states.HCSC is a growing company in a growing industry. In fact, during the last six years, HCSC's workforce has grown by 20 percent. HCSC's goal is to maintain or grow jobs at BCBSMT.
- *Proven track record as a Blues consolidator:* HCSC has successfully integrated the Blue Cross and Blue Shield plans in New Mexico in 2002 and Oklahoma in 2005, providing it with significant expertise in how to effectively manage integrations that do not disrupt core operations including claims and customer service.
- *Strong technology and capabilities:* HCSC's capabilities are competitive with, and in some cases superior to, major national MCOs. HCSC boasts several competencies and systems that are unique amongst the NIO Blues, including care management through MEDecision, two Tier IV data centers, strong data analytics, experience with large self-funded accounts, and a variety of traditional and exchange-based distribution platforms (including Bloom Health, which HCSC recently acquired with WellPoint and BCBS of Michigan). BCBSMT also cited HCSC's underwriting and actuarial competencies, marketing and sales support, customer service, and strategic planning capacity related to health care reform as reasons to align.

C. What is the nature of the transaction?

HCSC is proposing an asset acquisition of BCBSMT's health plan. Under this arrangement, HCSC would acquire certain BCBSMT assets and liabilities including, but not limited to, BCBSMT's Blue brand and other licenses, members, provider contracts, intellectual property, group receivables, claim liabilities and systems. In addition, HCSC would acquire BCBSMT's wholly-ownedsubsidiary Health-e-Web, a supplier of provider-health plan clearinghouse and revenue cycle management solutions. Interests in Prime Therapeutics, TriWest, and WPMI will also be acquired along with cash and investments required to cover the BCBSMT liabilities assumed such as claims and the health plan employees' defined benefit pension plan, with the remaining cash and investments not transferred to HCSC.

Assets that would not be acquired include BCBSMT's surplus, currently-owned buildings, and its subsidiary holding company Combined Benefits Management, Inc. with its 100% ownership interest in Western States Insurance Agency and Peak1 Administration. Liabilities to remain in the existing entity would include litigation reserves (see Appendix J for a further breakdown of the expected transfer of balance sheet assets and liabilities).

In addition to the asset acquisition of BCBSMT's health plan and related subsidiary interests, HCSC and BCBSMT have negotiated administrative services agreement (ASA). The ASA will allow HCSC to provide certain administrative services to BCBSMT prior to the close of the transaction while regulatory approvals are pending, which allows BCBSMT to discontinue funding technology projects as well as allowing BCBSMT to repurpose personnel to "local-facing" functions. The ASA will outline a variety of key service areas in which BCBSMT will hire HCSC to assist them before the transaction closes.

D. What is the anticipated transaction timeline?

Outlined below is the tentative ASA and acquisition timeline, though subject to change.

Step	Completion Date
BCBSMT Board of Directors update	July 2012
Deal structure defined	August 1, 2012
Due diligence complete	August 16, 2012
ASA Signed	September 7, 2012
Discussion with Montana DOI Commissioner and Attorney General	September 14, 2012
Public Announcement	September 17, 2012
BCBSMT and HCSC Board Approvals	September 2012
Definitive agreement signed; File for Regulatory Approvals	October 1, 2012
Target Transaction Close Date	May 1, 2013

E. What is HCSC's business rationale for the transaction?

Outlined below is the key strategic rationale for why HCSC Management believes an alliance with BCBSMT is in HCSC's long-term interests:

i. *Drive scale and efficiency for HCSC as an enterprise through membership growth and geographic diversification*
ii. *Deepen HCSC's managerial bench and workforce while adding a lower-cost rural work environment.*

i. Drive scale and efficiency for HCSC as an enterprise through membership growth and geographic diversification

To ensure long-term success and the ability to compete with the likes of UnitedHealth, Cigna and Aetna, HCSC must continue to increase scale to maintain a competitive administrative cost structure. Organic growth within HCSC's four states alone may not be sufficient to provide the requisite scale to compete with MCOs that are active in all 50 states. As such, alliances become an important opportunity for HCSC to continue to meet the required levels of growth to compete.

- *The BCBSMT allianceoffers immediate membership growth and a larger target population for HCSC's Blue-branded health insurance*

With the BCBSMT alliance, HCSC can realize immediate member growth and target a larger overall population for future organic growth. The proposed transaction will allow HCSC to increase its health membership by over 236kmembers (adjusting for expected BCBSMT member losses effective 1/1/2013), helping HCSC maintain its position as the nation's fourth-largest health insurer.

Because of HCSC's existing scale and operations, adding BCBSMT should only require a marginal increase in corporate resources. As such, the new five-state HCSC enterprise should be able to realize significant administrative synergies. These cost synergies include information technology systems, as well as functions like claims and customer service, finance, tax, and human resources. In addition, HCSC's corporate overhead costs, which are currently allocated to its four core health plans and other subsidiaries, will now be spread to an additional plan. The increases in membership and scale following the BCBSMT alliance, while small, are expected to result in an improvement of HCSC's overall expense ratio. Therefore, the alliance is expected to have a net positive effect on the financial performance of HCSC going forward.

In addition to scale improvements, BCBSMT offers a membership mix that furthers HCSC's strategic focus on the group, government, and retail markets. Adding BCBSMT's membership to that of HCSC offers growth in all three segments (Appendix B). In small and large group business, BCBSMT's 83,095 members represent a 2.8% increase for HCSC. The government and retail boosts are even larger. BCBSMT would increase HCSC's Federal Employees Health Benefits Plan enrollment by 4.3%. BCBSMT's individual (retail) membership would increase HCSC's retail presence by 3.9%. Therefore, even though BCBSMT's total membership is much smaller than that of HCSC, BCBSMT's low administrative services membership (less than 1/3 of its health members that are expected to be active at the transaction close are in self-insured plans) makes it appealing for an alliance.

- *The transaction further positions HCSC for inorganic growth through NIO Blues alliances*

Expanding into a new geographic area with the BCBSMT transaction will signal HCSC's interest in aligning with plans regardless of their proximity to its current Blue-branded states. HCSC and BCBSMT agree that competitive conditions in the health insurance market will make it very difficult, if not impossible, for geographically-limited NIO plans to survive long term. Therefore, NIO Blues plans in other states will likely join forces over the next several years. As the NIO Blues continue to align, scale increases by multi-state NIO Blues will make them more competitive with national public MCOs from a pricing and capabilities standpoint. The national MCOs will need to look for new markets in which to compete so as to drive stock price growth, increasing the competitive pressure on the remaining single-stateplans. At the same time, the multi-state NIO Blues will need to become more aggressive in their efforts to ally withstandalone plans in order to drive membership growth. These future NIO Blue plan alliances will supplement HCSC's organic membership growth efforts in pursuit of scale improvements.

As it did following the close of its transactions with New Mexico and Oklahoma, HCSC will provide BCBSMT with the capital necessary for technology upgrades and capabilities improvements to remain competitive with other health insurers doing business in the State of Montana. The BCBSMT transaction and ensuing competitive improvements for the Montana plan will help solidify HCSC's position as the strongest alliance of NIO Bluesplans. HCSC is strongly committed to the NIO model and believes it is the payor model that best serves members. As a member-owned company, HCSC does not have to balance the financial demands of third-party investors against providing the highest possible levels of service to its members. By focusing exclusively on members, HCSC and other NIO payors are free to make investments in wellness, technology, quality improvement, and other endeavors aimed at long-term improvements to the healthcare system instead of short-term financial returns. The BCBSMT transaction and future NIO Blues allianceswill allow HCSC to continue to offer a financially strong option as a partner for small NIO Blues, ensuring that the NIO model remains in the market.

From a revenue diversification perspective, Montana features a very different industry mix than any of HCSC's current core states. Montana's economy is heavily dependent on timber and mining, two industries that are not well-represented in HCSC's current states. If HCSC expands to a new region with a different industry concentration, the company may be less susceptible to regional and industry-specific business cycles.

ii. Deepen HCSC's managerial bench and workforce, and add a lower-cost rural work environment

Aligningwith BCBSMT will afford HCSC the opportunity to add several executives with NIO Blues experience to the organization. BCBSMT's President and CEO, Michael Frank, has served in his current position since late 2010 and has 13 years of leadership experience at the company. Mark Burzynski has been CFO since February 2010 and has been with the plan since 2000. Previously, he held leadership roles in network management, medical management, and external affairs. With the exception of retirements, it is expected that all of BCBSMT's leadership team will join HCSC and continue running the Montana plan after the transaction.

The addition of BCBSMT's workforce should also prove beneficial to HCSC. BCBSMT has over 500 employees, many of whom have extensive experience and a strong familiarity with BCBSMT's

providers, vendors, and member groups. Because of the similar, service-oriented cultures of HCSC and BCBSMT, these employees should make the transition from a small plan to a large plan more easily. Leveraging the expertise of BCBSMT's employees will also help HCSC minimize service disruptions and changes to the customer experience for BCBSMT members following the close of the transaction.

Expansion into Montana also offers HCSC a lower-cost work environment for certain business processes in the future. HCSC expects to continue to expand its membership, especially beginning in 2014 as many of the uninsured will enroll in individual or state-funded health plans. As part of this growth, HCSC will likelyneed to consolidate certain segments and parallel processes to achieve scale efficiencies. This combination of growth and consolidation may require HCSC to open new operations centers. Montana is a rural and inexpensive state, making it an ideal candidate for new processing hubs and call centers. The ability to locate consolidated operations centers in Montana should help HCSC reduce its administrative expense ratio in the future compared to what would be attainable without the transaction.

F. Why is this the right time to complete this transaction?

Based on BCBSMT's current surplus, recent revenue growth, and decrease in general and administrative expense ratio, the plan could remain independent for the foreseeable future. Despite this position, there are several reasons why this is the right time for BCBSMT to alignwith HCSC. From BCBSMT's perspective, the alliance eliminates the need for the Montana plan to invest upwards of $100 million in capital investments and related operational costs. Many of these expenditures are required to improve BCBSMT's capabilities and ensure that the plan can offer a set of services that is competitive with Cigna and UnitedHealth. Others are needed to prepare for upcoming market changes in 2014. In most cases, HCSC has already made or is in the process of making the required investments at the corporate level. Joining forces now will allow BCBSMT to leverage HCSC's investments.

Another compelling reason for BCBSMT to pursue the alliance at this time is to ensure BCBSMT is sufficiently prepared for the potential risk exposure from the expansion of individual health insurance in 2014. Without the transaction, BCBSMT may not be in a position to absorb the potential financial risk associated with the new, dynamic healthcare environment, ultimately putting the financial security of the current fully-insured members at risk. Aligning with HCSC will provide security and peace of mind for BCBSMT members during this time of tremendous change in the health insurance market.

Finally, BCBSMT can realize additional value by completing the transaction with HCSC prior to the expected increase in NIO Blues alliances. By being first in line before the next wave of alignment, BCBSMT will receive focused transition support from HCSC as the Montana plan's corporate services, operations, and technology are aligned with those of HCSC, leading to a faster and less expensive transition. This is extremely important to BCBSMT inasmuch as this alliance will bring immediate benefits to its groups and members in Montana.

It is also in HCSC's best interest to complete the transaction as soon as possible. Aside from the avoidance of duplicative capital expenditures and preparation for the expansion of the individual insurance market in Montana in 2014, time is of the essence for successful completion of the transaction. BCBSMT is attempting to maintain its market position in the presence of increasing competition from UnitedHealth and Cigna, both of which have substantial resources at their disposal. With the ability to underprice BCBSMT on price due to larger scale and higher reserves, UnitedHealth and Cigna have the ability to grow membership in Montana at the expense of BCBSMT. This would destroy value in the BCBSMT-HCSC transaction, since the newly allied entity would have to spend more resources in terms of advertising, incentives, and sales effort to re-acquire lost members than it would to keep current members.

Another reason for HCSC to complete the transaction now is to position the company as the strongest alliance of NIO Blues plans ahead of the expected increase in the pace of Blues alignment. The BCBSMT transaction will highlight the scale solutions and capability improvements that HCSC can offer to smaller plans, making it more likely that other NIO Blues approach HCSC for future alliances, as did BCBSMT. By offering an NIO-alternative to for-profit consolidators, HCSC improves the likelihood that individuals and businesses have an option to purchase health insurance from a payor that is focused on the long-term wellness and financial security of its members instead of short-term profits to benefit shareholders. In addition, given the level of resource commitments required to align with a plan of any size, HCSC Management recognizes the value of completing the BCBSMT transaction now, rather than trying to complete multiple alliance efforts in the same time frame.

APPENDIX A:HCSC Background

From http://www.hcsc.net:

Health Care Service Corporation (HCSC) operates the Blue Cross and Blue Shield plans in Illinois, New Mexico, Oklahoma and Texas, employing more than 18,700 people and serving more than 13 million members — 38 percent in national employer plans, 32 percent in large local employer plans, 10 percent in small employer plans, 10 percent in individual plans and 10 percent in government plans.

HCSC is the fourth largest health insurance company in the United States and the largest customer-owned health insurer. Accountability to customers rather than investors allows HCSC to develop health care solutions with more flexibility and long-term perspective and enables the company to weather cyclical economic patterns without resorting to bottom line-driven price increases.

HCSC is one of the most financially secure health insurers in the United States, with a rating of AA- (very strong) from Standard and Poor's, A1 (good) from Moody's and A+ (superior) from A.M. Best Company.

Measures of Success

As the largest customer-owned health insurer in the country, HCSC views health care financing, access and delivery with a long-term perspective that promotes the entire health care system, not just the company's position. Among the keys to HCSC's success is the collaborative approach the company employs to develop health care solutions with physicians, hospitals, employers, the government and community-based health organizations.

HCSC measures its success in four primary ways:

- **Financial strength:** HCSC recognizes that its members depend on the company to provide health-related financial security and protection from overwhelming health care costs.
- **Membership:** By maintaining strong levels of health plan membership, HCSC is not only able to provide access to more affordable, quality health care, but also is able to spread risk and medical expenditures across a large enough population to help offset rising health care costs for its members.
- **Administrative costs:** Although administrative costs only account for about 10 cents of a health care premium dollar, HCSC recognizes that as the company can reduce those costs, it can help slow the rate of premium price increases.
- **Member loyalty:** HCSC's member loyalty in comparison to other health insurers' member loyalty shows how well the company is performing versus its peers in the eyes of the customer.

Performance Outcomes

In 2010, despite a slow economic recovery and persistent high unemployment, HCSC retained its industry-leading financial strength ratings of A+ (superior) from A.M. Best Company, AA- (very strong) from Standard and Poor's and A1 (good) from Moody's.

From January 2010 through January 2011, HCSC grew by nearly 450,000 members. That followed growth of 789,050 members in 2003; 760,940 in 2004; 1,035,306 in 2005; 663,195 in 2006; 559,458 in 2007; 601,747 in 2008; and 294,178 in 2009.

In 2010, HCSC's member loyalty score was 5.2 points above the member loyalty of other health insurers.

Key Subsidiaries & Affiliates

Dearborn National is the brand name for HCSC's ancillary benefits subsidiaries, which underwrite and market group life, disability, dental, worksite and voluntary products, and individual solutions. Located in Lombard, Illinois, Dental Network of America, Inc. (DNoA) functions as a third party administrator (TPA) for HCSC dental programs.

MEDecision, Inc., a wholly owned subsidiary, provides a collaborative health care information exchange service as well as a platform for case management, disease management and utilization management.

Hallmark Services Corporation, a wholly owned subsidiary, provides policy administration and claim adjudication services primarily for individual policies.

Availity, LLC, a partially owned subsidiary operates a health care clearinghouse and provides Internet-based e-health information services.

HCSC Insurance Services Company, a wholly owned subsidiary, underwrites and administers certain Medicare and Medicaid business.

Prime Therapeutics, LLC, a partially owned subsidiary, is a pharmacy benefit management company for HCSC and other third party companies.

TMG Health, Inc., a wholly owned subsidiary, provides comprehensive Business Process Outsourcing (BPO) services to its customers.

Bloom Health Corporation, a partially owned subsidiary, helps employers define and better manage their health benefits spending through a defined contribution model.

APPENDIX B: NIO Blues Health Membership, 2007-2011

	Risk Health Membership			ASO Membership			Total Health Membership		
Plan	2007	2011	CAGR	2007	2011	CAGR	2007	2011	CAGR
Multi-State NIO Blues									
HCSC	3,855,155	4,516,420	4.0%	7,419,109	7,511,559	0.3%	11,274,264	12,027,979	4.0%
Highmark (incl-DE)	2,254,483	2,109,670	(1.6%)	2,096,494	2,441,628	3.9%	4,350,977	4,551,298	1.1%
CareFirst	1,569,171	1,596,969	0.4%	1,285,790	1,324,000	0.7%	2,854,961	2,920,969	0.6%
Regence	1,831,255	1,234,467	(9.4%)	818,521	507,647	(11.3%)	2,649,776	1,742,114	(10.0%)
Premera	925,688	694,543	(6.9%)	767,896	854,351	2.7%	1,693,584	1,548,894	(2.2%)
Wellmark	786,724	715,063	(2.4%)	617,851	671,318	2.1%	1,404,575	1,386,381	(0.3%)
Multi-State Sub-Total	11,222,476	10,867,132	(0.8%)	13,005,661	13,310,503	0.6%	24,228,137	24,177,635	(0.1%)
Large Single-StateNIO Blues (> 2,000,000 Health Members in 2011)									
Michigan	2,065,901	1,780,725	(3.6%)	2,538,038	2,258,000	(2.9%)	4,603,939	4,038,725	(3.2%)
Horizon	1,691,558	1,679,707	(0.2%)	1,664,012	1,790,000	1.8%	3,335,570	3,469,707	0.8%
Tennessee	810,370	1,201,073	10.3%	1,693,000	1,728,346	0.5%	2,503,370	2,929,419	4.0%
Alabama	1,016,506	953,749	(1.6%)	2,479,047	1,921,143	(6.2%)	3,495,553	2,874,892	(4.8%)
BS-California	2,351,361	2,215,102	(1.5%)	402,049	642,240	12.4%	2,753,410	2,857,342	0.9%
North Carolina	1,149,631	1,029,484	(2.7%)	1,498,036	1,673,556	2.8%	2,647,667	2,703,040	0.5%
Massachusetts	1,394,020	1,037,234	(7.1%)	1,482,134	1,523,532	0.7%	2,876,154	2,560,766	(2.9%)
Independence BC	2,003,998	1,534,871	(6.4%)	621,831	750,000	4.8%	2,625,829	2,287,871	(3.4%)
Florida	1,929,449	1,634,169	(4.1%)	577,673	607,531	1.3%	2,507,122	2,241,700	(2.8%)
Minnesota	744,396	696,848	(1.6%)	1,366,809	1,322,034	(0.6%)	2,115,205	2,028,882	(1.0%)
Large Sub-Total	15,157,190	13,765,962	(2.4%)	14,322,629	14,226,382	(0.2%)	29,479,819	27,992,344	(1.3%)
Medium Single-StateNIO Blues (500,000-2,000,000 Health Members in 2011)									
Excellus NY	1,466,651	1,347,965	(2.1%)	470,027	517,187	2.4%	1,936,678	1,865,152	(0.9%)
Triple-S Salud	931,006	1,597,408	14.5%	0	0	NM	931,006	1,597,408	14.5%
Louisiana	610,594	607,666	(0.1%)	460,000	690,000	10.7%	1,070,594	1,297,666	4.9%
Arkansas	342,688	352,041	0.7%	370,000	850,700	23.1%	712,688	1,202,741	14.0%
Arizona	393,841	360,354	(2.2%)	830,000	702,546	(4.1%)	1,223,841	1,062,900	(3.5%)
South Carolina	846,411	725,646	(3.8%)	339,000	300,000	(3.0%)	1,185,411	1,025,646	(3.6%)
Mississippi	354,020	300,647	(4.0%)	500,000	646,744	6.6%	854,020	947,391	2.6%
Capital BC	515,371	436,377	(4.1%)	461,231	391,304	(4.0%)	976,602	827,681	(4.1%)
Health Now NY	535,178	469,498	(3.2%)	279,822	300,000	1.8%	815,000	769,498	(1.4%)
Hawaii	553,516	578,412	1.1%	165,100	111,536	(9.3%)	718,616	689,948	(1.0%)
Nebraska	258,304	305,197	4.3%	307,880	344,506	2.8%	566,184	649,703	3.5%
Medium Sub-Total	6,807,580	7,081,211	1.0%	4,183,060	4,854,523	3.8%	10,990,640	11,935,734	2.1%
Small Single-StateNIO Blues, excl-Delaware (< 500,000 Health Members in 2011)									
Kansas City	353,045	387,729	2.4%	179,174	101,358	(13.3%)	532,219	489,087	(2.1%)
Kansas	407,012	328,920	(5.2%)	218,600	123,800	(13.3%)	625,612	452,720	(7.8%)
Rhode Island	357,132	260,255	(7.6%)	216,040	176,000	(5.0%)	573,172	436,255	(6.6%)
BC-Idaho	291,624	278,729	(1.1%)	118,583	128,324	2.0%	410,207	407,053	(0.2%)
North Dakota	228,820	232,798	0.4%	80,000	141,672	15.4%	308,820	374,470	4.9%
NE Pennsylvania	318,834	161,004	(15.3%)	241,443	115,364	(16.9%)	560,277	276,368	(16.2%)
Montana	159,353	143,269	(2.6%)	52,745	66,073	5.8%	212,098	209,342	(0.3%)
Vermont	95,378	99,627	1.1%	55,800	2,308	(54.9%)	151,178	101,935	(9.4%)
Wyoming	57,319	53,405	(1.8%)	35,800	35,000	(0.6%)	93,119	88,405	(1.3%)
Small Sub-Total	2,268,517	1,945,736	(3.8%)	1,198,185	889,899	(7.2%)	3,466,702	2,835,635	(4.9%)
NIO Blues Total	**38,214,136**	**36,204,063**	**(1.3%)**	**33,330,184**	**34,047,347**	**0.5%**	**71,544,320**	**70,251,410**	**(0.5%)**

Source: Mark Farrah Associates

APPENDIX C:Public MCO Health Membership, 2007-2011

	Risk Health Membership			ASO Membership			Total Health Membership		
Plan	2007	2011	CAGR	2007	2011	CAGR	2007	2011	CAGR
UnitedHealth	16,285,000	18,250,000	2.9%	14,720,000	16,320,000	2.6%	31,005,000	34,570,000	2.8%
WellPoint	17,072,000	13,745,000	(5.3%)	17,737,000	20,506,000	3.7%	34,809,000	34,251,000	(0.4%)
Aetna	5,749,000	5,755,000	0.0%	11,104,000	12,704,000	3.4%	16,853,000	18,459,000	2.3%
Cigna	2,156,000	1,933,000	(2.7%)	8,013,000	9,550,000	4.5%	10,169,000	11,483,000	3.1%
Humana	8,497,100	8,559,500	0.2%	2,970,400	2,625,100	(3.0%)	11,467,500	11,184,600	(0.6%)
Coventry	3,140,000	3,692,000	4.1%	1,533,000	1,073,000	(8.5%)	4,673,000	4,765,000	0.5%
Public MCO Total	**52,899,100**	**51,934,500**	**(0.5%)**	**56,077,400**	**62,778,100**	**2.9%**	**108,976,500**	**114,712,600**	**1.3%**

Source: Annual Reports (10-K's)

APPENDIX D: NIO Blues SG&A Ratio, 2010-2011

Plan	2010 Premium Rev. (in $M)	2010 Total SG&A (in $M)	2010 Ratio	2011 Premium Rev. (in $M)	2011 Total SG&A (in $M)	2011 Ratio
Multi-State NIO Blues						
HCSC	$19,960.1	$2,167.8	10.9%	$20,324.7	$2,231.5	11.0%
Highmark (incl-DE)	$12,096.0	$1,048.0	8.7%	$12,121.0	$1,009.3	8.3%
CareFirst	$6,778.5	$1,008.4	14.9%	$6,940.2	$990.0	14.3%
Regence	$6,003.8	$983.5	16.4%	$5,813.9	$912.5	15.7%
Premera	$2,787.2	$413.6	14.8%	$2,959.3	$410.3	13.9%
Wellmark	$3,119.0	$397.4	12.7%	$3,204.2	$402.4	12.6%
Multi-State Sub-Total	$50,744.4	$6,018.9	11.9%	$51,363.3	$5,956.1	11.6%
Large Single-StateNIO Blues excl-Blue Shield of California (> 2,000,000 Health Members in 2011)						
Michigan	$8,966.1	$1,055.4	11.8%	$9,028.2	$1,202.3	13.3%
Horizon	$7,958.3	$1,156.7	14.5%	$8,316.4	$1,299.0	15.6%
Tennessee	$4,767.9	$669.1	14.0%	$5,126.1	$734.7	14.3%
Alabama	$4,273.3	$333.8	7.8%	$4,105.6	$335.4	8.2%
North Carolina	$4,682.9	$644.3	13.8%	$4,971.3	$708.4	14.3%
Massachusetts	$6,313.7	$686.2	10.9%	$6,346.2	$783.8	12.4%
Independence BC	$9,975.0	$1,112.6	11.2%	$9,392.9	$1,084.9	11.6%
Florida	$7,432.4	$1,061.2	14.3%	$7,469.3	$1,178.2	15.8%
Minnesota	$3,837.8	$517.2	13.5%	$3,995.7	$523.1	13.1%
Large Sub-Total	$58,207.3	$7,236.4	12.4%	$58,753.6	$7,849.9	13.4%
Medium Single-StateNIO Blues (500,000-2,000,000 Health Members in 2011)						
Excellus NY	$5,172.2	$577.6	11.2%	$5,664.1	$651.9	11.5%
Triple-S Salud	$2,081.0	$218.4	10.5%	$1,890.5	$226.8	12.0%
Louisiana	$2,303.5	$338.8	14.7%	$2,508.4	$342.9	13.7%
Arkansas	$1,334.1	$178.4	13.4%	$1,406.1	$210.9	15.0%
Arizona	$1,494.8	$206.2	13.8%	$1,441.9	$212.3	14.7%
South Carolina	$2,478.1	$394.8	15.9%	$2,661.9	$372.4	14.0%
Mississippi	$1,072.7	$115.9	10.8%	$1,108.2	$115.7	10.4%
Capital BC	$1,937.9	$287.3	14.8%	$2,012.8	$278.0	13.8%
Health Now NY	$2,397.1	$246.5	10.3%	$2,396.6	$242.1	10.1%
Hawaii	$1,763.5	$167.5	9.5%	$2,064.4	$173.9	8.4%
Nebraska	$1,334.0	$170.7	12.8%	$1,448.1	$190.2	13.1%
Medium Sub-Total	$23,368.9	$2,902.0	12.4%	$24,602.9	$3,017.2	12.3%
Small Single-StateNIO Blues, excl-Delaware and Kansas (< 500,000 Health Members in 2011)						
Kansas City	$1,550.1	$203.0	13.1%	$1,618.5	$215.0	13.3%
Rhode Island	$1,631.1	$268.3	16.55	$1,568.9	$256.6	16.4%
BC-Idaho	$1,148.5	$121.7	10.6%	$1,230.4	$124.4	10.1%
North Dakota	$988.4	$81.7	8.3%	$1,056.2	$90.6	8.6%
NE Pennsylvania	$722.2	$124.4	17.2%	$639.1	$148.6	23.3%
Montana	$529.3	$77.2	14.6%	$562.3	$79.6	14.2%
Vermont	$233.4	$19.6	8.4%	$254.0	$26.0	10.2%
Wyoming	$415.6	$56.0	13.5%	$460.6	$56.9	12.3%
Small Sub-Total	$7,218.5	$951.9	13.2%	$7,389.9	$997.6	13.5%
NIO Blues Total	**$139,539.4**	**$17,109.2**	**12.3%**	**$142,109.7**	**$17,820.9**	**12.5%**

Source. Health Annual Statements, SNL Financial
Note: BS-California excluded due to differences between California Statutory Filings and NAIC filings
Note: BCBS-Kansas excluded because NAIC statutory filings not available

APPENDIX E: Public MCO SG&A Ratio, 2010-2011

	2010			2011		
Plan	Premium Rev. (in $M)	Total SG&A (in $M)	Ratio	Premium Rev. (in $M)	Total SG&A (in $M)	Ratio
UnitedHealth	$35,346.9	$4,858.1	13.4%	$38,242.9	$4,773.5	12.1%
WellPoint	$42,062 8	$4,242.0	10.1%	$44,443.3	$4,273.6	9.6%
Aetna	$9,997.3	$1,297 3	13 0%	$9,768.1	$1,256.1	12.9%
Cigna	$4,660.2	$800.1	17.2%	$6,456.4	$897.8	13.9%
Humana	$13,127 2	$1,702.6	13.0%	$14,887 6	$1,970.9	13.2%
Coventry	$10,236 9	$1,263 6	12.3%	$10,366.4	$1,279.9	12.3%
Public MCO Total	**$115,431.3**	**$14,163.8**	**12.2%**	**$124,164.7**	**$14,451.8**	**11.5%**

Source: Health Annual Statements, SNL Financial

APPENDIX F: General and Administrative Expense: Analysis for BCBSMT and HCSC, 2007-2011

HCSC Actual Results (all values in $M)

	2007	2008	2009	2010	2011
Net Premiums Earned	$14,774.8	$16,455.1	$17,764.4	$19,960.1	$20,324.7
Total Expenses	1,783.4	1,884.7	2,120.8	2,167.8	2,231.5
Expense Ratio	*12.1%*	*11.5%*	*11.9%*	*10.9%*	*11.0%*
Expense Adjustments					
Real Estate Taxes	($9.8)	($10.8)	($11.4)	($16.6)	($13.4)
State & Local Taxes	0.1	0.6	(0.8)	(24.9)	(111.6)
Premium Taxes	(108.8)	(117.2)	(140.9)	(162.4)	(164.5)
Regulatory Authority Fees	(0.4)	(0.2)	(0.9)	(1.6)	(0.5)
Payroll Taxes	(76.2)	(79.7)	(82.0)	(79.6)	(82.4)
Other Taxes	(29.7)	(35.1)	(69.9)	(87.2)	(119.0)
Expenses excl-Taxes & Fees	$1,558.7	$1,642.3	$1,815.0	$1,795.4	$1,740.2
Adjusted Expense Ratio	***10.5%***	***10.0%***	***10.2%***	***9.0%***	***8.6%***

Source: Health Annual Statements, SNL Financial

BCBSMT Actual Results (all values in $M)

	2007	2008	2009	2010	2011
Net Premiums Earned	$509.0	$516.2	$503.3	$529.3	$562.3
Total Expenses	90.0	85.1	84.7	77.2	79.6
Expense Ratio	*17.7%*	*16.5%*	*16.8%*	*14.6%*	*14.2%*
Expense Adjustments					
Real Estate Taxes	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)
State & Local Taxes	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Premium Taxes	-	-	-	-	-
Regulatory Authority Fees	(0.6)	(0.1)	-	(0.1)	(0.6)
Payroll Taxes	(2.4)	(2.2)	(2.6)	(2.5)	(2.4)
Other Taxes	(3.7)	(4.0)	(3.6)	(4.1)	(4.5)
Expenses excl-Taxes & Fees	$83.0	$78.5	$78.2	$70.1	$71.8
Adjusted Expense Ratio	***16.3%***	***15.2%***	***15.5%***	***13.2%***	***12.8%***

Source: Health Annual Statements, SNL Financial

BCBSMT Pro Forma Results (all values in $M)

	2007	2008	2009	2010	2011
Net Premiums Earned	$509.0	$516.2	$503.3	$529.3	$562.3
Expenses excl-Taxes & Fees	83.0	78.5	78.2	70.1	71.8
Pro Forma (HCSC) Adjusted Expense Ratio	*10.5%*	*10.0%*	*10.2%*	*9.0%*	*8.6%*
Pro Forma Expenses excl-Taxes & Fees	$53.7	$51.5	$51.4	$47.6	$48.1
Pro Forma Savings	**$29.3**	**$27.0**	**$26.8**	**$22.5**	**$23.6**

APPENDIX G: NIO Blues Underwriting Margin, 2010-2011

Plan	2010 Premium Rev. (in $M)	2010 UW Gain (in $M)	2010 UW Margin	2011 Premium Rev. (in $M)	2011 UW Gain (in $M)	2011 UW Margin
Multi-State NIO Blues						
HCSC	$19,960.1	$1,253.0	6.28%	$20,324.7	$1,533.5	7.54%
Highmark (incl-DE)	$12,096 0	$495.9	4 10%	$12,121 0	$486.2	4.01%
CareFirst	$6,778 5	$220.5	3 25%	$6,940.2	$73.6	1.06%
Regence	$6,003 8	$45.1	0.75%	$5,813.9	($98.8)	(1 70%)
Premera	$2,787 2	$68.2	2 45%	$2,959.3	$86.3	2 92%
Wellmark	$3,119 0	$60.7	1.95%	$3,204.2	$70.0	2.18%
Multi-State Sub-Total	$50,744.4	$2,143.4	4.22%	$51,363.3	$2,150.8	4.19%
Large Single-StateNIO Blues excl-Blue Shield of California (> 2,000,000 Health Members in 2011)						
Michigan	$8,966.1	$5.5	0.06%	$9,028.2	$90.4	1.00%
Horizon	$7,958.3	$20.5	0.26%	$8,316.4	$73.3	0 88%
Tennessee	$4,767.9	$104.9	2.20%	$5,128.1	$234.1	4.56%
Alabama	$4,273.3	$159.0	3.72%	$4,105.6	$250.4	6.10%
North Carolina	$4,682.9	($27.8)	(0.59%)	$4,971.3	$112.5	2.26%
Massachusetts	$6,313.7	($100.7)	(1 59%)	$6,346.2	$42.7	0.67%
Independence BC	$9,975.0	$213.5	2.14%	$9,392.9	$287.0	3.06%
Florida	$7,432 4	$370.2	4.98%	$7,469 3	$124.0	1.66%
Minnesota	$3,837.8	$104.7	2.73%	$3,995.7	$168.2	4 21%
Large Sub-Total	$58,207.3	$849.9	1.46%	$58,753.6	$1,382.5	2.35%
Medium Single-StateNIO Blues (500,000-2,000,000 Health Members in 2011)						
Excellus NY	$5,172 2	$33.0	0.64%	$5,664.1	$156.9	2.77%
Triple-S Salud	$2,081 0	$50.5	2 42%	$1,890.5	$26.1	1.38%
Louisiana	$2,303.5	$17.5	0.76%	$2,508.4	$20.9	0 83%
Arkansas	$1,334.1	$82.2	6.16%	$1,406.1	$58.6	4 17%
Arizona	$1,494 8	$76.8	5.14%	$1,441.9	$81.3	5.64%
South Carolina	$2,478.1	$68.2	2 75%	$2,661 9	$81.3	3 05%
Mississippi	$1,072.7	$7.6	0 71%	$1,108.2	$8.0	0 72%
Capital BC	$1,937 9	$20.2	1 04%	$2,012 8	$31.2	1.55%
Health Now NY	$2,397 1	$26.4	1.10%	$2,396.6	($17.6)	(0.74%)
Hawaii	$1,763 5	($26.4)	(1 50%)	$2,064.4	$22.3	1.08%
Nebraska	$1,334.0	$44.9	3.36%	$1,448.1	($0.1)	(0.00%)
Medium Sub-Total	$23,368.9	$400.8	1.71%	$24,602.9	$468.9	1.91%
Small Single-StateNIO Blues, excl-Delaware and Kansas (< 500,000 Health Members in 2011)						
Kansas City	$1,550.1	$28.8	1.86%	$1,618 5	$22.4	1.38%
Rhode Island	$1,631.1	($60.6)	(3.71%)	$1,568.9	$75.3	4.80%
BC-Idaho	$1,148.5	$27 3	2.38%	$1,230.4	$45.1	3.67%
North Dakota	$988 4	$11.1	1.12%	$1,056.2	$25.0	2.37%
NE Pennsylvania	$722.2	($31.4)	(4.35%)	$639.1	($53.9)	(8.44%)
Montana	$529.3	($6.2)	(1 17%)	$562.3	($5.4)	(0.96%)
Vermont	$233.4	$14.2	6.07%	$254.0	$20.4	8.02%
Wyoming	$415.6	$10.9	2 62%	$460.6	$5.7	1.23%
Small Sub-Total	$7,218.5	($6.0)	(0.08%)	$7,389.9	$134.4	1 82%
NIO Blues Total	**$139,539.4**	**$3,388.1**	**2.43%**	**$142,109.7**	**$4,136.7**	**2.91%**

Source. Health Annual Statements, SNL Financial
Note. BS-California excluded due to differences between California Statutory Filings and NAIC filings
Note: BCBS-Kansas excluded because NAIC statutory filings not available

APPENDIX H: Public MCO Underwriting Margin, 2010-2011

	2010			2011		
Plan	Premium Rev. (in $M)	UW Gain (in $M)	UW Margin	Premium Rev. (in $M)	UW Gain (in $M)	UW Margin
UnitedHealth	$35,346 9	$2,411 4	6.82%	$38,242.9	$3,166.2	8.28%
WellPoint	$42,062 8	$4,169.9	9 91%	$44,443.3	$3,730.8	8 39%
Aetna	$9,997.3	$471.1	4.71%	$9,768.1	$761.1	7 79%
Cigna	$4,660 2	$203 6	4.37%	$6,456 4	$349.8	5.42%
Humana	$13,127.2	$680 3	5.18%	$14,887.6	$887 1	5.96%
Coventry	$10,236.9	$544.6	5 32%	$10,366.4	$404.9	3.91%
Public MCO Total	**$115,431.3**	**$8,481.0**	7.35%	**$124,164.7**	**$9,300.0**	7.49%

Source: Health Annual Statements, SNL Financial

APPENDIX I: NIO BluesSurplus Analysis at 2011YE

Plan	Total Adj. Capital (in $M)	ACL RBC (Required Capital, in $M)	RBC Ratio	Capital Required by BCBSA (375% RBC, in $M)
Multi-State NIO Blues				
HCSC	$8,909.9	$726.3	1,227%	$2,723.6
Highmark (incl-DE)	$4,533.4	$704.8	643%	$2,642.9
CareFirst	$1,476.1	$171.9	859%	$644.7
Regence	$1,883.5	$194.4	969%	$729.1
Premera	$973.1	$100.4	970%	$376.3
Wellmark	$1,084.3	$120.9	897%	$453.3
Multi-State Sub-Total	$18,860.2	$2,018 7	934%	$7,570.0
Large Single-StateNIO Blues excl-Blue Shield of California (> 2,000,000 Health Members in 2011)				
Michigan	$2,789.7	$414.5	673%	$1 554 5
Horizon	$1,973.2	$278.2	709%	$1 043 2
Tennessee	$1,491 9	$172.1	867%	$645.3
Alabama	$991.1	$104.8	946%	$393.0
North Carolina	$1,816 2	$170 6	1,065%	$639.7
Massachusetts	$1,626.2	$261 0	623%	$978.9
Independence BC	$1,906.7	$288.1	662%	$1,080.6
Florida	$2,924 1	$230 1	1,271%	$862.9
Minnesota	$1,161.1	$145.1	800%	$544.1
Large Sub-Total	$16,680.2	$2,064 6	808%	$7,742.2
Medium Single-StateNIO Blues (500,000-2,000,000 Health Members in 2011)				
Excellus NY	$1,267.3	$200 7	631%	$752.7
Triple-S Salud	$290.7	$44 1	659%	$165.5
Louisiana	$873.8	$84.5	1,034%	$316.8
Arkansas	$632.7	$67 8	934%	$254.1
Arizona	$891.0	$59.9	1,488%	$224.6
South Carolina	$1,785 0	$212.5	840%	$796 8
Mississippi	$561.1	$33.2	1,689%	$124.5
Capital BC	$810.3	$101 6	797%	$381.1
Health Now NY	$528 9	$84.9	623%	$318.2
Hawaii	$406 2	$74.2	547%	$278 4
Nebraska	$380.3	$30.0	1,266%	$112.6
Medium Sub-Total	$8,427.3	$993.5	848%	$3,725.5
Small Single-StateNIO Blues, excl-Delaware and Kansas (< 500,000 Health Members in 2011)				
Kansas City	$649.6	$55.8	1,165%	$209 1
Rhode Island	$323.4	$53.0	610%	$198.7
BC-Idaho	$443.8	$43.1	1,029%	$161.8
North Dakota	$286.8	$50.7	566%	$190.0
NE Pennsylvania	$295.8	$36.9	802%	$138.3
Montana	$130.8	$22.7	577%	$85.0
Vermont	$179.0	$11.1	1,619%	$41.5
Wyoming	$115.3	$17.0	677%	$63 8
Small Sub-Total	$2,424 5	$290.2	836%	$1,088.1
NIO Blues Total	**$46,392.1**	**$5,366.9**	**864%**	**$20,125.8**

Source: Health Annual Statements, SNL Financial
Note: BS-California excluded due to differences between California Statutory Filings and NAIC filings
Note: BCBS-Kansas excluded because NAIC statutory filings not available

APPENDIX J: Pro Forma Balance SheetSplit Between HCSC andExisting Entity

BCBSMT Balance Sheet (Unaudited) as of June 30, 2012

	June 2012	To HCSC	Existing Entity
ASSETS			
General Assets			
Cash & Short Term Investments	$7,366,474	$7,366,224	$250
Health Receivables - Premium Related	4,294,961	4,294,961	0
Health Receivables - Other Health	40,285,820	40,285,820	0
Receivables from Affiliates	3,769,861	250,295	3,519,565
Other Miscellaneous Receivables	498,669	498,669	0
Dividends and Interest Receivable	895,100	0	895,100
Deferred Taxes	8,659,190	0	8,659,190
Notes Receivable	22,141	0	22,141
Prepaid Expenses	3,512,167	3,512,167	0
Total General Assets	69,304,383	56,208,136	13,096,246
Property, Plant and Equipment (Net)			
Land and Buildings	9,021,096	0	9,021,096
Software	6,510,706	6,510,706	0
Furniture, Equipment and Autos	2,979,512	2,979,512	0
Projects in Progress	3,748,606	3,748,606	0
Total Property, Plant and Equipment, (Net)	22,259,919	13,238,823	9,021,096
Invested Assets			
Bonds	75,415,431	54,928,673	20,486,758
Common Stocks	39,130,629	0	39,130,629
Investment in Subsidiaries	48,215,435	2,688,474	45,526,961
Closely Held Investments	3,198,075	0	3,198,075
Annuities	12,482,300	12,482,300	0
Cash Surrender Value Life Insurance	15,220,862	15,220,862	0
Intangible Assets	23,003,051	23,003,051	0
Total Invested Assets	216,665,783	108,323,361	108,342,423
TOTAL ASSETS	**$308,230,085**	**$177,770,320**	**$130,459,765**
LIABILITIES AND SURPLUS			
Liabilities			
Pending & Unreported Claims	$58,027,742	$58,027,742	$0
Aggregate Policy Reserves	9,074,656	9,074,656	0
Health Care & Other Claim Liabilities	16,145,685	16,145,685	0
Trade Accounts Payable	726,965	726,965	0
Compensation-Related Liabilities	2,978,357	2,978,357	0
Other Accrued Liabilities	1,567,895	1,390,686	177,210
Income Taxes Payable	(2,185,471)	0	(2,185,471)
Deferred Subscription Revenue	18,755,103	18,755,103	0
Other Miscellaneous Liabilities	5,583,313	5,583,313	0
Pension & Other Retiree Obligations	45,055,234	45,055,234	0
Intangible Liabilities	20,032,580	20,032,580	0
Contingent Liabilities	4,870,000	0	4,870,000
Total Liabilities	180,632,059	177,770,320	2,861,739
Surplus			
Accumulated Earnings	162,903,580	0	162,903,580
Accumulated Other Comprehensive Income (Loss)	(35,305,553)	0	(35,305,553)
Total Surplus	127,598,027	0	127,598,027
TOTAL LIABILITIES AND SURPLUS	**$308,230,085**	**$177,770,320**	**$130,459,765**

APPENDIX K: Pro FormaHCSC + BCBSMT Membership at 2012Q2

Member Type	HCSC 2012Q2	BCBSMT 2012Q2	Pro Forma Combined	% Increase to HCSC
Group				
Group Major Med	2,967,377	83,095	3,050,472	2.8%
Group Total	2,967,377	83,095	3,050,472	2 8%
Government				
FEHBP	749,025	32,487	781,512	4.3%
Medicaid	39,705	0	39,705	0 0%
Medicare Adv.	0	1,006	1,006	NM
Expected Loss[1]	0	(1,006)	(1,006)	NM
Government Total	788,730	32,487	821,217	4.1%
Retail				
Indiv Major Med.	835,822	32,295	868,117	3.9%
Retail Total	835,822	32,295	868,117	3.9%
Self-Funded ASO	8,529,381	101,047	8,630,428	1.2%
Expected Loss[1]	0	(27,696)	(27,696)	NM
Total Health Members	**13,121,310**	**265,083**	**13,386,393**	**2.0%**
Expected, 1/1/2013	**13,121,310**	**236,381**	**13,357,691**	**1.8%**
Non-Health Members[2]				
Medicare Supplement	490,503	15,153	505,656	3.1%
Dental	652,131	13,083	665,214	2.0%
Vision	0	10,543	10,543	NM
Other	2,478,364	31,434	2,509,798	1.3%
Total Non-Health	**3,620,990**	**70,213**	**3,691,203**	**1.9%**
Total Membership	**16,742,300**	**335,296**	**17,077,596**	**2.0%**
Expected, 1/1/2013	**16,742,300**	**306,594**	**17,048,894**	**1.8%**

Source. ASO membership data from Blue Cross and Blue Shield Association Quarterly Report
All other membership data from 2012Q2 Health Quarterly Statements, SNL Financial

1) *BCBSMT expected to withdraw from Medicare Advantage market in 2013 as a result of losing its third-party administrator and expected to lose State of Montana ASO membership due to contract loss to Cigna*

2) *Non-Health members may not be unique*