



1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE INTRODUCE YOURSELF.**

3 **A.** My name is Thomas R. McCarthy. I am an economist and senior vice president of  
4 NERA Economic Consulting, where I am the head of NERA's health care practice. My  
5 business address is Suite 1950, 777 South Figueroa Street, Los Angeles, California  
6 90017.

7 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.**

8 **A.** I have a B.A. in Economics from Assumption College in Worcester, Massachusetts and  
9 Master's and Ph.D. degrees in Economics from the University of Maryland. I taught  
10 microeconomic theory and urban economics at the University of Maryland, and then  
11 joined the faculty of the School of Economics and Management of Oakland University in  
12 Michigan where I taught graduate and undergraduate microeconomics as well as health  
13 economics. Prior to joining NERA, I was a staff economist with the Federal Trade  
14 Commission conducting studies of regulation and competition in health care markets. I  
15 joined NERA in 1983 and now direct NERA's health care practice, which specializes in  
16 the economic analysis of regulatory, public policy, and litigation matters in health care  
17 markets.  
18

19 **Q. HAVE YOU PROVIDED A COPY OF YOUR RESUME?**

20 **A.** Exhibit A contains a copy of my resume which outlines more fully my qualifications and  
21 prior experience.  
22

23 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

24 **A.** I am appearing on behalf of the Health Care Service Corporation (HCSC) and Blue Cross  
25 and Blue Shield of Montana, Inc. (BCBSMT) regarding the antitrust issues and financial  
26

1 and community impact issues associated with the proposed alliance between the two  
2 entities.

3 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN FORMAL PROCEEDINGS BEFORE**  
4 **THE MONTANA COMMISSIONER OF INSURANCE OR THE MONTANA**  
5 **ATTORNEY GENERAL OR IN FORMAL PROCEEDINGS IN ANY OTHER**  
6 **STATE?**

7 **A.** I have not testified in formal proceedings before the Montana regulators. However, I  
8 have testified in a number of formal proceedings in other states on antitrust and  
9 community impact issues arising from health plan combinations similar to the alliance at  
10 issue. I have also made a number of presentations to the U.S. Department of Justice  
11 about many of those health plan combinations. Some of these transactions are discussed  
12 in NERA's Financial and Community Impact Report submitted with the Application in  
13 this matter as Exhibit 4, and in NERA's Antitrust Report submitted with the Application  
14 as Exhibit 6. In addition, I have previously been retained by the Montana Attorney  
15 General's Office to design a regulatory framework for the AG's oversight of the Benefis  
16 hospital system in Great Falls under Montana's Certificate of Public Advantage statute.  
17

18  
19 **II. SUMMARY OF TESTIMONY**

20 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

21 **A.** It is my understanding that Montana Code Annotated § 50-4-717 requires that the  
22 Commissioner may not approve a conversion transaction except upon a finding that the  
23 transaction is in the public interest. In determining whether the transaction is in the  
24 public interest, the Commissioner must consider:  
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1 (1) Whether the Transaction has the likelihood of creating a significant adverse effect  
2 on the availability or accessibility of health care services or health insurance coverage in  
3 the affected community. It is my opinion that the Transaction does not, but that failure to  
4 complete the Transaction may;

5 (2) Whether the Transaction includes sufficient safeguards to ensure that the affected  
6 community will have continued access to affordable health care. It is my opinion that the  
7 Transaction does;

8 (3) Whether the Transaction is equitable to the public interest, enrollees, insureds,  
9 shareholders, and certificate holders, if any, of BCBSMT. It is my opinion that it is;

10 (4) Whether the Transaction will result in efficient economies of scale. It is my  
11 opinion that it will;

12 (5) Whether the Transaction will have an adverse impact on competition in any health  
13 care related market in Montana, including the market for health insurance and the  
14 markets for provider services. It is my opinion that it will not and thus there is no  
15 likelihood of a substantial lessening of competition in any line of the insurance business  
16 or in any provider market.

17  
18 Based on the work that I have performed, it is my conclusion that the proposed alliance is  
19 “in the public interest” since it will make BCBSMT financially more stable and a more  
20 efficient competitor. Further, the “public interest” is protected since the proposed  
21 alliance will *not* lead to a lessening of competition in any relevant market.  
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1 **III. GENERAL DESCRIPTION OF THE TRANSACTION**

2 **Q. ARE YOU FAMILIAR WITH THE PROPOSED ALLIANCE AND**  
3 **TRANSACTION THAT IS THE SUBJECT OF THIS PROCEEDING?**

4 **A.** Yes.

5 **Q. BRIEFLY DESCRIBE YOUR UNDERSTANDING OF THE PROPOSED**  
6 **ALLIANCE AND TRANSACTION.**

7 **A.** Under the proposed alliance, HCSC will acquire BCBSMT's member contracts, provider  
8 contracts, Blue Cross and Blue Shield marks in Montana, and most of its liabilities. It  
9 will also start doing business in Montana as BCBSMT. In return, HCSC will pay  
10 BCBSMT approximately \$18 million for the assets it is acquiring and then BCBSMT will  
11 transfer this money to a Foundation. Likewise, BCBSMT will transfer to HCSC a certain  
12 amount of assets and cash to support the liabilities that HCSC is acquiring from it. Some  
13 of BCBSMT's assets and liabilities are excluded from the transaction. The excluded  
14 assets, which include land, buildings, and other assets, are estimated to be worth over  
15 \$100 million. After the closing of the transaction, the excluded assets and liabilities will  
16 be retained by the corporate BCBSMT entity, which will continue to exist under a  
17 different name until the excluded liabilities are paid or otherwise discharged. At that  
18 time, the corporate BCBSMT entity will then transfer the remaining assets to the  
19 Foundation. In total, the Foundation is expected to receive around \$18 million from  
20 HCSC and over \$100 million from BCBSMT, which can then be used for the benefit of  
21 Montanans.  
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1 **Q. BRIEFLY DESCRIBE THE TWO HEALTH CARE COMPANIES INVOLVED IN**  
2 **THE PROPOSED ALLIANCE.**

3 **A.** BCBSMT is a health insurance company that operates almost entirely in Montana. It  
4 holds the Blue Cross and Blue Shield marks in Montana. It offers a variety of fully-  
5 insured and self-funded health insurance products (e.g., PPO, HDHP, Medicare  
6 Advantage, and Medicare supplement, as well as third-party administrator services). It  
7 also offers some specialty insurance products (e.g., dental and vision). HCSC is a health  
8 insurance company that operates primarily in Illinois, Texas, Oklahoma, and New  
9 Mexico. It holds the Blue Cross and Blue Shield marks in those states. It also offers a  
10 variety of fully-insured and self-funded health insurance products as well a dental  
11 insurance product. All of these BCBS plans are non-investor owned plans.  
12

13 **IV. WHETHER THE PROPOSED ALLIANCE IS IN THE PUBLIC INTEREST**

14 **Q. HAVE YOU STUDIED ECONOMIC ISSUES IN THE HEALTH CARE**  
15 **INDUSTRY?**

16 **A.** Yes.

17 **Q. HAVE YOU ASSESSED THE EFFECTS OF THE AVAILABILITY OR**  
18 **ACCESSIBILITY OF HEALTH CARE SERVICES OR HEALTH INSURANCE**  
19 **COVERAGE IN OTHER STATES?**

20 **A.** Yes.

21 **Q. WHAT SOURCES HAVE YOU USED TO MAKE YOUR ANALYSIS OF**  
22 **WHETHER THIS PROPOSED ALLIANCE IS IN THE "PUBLIC INTEREST"?**

23 **A.** We reviewed planning documents addressing the expected efficiencies and other benefits  
24 of the proposed alliance and enrollment data for their members who reside in and outside  
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1 of Montana. We have also reviewed a number of publicly available materials, including  
2 National Association of Insurance Commissioners (NAIC) premium data, Centers for  
3 Medicare & Medicaid Services (CMS) enrollment data, U.S. Census Bureau population  
4 data, and Bureau of Labor Statistics data on the number of uninsured in Montana. In  
5 addition, we have conducted a number of interviews with senior management of the two  
6 parties and with a producer located in Billings, Montana.

7 **V. IMPACT ON THE AVAILABILITY OR ACCESSIBILITY OF HEALTH CARE**  
8 **SERVICES**

9 **Q. ON THE BASIS OF THE INFORMATION YOU HAVE STUDIED, HAVE YOU**  
10 **REACHED AN OPINION AS TO WHETHER OR NOT THE PROPOSED**  
11 **ALLIANCE WILL CREATE A SIGNIFICANT ADVERSE EFFECT ON THE**  
12 **AVAILABILITY OR ACCESSIBILITY OF HEALTH CARE SERVICES OR**  
13 **HEALTH INSURANCE COVERAGE IN THE AFFECTED COMMUNITY?**

14 **A.** I have.

15 **Q. AND WHAT IS YOUR OPINION?**

16 **A.** The proposed alliance will *not* negatively impact either availability or accessibility of  
17 health care services or health insurance coverage in Montana. This is because the  
18 proposed alliance will make BCBSMT a stronger competitor by giving it access to more  
19 capital and by generating a number of efficiencies. As such, it will ensure that BCBSMT  
20 has the financial strength to continue providing the services and coverage it has provided  
21 in the past while keeping premiums at competitive levels.  
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1 **Q. WHAT FACTORS LED YOU TO REACH THAT OPINION?**

2 **A.** HCSC is the fourth largest health insurer in the U.S. Compared to BCBSMT, it has many  
3 more commercial health members nation-wide (13,143,727 vs. 208,209), a much higher  
4 risk-based capital ratio (1,227 percent vs. 577 percent), a lower administrative expense  
5 ratio (8.6 percent vs. 12.8 percent), and a stronger underwriting margin (7.54 percent vs. -  
6 0.96 percent).

7 **Q. WHAT IS A RISK-BASED CAPITAL RATIO?**

8 **A.** Risk-based capital ratio (RBC) refers to the industry method of measuring the minimum  
9 amount of capital appropriate for a reporting entity to support its overall business  
10 operations in consideration of its size and risk profile. RBC was developed from the  
11 perspective of identifying weakly capitalized companies. Accordingly, the NAIC and the  
12 Blue Cross Blue Shield Association have developed minimum levels of RBC. The NAIC  
13 requires insurers to hold a minimum 200% of RBC, and the Blue Cross and Blue Shield  
14 Association requires its licensees to maintain 375% of RBC. Although BCBSMT  
15 exceeds these minimum levels, its RBC has been on a downward trend. BCBSMT's  
16 RBC has declined over the past five years, from 637% at the end of 2006 to 577% at the  
17 time of the Application. Some of the new investments needed by BCBSMT would  
18 further deplete a portion of its RBC. By forming an alliance with HCSC, BCBSMT will  
19 be able to reverse the downward trend in its RBC.  
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22 **Q. CAN YOU EXPLAIN THE IMPORTANCE OF HCSC'S HIGHER RISK-BASED**  
23 **CAPITAL RATIO?**

24 **A.** Generally, a higher RBC means that the company has less risk exposure because it has  
25 greater available capital. Less risk means more protection and security for members. By  
26

1 aligning with HCSC, BCBSMT will gain access to more capital. Access to more capital  
2 will reduce BCBSMT's risk exposure and make it financially stronger and more stable,  
3 which is especially important with the recent removal of caps on patient claims and the  
4 general uncertainty that comes when the Affordable Care Act (ACA) becomes fully  
5 implemented in 2014. Combined with the many efficiencies expected, this will allow  
6 BCBSMT to continue to price aggressively to win fully insured business in Montana. It  
7 will also put BCBSMT in a better position to expand its individual business under ACA.  
8 Being financially stronger and more efficient will allow BCBSMT to take on more of this  
9 business.  
10

11 **Q. CAN YOU ALSO EXPLAIN WHY A LOWER ADMINISTRATIVE EXPENSE**  
12 **RATIO IS IMPORTANT?**

13 **A.** By aligning with HCSC, BCBSMT will be able to lower its administrative expense ratio  
14 by spreading its administrative expenses over a much larger membership base and by  
15 gaining access to HCSC's various cost-saving technologies. This will make it easier for  
16 BCBSMT to limit increases in premiums and adapt to the minimum medical loss ratios  
17 that take effect when ACA becomes fully implemented in 2014. The lower  
18 administrative cost ratios will mean that BCBSMT can keep premiums low and still  
19 achieve the minimum medical loss ratios called for under ACA, which will allow  
20 BCBSMT to maintain a reasonable underwriting margin and remain financially healthy,  
21 even with lower premiums.  
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1 **Q. WHAT OTHER FACTORS WERE SIGNIFICANT IN REACHING YOUR**  
2 **OPINION?**

3 **A.** By aligning with HCSC, BCBSMT will be able to avoid having to fund by itself the \$100  
4 million in capital requirements and incremental operating expenses that it estimates will  
5 need to be made over the next five years to successfully compete, improve operational  
6 efficiency, and meet Blue Cross Blue Shield Association, ACA, and municipal  
7 regulations. The implementation and transition costs of transferring the HCSC  
8 capabilities are expected to be much less than the \$100 million it would have cost  
9 BCBSMT—only about \$25 million. BCBSMT will also gain access to HCSC’s  
10 technology, which will expand and improve the services that BCBSMT can provide its  
11 members.  
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13 **VI. IMPACT ON COMMUNITY ACCESS TO AFFORDABLE HEALTH CARE**

14 **Q. HAVE YOU REACHED AN OPINION AS TO WHETHER THE PROPOSED**  
15 **ALLIANCE INCLUDES SUFFICIENT SAFEGUARDS TO ENSURE THAT THE**  
16 **AFFECTED COMMUNITY WILL HAVE CONTINUED ACCESS TO**  
17 **AFFORDABLE HEALTH CARE?**

18 **A.** I have.

19 **Q. AND WHAT IS YOUR OPINION?**

20 **A.** The proposed alliance will have no adverse impact on competition in the market for  
21 health insurance in Montana and, as a result, there will be sufficient competitive  
22 safeguards to ensure that Montanans will continue to have access to affordable health  
23 care.  
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1 **Q. WHAT FACTORS LED YOU TO REACH THAT CONCLUSION?**

2 **A.** HCSC's membership in Montana is relatively small and reflects local members who are  
3 HCSC members because of national contracts negotiated outside of Montana. HCSC  
4 does not have an active sales presence in Montana. Thus, there have been no competitive  
5 overlaps with BCBSMT and no competitive interactions are lost with the proposed  
6 alliance. Further, BCBSMT will continue to face the same strong competitors it does  
7 now, including Cigna, UnitedHealth, PacificSource, and Employee Benefit Management  
8 Services, Inc. (EBMS is a large third party administrator). Each of these plans has a  
9 growing presence in Montana.  
10

11 **Q. WHY IS COMPETITION IMPORTANT IN ENSURING CONTINUED ACCESS**  
12 **TO AFFORDABLE HEALTH CARE?**

13 **A.** BCBSMT already faces effective competition from other health plans. Even if the  
14 alliance could cause BCBSMT to pay a premium tax on its fully-insured business,  
15 BCBSMT would not be able to simply pass that tax on to its members in the form of  
16 higher premiums since Cigna and UnitedHealth already pay that tax and have it built into  
17 their already competitive premiums. Significantly higher premiums to pass on the tax  
18 would just cause BCBSMT to lose business. In addition, PacificSource does not have to  
19 pay a premium tax. That is, if BCBSMT tried to increase its premiums to cover the  
20 premium tax, it would likely lose a substantial number of members to Cigna,  
21 UnitedHealth, and PacificSource since their premiums would remain unchanged and they  
22 are already effective competitors.  
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1 **VII. IMPACT ON ENROLEES, INSUREDS, SHAREHOLDERS, AND CERTIFICATE**  
2 **HOLDERS**

3 **Q. HAVE YOU REACHED AN OPINION AS TO WHETHER THE PROPOSED**  
4 **ALLIANCE IS EQUITABLE TO THE PUBLIC INTEREST, ENROLLEES,**  
5 **INSUREDS, SHAREHOLDERS, AND CERTIFICATE HOLDERS, IF ANY, OF**  
6 **BCBSMT?**

7 **A.** I have.

8 **Q. CAN YOU PLEASE TELL US YOUR OPINION?**

9 **A.** The proposed alliance is equitable to the public interest and to all of the entities that could  
10 be impacted by it.

11 **Q. WHAT FACTORS LEAD YOU TO REACH THAT OPINION?**

12 **A.** First of all, the proposed alliance will not impact any shareholders or stock certificate  
13 holders because BCBSMT is a not-for-profit entity and does not have any shareholders or  
14 stock certificate holders.

15 **Q. WHAT ABOUT THE ENROLLEES, INSUREDS, AND OTHER ENTITIES THAT**  
16 **COULD BE IMPACTED BY THE PROPOSED ALLIANCE?**

17 **A.** The proposed alliance will make BCBSMT a more efficient and more stable competitor  
18 while having no adverse impact on competition in the Montana health insurance market.  
19 This means the proposed alliance will be equitable to both the enrollees and insureds that  
20 use and purchase health insurance from BCBSMT because they will still enjoy  
21 competitive premiums and will be able to keep the insurance options they have chosen. It  
22 also means that the proposed alliance will be equitable to the producers and brokers who  
23 help sell health insurance for BCBSMT since there will be no material impact on  
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1 competition in that market and they will benefit from having access to HCSC's enhanced  
2 technology and other innovative services. These capabilities will make it easier for them  
3 to deal with BCBSMT. In addition, the proposed alliance will be equitable to the  
4 hospitals, physicians, and other types of providers who treat the BCBSMT enrollees and  
5 insureds who require health care services since the alliance will have no adverse impact  
6 on competition in any of the markets for providers' services. Finally, the proposed  
7 alliance will be equitable to the other residents of Montana since the alliance is expected  
8 to result in BCBSMT setting up a Foundation with over \$118 million in assets (including  
9 the HCSC purchase price).  
10

11 **VIII. ECONOMIES OF SCALE IMPLICATIONS**

12 **Q. CAN YOU PLEASE EXPLAIN WHAT THE TERM "ECONOMIES OF SCALE"**  
13 **MEANS?**

14 **A.** Yes. Economists typically define economies of scale as average cost falling as the size of  
15 the organization and its output increases.

16 **Q. HAVE YOU FORMED AN OPINION AS TO WHETHER THE CONVERSION**  
17 **TRANSACTION WOULD RESULT IN ECONOMIES OF SCALE?**

18 **A.** I have.

19 **Q. AND WHAT IS YOUR OPINION?**

20 **A.** The proposed alliance will make BCBSMT more efficient in many ways, including  
21 stronger scale economies. The stronger scale economies will come about by BCBSMT  
22 joining its administrative processes with HCSC. This will reduce BCBSMT's  
23 administrative expense ratio by allowing HCSC and BCBSMT to spread their total  
24 administrative costs over their combined membership. This means the proposed alliance  
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1 will result in real and significant economies of scale. HCSC already has a lower  
2 administrative expense ratio than BCBSMT based on both its scale of operations and its  
3 newer technology.

4 **Q. WHAT ARE THE ADMINISTRATIVE EXPENSES TO WHICH YOU ARE**  
5 **REFERRING?**

6 **A.** Administrative expenses include general overhead costs for claims processing and other  
7 information technology systems, accounting services, actuarial services, legal services,  
8 member services, and other management services.

9 **Q. HOW WILL THE ADMINISTRATIVE EXPENSE RATIO BE REDUCED?**

10 **A.** Many of these costs (such as computer hardware and software costs) are relatively fixed  
11 and would not vary much with the increase in membership that BCBSMT brings.  
12 Adding the BCBSMT membership to the HCSC membership will allow the aligned  
13 entities to reduce the total fixed costs needed to manage both operations. Finally, HCSC  
14 can often get better prices from its vendors than BCBSMT since it can drive bigger  
15 quantities. All of this will reduce the administrative expense ratio for both BCBSMT  
16 and, to a lesser extent, HCSC.

17 **Q. HAS THERE BEEN A REDUCTION IN ADMINISTRATIVE EXPENSE RATIOS**  
18 **IN OTHER STATES IN WHICH HCSC HAS ACQUIRED PLANS?**

19 **A.** Yes. HCSC was able to reduce the administrative expense ratios for the BCBS plans that  
20 it acquired in Texas, New Mexico, and Oklahoma by streamlining their operations and  
21 centralizing various corporate overhead functions including information technology  
22 systems.  
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1 **IX. ANTITRUST IMPLICATIONS**

2 **Q. FINALLY, HAVE YOU ALSO STUDIED AND FORMED AN OPINION AS TO**  
3 **WHETHER THE CONVERSION TRANSACTION WOULD VIOLATE**  
4 **FEDERAL OR STATE ANTITRUST LAWS?**

5 **A.** Yes. Specifically, we evaluated whether the proposed alliance is likely to lead to a  
6 lessening of competition in any of the various lines of business for health insurance,  
7 dental insurance, or provider services in Montana. Based on the work that we have  
8 performed, it is our conclusion that the proposed alliance will *not* lead to a lessening of  
9 competition in any market in Montana.  
10

11 **Q. WHAT IS THE BASIS FOR YOUR CONCLUSION?**

12 **A.** HCSC provides health and dental insurance for only a small number of members who  
13 reside in Montana, and has no active sales presence in Montana. Thus, it is not an active  
14 competitor with BCBSMT in Montana. Most of the HCSC members who reside in  
15 Montana reflect national account members sold by HCSC to employers headquartered  
16 outside of Montana that are buying health insurance for all their employees, even those  
17 who might live in Montana. BCBSMT does not compete for these members since  
18 BCBSMT does not submit bids to companies in other states. Simply stated, the two plans  
19 do not compete with each other for membership, so there is no lost competition if they  
20 come together.  
21

22 In addition, HCSC does not contract with any of the providers in Montana and BCBSMT  
23 already counts the HCSC members who reside in Montana as part of its volume when  
24 negotiating with the Montana providers. Thus, there will be no change in the structure of  
25 the provider markets where BCBSMT buys provider services.  
26

1 **Q. WHAT ELSE INFORMED YOUR OPINION?**

2 **A.** We also performed an NAIC Form E analysis to confirm that the proposed alliance will  
3 not cause an antitrust problem.

4 **Q. WHAT IS AN NAIC FORM E ANALYSIS?**

5 **A.** The NAIC Form E analysis is based on the premiums that each insurer has written for  
6 each of its lines of business in Montana and therefore represents fully-insured business  
7 only. This approach is used as a screening device by many state departments of  
8 insurance to determine whether there is *prima facie* evidence that there might be a  
9 lessening of competition.  
10

11 **Q. WHAT DATA DID YOU USE TO PERFORM THE ANALYSIS?**

12 **A.** We performed the analysis two different ways: (1) using the health insurance data only  
13 and (2) including some categories of the accident and health insurance data.

14 **Q. CAN YOU PLEASE SUMMARIZE YOUR FINDINGS AFTER PERFORMING**  
15 **THE NAIC FORM E ANALYSIS?**

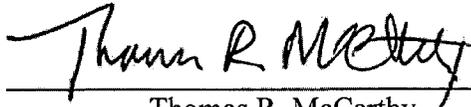
16 **A.** HCSC had less than a 1 percent share on average during the period 2007 through 2011  
17 for the five lines of business where both BCBSMT and HCSC both had written  
18 premiums. According to the NAIC Model 440 Form E guidelines, these very low shares  
19 (i.e., less than 1 percent) mean that the proposed alliance would not cause a *prima facie*  
20 antitrust violation. Thus, there is no need for further antitrust concern, even just based on  
21 the share numbers. Indeed, I understand that the U.S. Department of Justice's Antitrust  
22 Division has granted BCBSMT's and HCSC's request for early termination of the  
23 waiting period under the Hart-Scott-Rodino Antitrust Act based on the finding that the  
24 transaction would cause no antitrust concerns.  
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1 Q. HAVE YOU PROVIDED A COPY OF YOUR ASSESSMENT?

2 A. Yes. The results of our antitrust analysis are submitted with the Application in this  
3 matter as Antitrust Report, Proposed Alliance of Blue Cross and Blue Shield of Montana,  
4 Inc. with Health Care Service Corporation, NERA Economic Consulting (Nov. 10,  
5 2012), Exhibit 6.

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

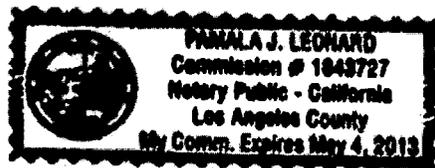
7 A. Yes.  
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14 \_\_\_\_\_  
15 Thomas R. McCarthy

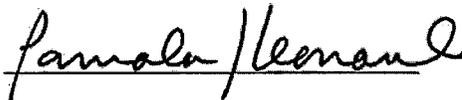
16 State of California  
17 County of Los Angeles

18 Subscribed and sworn to (or affirmed) before me on this 7<sup>th</sup> day of February, 2013, by  
19 Thomas R. McCarthy, proved to me on the basis of satisfactory evidence to be the  
20 person(s) who appeared before me.

21 (Seal)



22 Signature



1 Respectfully submitted this 8 day of February 2013.

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

4 BY: Jacqueline T. Lenmark  
5 Jacqueline T. Lenmark, Esq.  
6 50 South Last Chance Gulch  
7 P.O. Box 598  
8 Helena, Montana 59624

9 **CERTIFICATE OF SERVICE**

10 I, Jacqueline T. Lenmark, KELLER, REYNOLDS, DRAKE, JOHNSON & GILLESPIE,  
11 P.C., certify that on Feb 8 2013, I served a true and correct copy of the foregoing Direct  
12 Testimony of Thomas R. McCarthy, by mailing it first class postage prepaid to:

13 Ms. Sybil Shults  
14 Office of the Commissioner of  
15 Securities & Insurance  
16 State Auditor's Office  
17 840 Helena Avenue  
18 Helena MT 59601

Honorable W. William Leaphart  
1772 University Avenue  
Helena, MT 59601

19 Jesse Laslovich, Esq.  
20 Nick Mazanec, Esq.  
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22 Securities & Insurance  
23 State Auditor's Office  
24 840 Helena Avenue  
25 Helena, MT 59601

Kelley Hubbard, Esq.  
Michael Black, Esq.  
Montana Department of Justice  
215 North Sanders, Third Floor  
P.O. Box 201401  
Helena, MT 59620-1401

26 DATED this 8 day of February, 2013.

Jacqueline T. Lenmark  
Jacqueline T. Lenmark