Fair Market Valuation

In accordance with the Uniform Standards of Professional Appraisal Practice

BlueCross BlueShield of Montana

Live Smart. Live Healthy.

An Independent Licensee of the Blue Cross and Blue Shield Association
®Registered Marks of the Blue Cross and Blue Shield Association,
an Association of Independent Blue Cross and Blue Shield Plans

560 North Park Avenue, P.O. Box 4309, Helena, Montana 59604-4309

Date of Value: June 30, 2012
Date of Report: February 26, 2013

MDS
MEDICAL DEVELOPMENT SPECIALISTS consulting

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February 26, 2013

Kelley L. Hubbard,
Assistant Attorney General,
MONTANA DEPARTMENT OF JUSTICE
215 N. Sanders / PO Box 201401
Helena, Montana, 59620-1401

Re: Fair Market Value of a 100% controlling ownership interest in all net tangible and intangible assets of a health care insurer.

Dear Ms. Hubbard,

MDS Consulting, LLC ("MDS") has completed a fair market value ("FMV") examination and measurement, as defined in the Statement on Standards for Valuation Services ("SSVS") of the American Institute of Certified Public Accountants, of the net tangible and intangible assets of *Blue Cross Blue Shield of Montana*, *Inc*. ("BCBSMT"), as of June 30, 2012.

This valuation has been prepared to assist the Montana Department of Justice and the Montana Department of Insurance assess the fair market value standard when applied to an arm's length acquisition of a 100% controlling ownership interest in the net operating assets of BCBSMT. As a consequence, this business valuation measurement and report explaining the methods applied and the rationale associated with each method, should not be used for any other purpose or by any other parties for any other purpose.

This business valuation engagement was conducted in accordance with the standards promulgated by The American Institute of Certified Public Accountants, The Appraisal Institute, the American Society of Appraisers, and The Institute of Business Appraisers, Inc. The estimate of value achieved through this engagement is expressed as a Conclusion of Value which may be stated as a range of value.

The *fair market value* of all net tangible and intangible assets of *Blue Cross Blue Shield of Montana*, *Inc.* as of June 30, 2012 was:

	Low Range	Reconciliation	High Range
Indications	$ 182,477,551	$ 193,790,157	$ 210,564,755
Rounded	$ 182,500,000	$ 193,800,000	$ 210,600,000

The estimated Net Tangible and Intangible Assets of BCBSMT are listed below (see also the *Summary of Value* section).

Cash & Short-Term Investments	$	7,370,000	
Receivables		58,425,000	
Prepaid Expenses		3,510,000	
Stock, Bonds, Annuities and Other Investments		255,230,000	
Fixed Assets, net		28,920,000	
Contracts, Brand and Community Goodwill		11,550,000	Aggregated Estimate of various Intangibles
Trained and Assembled Workforce:			
Executives		940,000	
Management		2,030,000	
Professional		5,160,000	Collective Workforce Estimate: $ 13,410,000
Marketing		420,000	
Administrative		4,860,000	
Current Liabilities		(110,840,000)	
Pensions and Retiree Obligations		(53,745,000)	
Responsibilities for New West Health Service		(20,030,000)	
Rounded Estimate of Surplus Value	$	193,800,000	

The opportunity to conduct this engagement is appreciated.

Respectfully,

Timothy J. Blackmer, CPA ABV/CFF, CGMA, CBA, ASA

ENGAGEMENT CONSIDERATIONS

Purpose for Valuation

Montana Department of Justice and the Montana Department of Insurance are in discussions with management of *Blue Cross Blue Shield of Montana, Inc.* ("BCBSMT") regarding their application for the potential acquisition of selected net tangible and intangible assets of BCBSMT by a third party investor. Such an acquisition would follow Montana State regulations requiring the application of a Fair Market Value Standard.

Standard of Value

Fair Market Value ("FMV") is defined in U.S. Treasury Dept. 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."

Premise of Value

Fair market value has been achieved in this engagement when assuming a Going Concern premise. This premise is defined by the International Glossary of Business Valuation Terms, which states "Going Concern" is "an ongoing operating business enterprise," and "Going Concern Value" is "the value of a business enterprise that is expected to continue to operate into the future.

Liquidation Premise of Value

A liquidation premise of value assumes that a business has greater value if its individual assets are sold to the highest bidder and the company ceases to be a going concern. Because the purpose for this engagement is to provide an independent assessment of fair market value of net tangible and intangible assets incident to a potential acquisition, a liquidation premise of value was considered.

To reach assurance that a liquidation measurement was not appropriate, an examination of business operations was performed and an **Altman Z-score** for private firms doing business in a non-manufacturing, service-based industry was applied.

Altman Z"-Score (for a non-manufacturing, service-based industry)

This option uses the modified Altman Z"- score model, which applies only four (4) of the original multivariate formula, and eliminates the fifth (5th) variable, sales/total assets, because that variable fluctuates widely among non-manufacturing firms, which tend to be less capital-intensive. The Altman Z"-score model also weights the first four (4) variables differently than the original model:

Z – Scores greater-than 2.6 suggest that the subject is in the *Safe-Zone*. Alternatively, scores less-than 2.6 but greater-than 1.1 represent the *Gray Zone* which suggests that the business is demonstrating weaknesses. *Gray Zone* scores also suggest required adjustments to the unsystematic risk in the CAPM Build-Up model (discussed later in this report).

Z – Scores less-than 1.1 suggest that the business is in the *Distress Zone* and it may be forced into liquidation in the near future. *Distress Zone* scores generally suggest that a Liquidation Value measurement should be prepared.

The measurement considers the functional relationships of Working Capital, Total Assets, Retained Earnings, EBITDA, the Market-Value of Equity and the Book Value of Total Liabilities. The Altman Z" – Score for BCBSMT considers **T1** = Working Capital / Total Assets; **T2** = Retained Earnings / Totals Assets; **T3** = Earnings Before Interest and Taxes / Total Assets and **T4** = Book Value of Equity / Total Liabilities.

The resulting modified 'Z-score" as of the Date of Value for BCBSMT approximates 1.7 which does not exceed the *Safe-Zone* parameter and further draws attention to existing weaknesses that suggest the company should be taking measures to correct growing financial imbalances. Further, RMA Analytics for *Direct Health and Medical Insurance Carriers* reports an average Z Score of 3.2 for large closely held companies.

Despite the *Gray Zone* indication, the Company is still a viable going-concern and does not warrant a modification in premise of value or further consideration of a liquidation measurement.

Scope of Work and Value Assessment

In accordance with the *Scope of Work Rule* as referenced in Standards Rule 10-2 (b) (viii) in USPAP, the analyst herewith identifies the type and extent of data researched and the type and extent of analysis applied to arrive at the Conclusion of Value. In reaching the Conclusion of Value, the valuation examination followed the direction of U.S. Treasury Revenue Ruling 59-60 which provides a framework to the valuation profession on how to conduct a valuation. The following factors have been considered:

- The history and nature of the business
- The economic outlook of the region and that of the subject industry
- The book value of the company's stock and the company's financial condition
- The current and future earning capacity of the company
- The dividend-paying capacity of the company
- Whether or not the subject has goodwill or other intangible value
- Sales of company stock and size of the block of company stock being valued
- Market price of other companies which are engaged in similar industries or similar lines of business

To gain an understanding of the operations of this health care insurer:

- financial information and other operational data were examined,
- a site visit of this health insurer was performed on Tuesday and Wednesday, January 15-16, 2012, and
- key management were interviewed, including:
  - Michael E. Frank, President and CEO,
  - Mark A. Burzynski, Chief Financial Officer,
  - Fred C. Olson, M.D., Chief Medical Officer,
  - Frank Cote, Chief Sales Officer,
  - Jim Spencer, FSA, MAAA, Senior Director Actuarial Services,
  - Mary Belcher, General Counsel,
  - Sean D. Slanger, Associate General Counsel, and
  - Other BCBSMT management.

To understand the competitive environment of this healthcare business:

- national and regional trends in health and medical insurance as of the date of value were researched,
- current economic conditions affecting the State of Montana and Lewis and Clark County were examined, and
- strategic characteristics of health and medical insurer business were analyzed.

Indications of value from the *Income*, *Asset (cost-based)* and *Market* Approaches were relied upon to achieve a Conclusion of Value for a 100% controlling ownership interest in all net assets as of June 30, 2012.

Sources of Information used when performing the Scope of Work:

Interviews

- Interview with and data transfers from the various management and supervisory personnel of BCBSMT;
- Phone conversations and email communications with various management and supervisory personnel of BCBSMT;

Company data

- Audited Financial Statements of BCBSMT (GAAP basis) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011;
- Audited Financial Statements of BCBSMT (STAT basis) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011;
- Month-to-month Financial Statements of BCBSMT (internally prepared) extending from July 2010 through June 2012;
- Financial Statement projections for BCBSMT (internal) for the period extending from 2012 through 2015;
- Audited Financial Statements of CBMI (GAAP basis) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011;
- Month-to-month Financial Statements of CBMI (internally prepared) extending from July 2010 through June 2012;
- Financial Statements of Tri-West (internally prepared) as of June 30, 2012;
- Financial Report of Regional Advantage Services, LLC (internally prepared) as of June 30, 2012;
- Financial Statements for Peak1 Administration, LLC (internally prepared) for the annual period ended June 30, 2012;
- Actuarial Appraisal of Certain Health Care Contracts, prepared by Actuarial Services & Financial Modeling, Inc., effective June 30, 2012;
- Real Estate Appraisals for three building locations in the Helena, MT community and one building location in Great Falls, MT;
- Lease agreements for various facilities and parking spaces in Helena, Bozeman, Billings, Missoula, Kalispell, Great Falls and Butte, MT.;
- Settlement statement for purchase of real property located in Helena, MT. on August 27, 2012;
- Asset Register for BCBSMT with run date of August 20, 2012;
- Wells Fargo Report set for BCBSMT effective June 30, 2012;
- Listing of BCBSMT Salaried (FT and PT) personnel including job classifications, dates of hire and base salaries effective June 30, 2012;
- Other financial and operational information.

Public data

- Chase / JP Morgan, Regional Perspectives: Montana Economic Outlook, November 30, 2012;
- IBISWorld Industry Report 52411b – Health and Medical Insurance in the US, November 2012;
- First Research, Health Insurance Carriers, SIC 6321, 6324, October 29, 2012;
- RMA Annual Statement Studies™ 2012-2013, NAICS 524114 **;

Sources of Information used when performing the Scope of Work - continued:

Public data

- Institute of Business Appraisers Private Market Sales Data for SIC 6321 and SIC 6324 ;
- Pratt's Stats Private Market Sales Data database for SIC 6321 / 6324;
- Ibbotsons® SBBI® 2012 Valuation Yearbook;
- Morningstar Industry Premia Company List Report (http://corporate.morningstar.com/IRP), 2nd quarter ended June 30, 2012;
- Selected Interest Rates; Federal Reserve Statistical Releases effective June 30, 2012;
- Montana Department of Labor and Industry, Research Analysis Bureau, September – October 2012;
- Bureau of Labor Statistics CPI Index, Midwest Region, Goods and Services, June 2012 ratings;
- EDGAR®Online, 10K (12/31/11) and 10Q (06/30/12) filings for various public firms used in guideline company comparisons;
- Yahoo Finance (ABC News Network): Historical chart data and daily updates from Commodity Systems, Inc. (CSI) Fundamental company data provided by Capital IQ;
- The Henry J. Kaiser Foundation, "*Assessing Trends in the Individual and Small Group Insurance Markets*", 2012
- Aon Hewitt, "*2012 Health Care Survey – Executive Summary*", 2012
- Other information.

**RMA cautions that the Studies be regarded only as general guidelines and not as an absolute industry norm. This is due to limited samples within categories, the categorization of companies by their primary SIC number, and different methods of operations by companies within the same industry.

CERTIFICATION OF VALUATION ANALYST

I certify that, to the best of my knowledge and belief,

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, which are my personal, impartial, unbiased professional analyses, opinions and conclusions.

3. Timothy Blackmer has not performed any previous valuation or financial services work of *Blue Cross Blue Shield of Montana, Inc.*

4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

5. My fee is not contingent upon the reporting of a pre-determined value or direction in value that favors the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. No one has requested of me to report a specific value. This appraisal assignment was not based on a requested maximum valuation, minimum valuation, a specific valuation, or on the approval of a loan.

6. My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the USPAP.

7. My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers and the Business Appraisal Standards of the Institute of Business Appraisers.

8. Timothy Blackmer completed a personal interview with BCBSMT management on Tuesday and Wednesday, January 15-16, 2013.

9. No one provided significant professional assistance to Timothy Blackmer in the development or completion of this business valuation.

10. In April 2012, Timothy Blackmer, ASA successfully completed the mandatory re-accreditation program required by the American Society of Appraisers for each of their senior analysts.

Respectfully,

Timothy J. Blackmer, CPA, ABV/CFF, CGMA, CBA, ASA

SUMMARY OF VALUES

ASSET BLOCK	SOURCE OF ASSET BLOCK	METHODOLOGY		ESTIMATED FAIR VALUE	ESTIMATED LIFE
NET TANGIBLE ASSETS	Estimated replacement value	Asset-based (Cost) Approach (Value-In-Use)			
- Cash & Short-Term Investments			$ 7,366,474		
- Receivables			58,425,742		
- Prepaid Expenses			3,512,167		
- Stock, Bonds, Annuities and Other Investments			255,229,961		
- Fixed Assets, net			28,919,872		
- Current Liabilities			(110,844,630)		
- Pensions and Retiree Obligations			(53,743,282)		
- Responsibilities for New West Health Service			(20,032,580)		
				$ 168,833,724	1 - 5 years
TRAINED & ASSEMBLED WORKFORCE *Employed Personnel (cost to replace - not including salaries)*	Estimated cost of replacement with personnel demonstrating similar levels of knowledge and experience.	Asset-based (Cost) Approach (Replacement Cost)			
- Executives			$ 939,172		
- Management			2,033,377		
- Professional			5,158,656		
- Marketing			415,432		
- Administrative			4,858,443		
				$ 13,405,079	Not Applicable
CONTRACT ARRANGEMENTS BLENDED WITH TRADE NAME AND OTHER INTANGIBLE ASSETS	An estimate of value associated with insurance contracts which are also blended with the trade-name value of BCBSMT and additional intangible assets yet to be specified and valued independently.	Income Approach (Multiperiod Excess Earnings)		$ 11,551,354	~ 5 years
Indications of Tangible and Intangible Asset Value and Business Goodwill				**$ 193,790,157**	

VALUATION METRICS

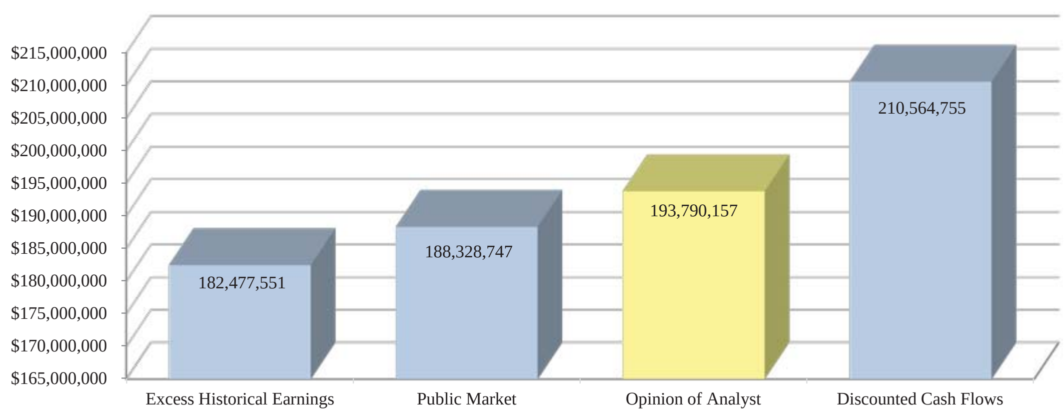
	31-Dec-09	31-Dec-10	31-Dec-11	Normalized 30-Jun-12	Weighted Average
Revenues	$704,558,249	$750,185,413	$814,875,690	$867,242,391	$822,884,315
Gross Margin	$ 64,473,340	$ 67,286,029	$ 70,784,610	$ 67,992,766	$ 68,968,156
Tangible Book Value	$120,907,842	$128,062,110	$129,714,180	$168,833,724	$145,031,583

Financial Benefits derived from normalized operating account balances (see Report Exhibits).

	Normalized	Average
Gross Revenues	22.3%	23.6%
Gross Margin	2.9	2.8
Tangible Book Value	114.8%	133.6%

Based on blended financial detail.

INDICATIONS OF FAIR MARKET VALUE



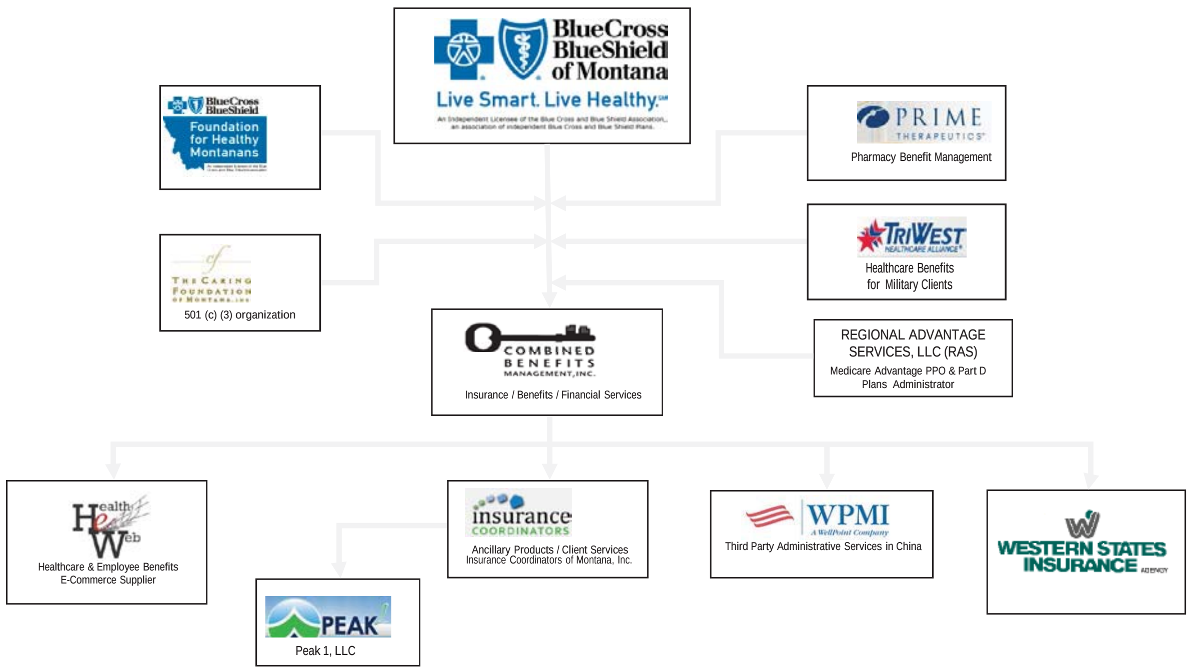
BUSINESS OVERVIEW

Description and History

The Company dates their history to 1940 when the Hospital Service Association a Blue Cross plan entered Montana. A few years later in 1946 a soon-to-be Blue Shield plan was developing as Montana Physicians' Service ("MPS"). The affiliation of these plans began when a local collection of physicians agreed to loan the Company $20,000 and then agreed to accept MPS compensation as payment-in-full for their services.

Starting with that simple agreement, Hospital Service Association and the Montana Physicians' Service began their partnership which extended from 1946 until 1952. At that time Hospital Service Association moved to Great Falls, MT. where it became Blue Cross of Montana in 1964. In 1986, the two companies merged resulting in the creation of today's not-for-profit health services organization *Blue Cross and Blue Shield of Montana*.

Over the intervening twenty-five (25) years BCBSMT expanded its consolidated base of operations as outlined in its current organization chart:



In conjunction with its subsidiaries and affiliates BCBSMT offers a menu of health care insurance products to Individual, Small Group and Large Group subscribers; Medicare Supplement and Medicare Part D eligible individuals; Federal Employees (FEP benefit plan) as negotiated with the Office of Personnel Management for Federal employees residing in Montana; and specially designed products for College Students.

Its consolidated base of operations also allows BCBSMT to provide various administrative and claims processing services to Self-Funded employer groups capable of assuming varying levels of the underwriting risk of insuring their employees. In association with self-funding policies, employers can also purchase Stop-Loss products designed to mitigate extreme and/or catastrophic losses. BCBSMT also participates in the Montana Comprehensive Health Association ("MCHA"), which assesses insurers 1% of qualified disability premium income. These funds are used to supplement premiums for uninsurable and high risk pools in the State of Montana.

The following six-month average distribution of active BCBSMT subscribers by product-line was effective on June 30, 2012.

Business Segment [1]	Average Number of Subscribers	Participation
Individuals	31,808	12.0%
Small Groups	33,730	12.7%
Large Groups	41,241	15.6%
Medicare Supplement	14,978	5.7%
Medicare Part D	9,222	3.5%
Federal Employee Program	32,379	12.2%
College Students	8,377	3.2%
Self-Funded Plans	72,732	27.4%
Stop Loss Coverage	20,565	7.8%
Average BCBSMT Subscribers	265,032	100.0%

[1] Detail obtained in actuarial appraisal of BCBSMT contracts prepared by Actuarial Services & Financial Modeling, Inc. dated November 9, 2012.

The US Census Bureau indicated that the 2012 population for the entire State of Montana was estimated as 1,005,141 suggesting that as of the Date of Value BCBSMT provided health care services to approximately 26% of all state residents.

Services

BCBSMT provides a network of providers comprised of all of Montana's hospitals and 95% of Montana's physicians. Further, the BCBSMT Provider directory includes outpatient surgery centers, skilled nursing facilities, home health agencies, hospice agencies, DME supply houses, urgent care facilities and various non-physician providers and related health care professionals.

The Company also participates in the BlueCard® program which allows BCBSMT subscribers access to participating provider arrangements between BC/BS Plans in other states. Correspondingly, BCBSMT agrees to service health care claims within the state from associated out-of-state members.

The following schedule provides a general overview of gross revenues and associated member benefits reported between 2007 and 2012.

	2007 [1]	2008	2009	2010	2011	TTM 30-Jun-12 [2]	Projected 31-Dec-12	2009-2011	TTM 2009-2012	Projected 2009-2012
Revenues, net of commissions & assessments	$ 649,569,584	$ 687,710,262	$ 704,558,249	$ 750,185,413	$ 814,875,690	$ 867,242,391	$ 941,242,616	7.5%	8.7%	10.1%
Claims incurred	(564,187,297)	(608,080,135)	(640,084,909)	(682,899,384)	(744,091,080)	(799,249,625)	(865,967,622)	7.8%	9.3%	10.6%
Underwriting gross margin	$ 85,382,287	$ 79,630,127	$ 64,473,340	$ 67,286,029	$ 70,784,610	$ 67,992,766	$ 75,274,994	4.8%	2.1%	5.3%

[1] Detail obtained from annual audited financial statements.

[2] Trailing Twelve Month detail and Projected detail were obtained from BCBSMT internal accounting records.

This overview of gross earnings over the most recent five (5) years reflects consistent growth from the aggregated lines-of-business and an equally consistent pay-out of the majority of those earnings in the form of benefits to plan subscribers. The compounded growth rates appropriate to activities since the economic downturn (2008-2009) appear at the far right of the schedule for general comparison with industry averages. IBISWorld comments that annual growth in revenue for insurance carriers averaged 2.8% between 2007 and 2012 and is expected to average 5.1% between 2012 and 2017.

Before considering the unique issues facing BCBSMT, this overview suggests a consistently competitive provider that has been demonstrating above average growth. It is also important to note that growth in subscriber benefits is exceeding growth in aggregated revenue throughout the period being examined. This issue is addressed in more detail later in the report.

Subsidiaries and Affiliates

As outlined in the organization chart on page 13, BCBSMT enjoys varying levels of ownership and operational support from the following investments.

Name of Organization	BCBSMT Ownership	CBMI Ownership	ICMI Ownership	BCBSMT Affiliation	Incorporated State	Incorporated Date
Blue Cross Blue Shield of Montana, Inc. ("BCBSMT"), Helena, MT. *- Parent Organization*						
BCBS Foundation for Healthy Montanans, Helena, MT. *- Charitable not-for-profit organization funding various health care programs.*	100.0%				MT	12/11/07
The Caring Foundation of Montana, Inc., Helena, MT. *- Not-for-profit organization dedicated to providing Montanan children health care benefits.*	100.0%				MT	11/07/91
Prime Therapeutics ("Prime"), Eagan, MN. *- Third Party Administrator (TPA) of pharmaceutical products.* *- Ownership shared with other BC/BS Plans allowing for various shared costs / savings.*	1.9%			01/09/09		
TriWest HealthCare Alliance, Inc. ("TWHA"), Phoenix, AZ. *- Government contractor for military personnel and federal employees.* *- Current government contracts expire in March 2013.*	4.4%			08/14/95		
Regional Advantage Services, LLC ("RAS"), Eagan, MN. *- Created to administer the Medicare Advantage and Medicare Part D programs.*	7.8%			06/06/05		
Combined Benefits Management, Inc. ("CBMI"), Helena, MT. *- Holding Company for various health care service entities (outlined below).* *- Intercompany management services agreement with BCBSMT.*	100.0%				MT	04/29/93
Heath-e-Web, Inc. ("HeW"), Helena, MT. *-Claims clearinghouse with revenue cycle management (see separate valuation).*		100.0%			MT	03/15/99
Western States Insurance ("WSIA"), Missoula, MT. *-Brokerage for numerous insurance packages, employee benefit pkgs, & bonding svcs.*		100.0%		02/23/94	MT	05/06/81
WPMI, LLC ("WPMI"), (Chinese TPA), Wilmington, DE *- Joint venture among various US health companies to expand internationally.*		1.0%			DE	02/02/07
Insurance Coordinators of Montana, Inc. ("ICMI"), Helena, MT. *- Provider of health insurance products and services.* *- Exchanged flexible admin business and product sales for partial ownership in Peak 1.*		100.0%			MT	01/19/76
PEAK 1, LLC ("PEAK"), Meridian, ID *- Third Party Administrator (TPA) servicing the Northwestern States.*			49.0%			

Tangent Investments

	Financial Statement Classification	GAAP Book Value	Normalizing Adjustment	Fair Market Value 30-Jun-12	
Land & Improvements - Great Falls	Land & Buildings	$ 222,016	$ (222,016)		
Land & Improvements - Donovan	Land & Buildings	36,200	(36,200)		
Buildings - Great Falls	Land & Buildings	1,839,568	655,432	2,495,000	1
Buildings - Donovan	Land & Buildings	3,740,736	809,264	4,550,000	2
Building Improvements - Donovan	Land & Buildings	301,883	(301,883)		
Accumulated Depreciation - Donovan Building	Land & Buildings	(1,154,151)	1,154,151		
Accumulated Depreciation - Great Falls	Land & Buildings	(1,636,760)	1,636,760		
Accumulated Depreciation - Donovan	Land & Buildings	(1,059,296)	1,059,296		
Accumulated Depreciation - Building Improvements	Land & Buildings	(122,747)	122,747		
Great Falls Building Improvements	Projects in Progress	58,660	(58,660)		
Investment in TriWest Healthcare Alliance, Inc.	Common Stock - Other		22,102,337	22,102,337	3
Unimproved Land	NA		3,100,385	3,100,385	4
Investment in WPMI, LLC (Chinese TPA)	Investment in CBMI	1,188,756	(992,756)	196,000	5
Investment in ICMI - Remainder	Investment in CBMI	2,874,630		2,874,630	6
Investment in Western States Insurance Agency	Investment in CBMI	40,153,025	10,938,970	51,091,995	7
Investment in Peak 1, LLC	Investment in CBMI	960,784	-	960,784	8
Investment in ICMI - Remainder	Investment in CBMI	349,766	-	349,766	9
Investment in Lewiston Idaho Residence	Other Investments	395,000	(128,099)	266,901	10
Investment in Clarkston Washington Residence	Other Investments	288,360	(109,133)	179,227	11
Accumulated Depreciation - Clarkston Residence	Other Investments	(27,034)	27,034		
Accumulated Depreciation - Lewiston Residence	Other Investments	(37,031)	37,031		
		$ 48,372,364	$ 39,794,660	$ 88,167,024	

[1] The Great Falls Building has been removed from operations, the non-operating balance is equal to its realtor listing price.

[2] The Donovan Building has been leased to the Montana Department of Revenue. Its non-operating balance is carried at its appraised value.

[3] TriWest Healthcare Alliance, Inc. has lost its government contract effective March 2013. Its non-operating balance is the proportional equity balance at 4.19% ownership.

[4] Settlement for unimproved land in Helena, MT, which has not yet been put into service.

[5] WPMI, LLC is a Chinese TPA investment that has been written down based on tax filing balances. BCBSMT's investment is approximately 1% of diminishing balance.

[6] CBMI is a wholly owned subsidiary which also owns various complementary business operations.

[7] Western States Insurance Agency represents equity value after the sale of the book of business and other assets of the agency.

[8] Peak 1, LLC is a passive investment that exchanged 49% ownership with ICMI for minor administration and product sales operations.

[9] ICMI is a wholly owned subsidiary of CBMI and markets complementary health insurance products.

[10] Carrying price for residential home in Washington State.

[11] Carrying price for residential home in the State of Idaho.

Fixed Asset Investment

BCBSMT has invested approximately $76.8M in capital assets although $1.75M has been expensed when purchased, rather than depreciated over their useful lives. The cost basis for these investments and their accumulated depreciation is scheduled at right.

Management indicated that none of the investments have been depreciated on an accelerated basis and no adjustment to an economic basis (straight-line) of depreciation is necessary.

Normalization adjustments discussed in the Financial Analysis section of the report 'mark-to-market' various assets within this listing to include the buildings and real estate owned by the Company.

As indicated EDP comprises the single largest category of investment and directly supports the work of the majority of BCBSMT employees. Among the recent regulatory changes affecting the healthcare industry is the required EDP updating from ICD-9 to ICD-10 by October 1, 2014.

ICD-10 is a diagnostic coding system implemented by the World Health Organization in 1993 and currently in use by almost every country in the world except for the United States.

ASSET	*COST*	*Asset Basis*	*Accumulated Depreciation*	
Artwork	$ 1,250.00	$ 1,250.00		
Automobiles	$ 335,985.83	$ 335,985.83	$ 277,246.98	$ 277,246.98
Buildings Auximprove	$ 273,969.62		$ 112,096.29	
Building Donovan	$ 3,740,736.14		$ 1,071,152.55	
Building Fuller	$ 4,591,081.97		$ 3,572,580.50	
Building Great Falls	$ 1,839,567.76		$ 1,639,325.32	
Building Improvements	$ 27,913.07		$ 12,245.25	
Building Leasehold	$ 30,714.42		$ 30,714.42	
Building Park Avenue	$ 5,420,574.20		$ 2,058,029.09	
		$ 15,924,557.18		$ 8,496,143.42
EDP Software Computer	$ 3,761,926.22		$ 3,061,413.34	
EDP & Software OS Software	$ 33,869.80		$ 33,869.80	
EDP & Software	$ 44,678,815.03		$ 38,317,972.59	
		$ 48,474,611.05		$ 41,413,255.73
Ex Equip	$ 861,457.59			
EXP Equip Fax	$ 3,638.25			
Exp Equip Guest Chair	$ 45,178.78			
Exp Equip Monitor	$ 354,585.39			
Exp Equip Other	$ 227,825.51			
Exp Equip Palm Pilot	$ 7,652.81			
Exp Equip Printer	$ 27,373.20			
Exp Equip Task Chair	$ 195,920.79			
Exp Equip Telephone	$ 21,819.61			
		$ 1,745,451.93		$ -
Furn & Equip Off Equip	$ 1,448,864.46		$ 1,411,563.66	
Furn & Equip Off Furn	$ 3,148,588.35		$ 2,884,918.73	
Furn & Equip Off Impr	$ 1,225,423.08		$ 758,281.68	
Furn & Equip Tele Equip	$ 2,937,057.86		$ 1,449,453.75	
		$ 8,759,933.75		$ 6,504,217.82
Land & Imp Donovan	$ 36,200.00			
Land & Imp Fuller	$ 815,324.38			
Land & Imp Great Falls	$ 222,015.75			
Land & Imp Park Avenue	$ 483,259.00			
		$ 1,556,799.13		$ -
Total Tangible Assets	$ 76,798,588.87	$ 76,798,588.87	$ 56,690,863.95	$ 56,690,863.95

The biggest difference between ICD-9 and ICD-10 is the way it affects information technology systems. The volume of codes used by the system (for example) increase from approximately 13,600 with the ICD-9 to approximately 69,000 with the ICD-10. There are also severe changes in the composition of codes (from predominantly numeric with up to five digits, the new system will be entirely alpha-numeric with up to seven digit spaces to identify). Additionally, it is expected to take 'at least' two years to transition from one system to the other so current systems will need to be able to track both systems while the country migrates to the new method.

That migration will include both new computer technology and software mapping and the re-training of hundreds of personnel. BCBSMT estimates that the conversion process will cost approximately $40M and it is currently underway. Management indicated that the accounting treatment for the new ICD-10 will follow a pattern similar to that employed for their QNXT claims processing and administration software which is currently being depreciated over an eight (8) year time period. The financial forecast developed for use with the discounted cash flow analysis within this report, includes the estimated cost associated with the ICD-10 upgrade. Other capital investments included the forecast assume a replacement cost cycle for the fixed assets scheduled above.

Leases

In addition to the capital investments identified above, BCBSMT also maintains assorted leaseholds for satellite operations, storage areas and parking lots.

The schedule at right identifies leased real property as well as the office equipment currently under lease.

Leases have not been specifically valued for this engagement but are assumed to be included in the aggregate value for intangible assets identified above.

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

	Lease Tangible Property
11	Xerox National, various office equipment leases;
12	Mailing Systems Plus More(Neopost USA), various mailing equipment and postage meter rental;
13	Pitney Bowes Global Financial, various mailing equipment and postage meter rental;
14	IBM Credit, BCBSMT servers, desktops and certain networking equipment;
15	Corporate Technology Group, certain legacy core networking gear equipment leases.

Facilities

As scheduled with tangent investments and fixed assets (above), BCBSMT owns eight (8) parcels of real property, seven (7) of the parcels include buildings and three (3) of the buildings are used in the normal operations of the Company although one of the three is used frequently for storage.

Real Property used in the normal operations of the business

1	Building #1	560 North Park Avenue, Helena, MT	65,842 SF	Three (3) story office building w/small penthouse area and full basement Built in 1970; Refurbished in 1995	Lot 1 = 62,247 SF (1.429 acres) Lot 2 = 15,020 SF (0.345 acres)
2	Building #2	404 Fuller Avenue, Helena MT.	66,892 SF	Two & three story office building Built in three phases 1922; 1970 and 1986	Six parcels: 9,469 SF; 6,316 SF; 42,906 SF; 6,403 SF; 7,710 SF; & 5,793 SF
3	Building #3	340 North Last Chance Gulch, Helena, MT	32,925 SF	Professional Office Building	One Lot = 15,250 SF

Real Property that is not used in the normal operations of the business

4	Building #4	Building and Lot on Donovan Street is currently being leased to the Montana State Department of Revenue;
5	Building #5	Building and Lot in Great Falls, MT is currently vacant and not being used in business operations;
6	Building #6	Building is a private residence in the State of Idaho which is not being used in business operations;
7	Building #7	Building is a private residence in Washington State and not currently being used in business operations;

8 BCBSMT also recently purchased 24.26 acres of vacant property in the City of Helena, MT.

Each of these properties has previously been identified on either the depreciation schedule or on the listing of tangent investments that are not specifically used in the business of BCBSMT.

Staffing

A listing of employees sorted by department and general job function effective June 30, 2012 was provided for comparison with period operating expenses. These documents also identified base salaries, proportional employee benefits and the dates of hire.

The schedule at right summarizes the existing labor force with aggregated costs in place as of the date of measurement.

Annual salaries and wages have been compared with industry standards as reported by the Bureau of Labor statistics for the Western region of the State of Montana.

This foundational data has also been used in conjunction with discussions with management regarding recruiting, hiring and training practices to estimate the cost of replacement.

The estimated cost savings associated with this trained and assembled workforce is presented within the Asset (Cost-based) Approach section of this report.

Classification	Department	Annual Salary	FTE	Count	Primary Benefits
Executive	EXECUTIVE	$ 2,001,061	9.0	9	$ 800,425
Management	ACTUARIAL & REPORTING	$ 121,800	1.0	1	$ 48,720
Management	ADMINISTRATIVE SERVICES	$ 198,249	3.0	3	$ 79,300
Management	FINANCE	$ 563,739	6.0	6	$ 225,495
Management	FINANCIAL INFORMATICS	$ 95,515	1.0	1	$ 38,206
Management	HEALTH CARE SERVICES	$ 266,430	3.0	3	$ 106,572
Management	HUMAN RESOURCES	$ 87,032	1.0	1	$ 34,813
Management	IHM CLINICAL OPERATIONS	$ 522,195	6.0	6	$ 208,878
Management	INFORMATION SYSTEMS	$ 709,902	7.0	7	$ 283,960
Management	INTERNAL AUDIT	$ 158,100	2.0	2	$ 63,240
Management	LEGAL	$ 80,587	1.0	1	$ 32,235
Management	MARKETING	$ 220,500	2.0	2	$ 88,200
Management	MEDICAL ECONOMICS	$ 92,801	1.0	1	$ 37,120
Management	SVC OPS-CLMS & NATIONAL PRGRMS	$ 306,669	5.0	5	$ 122,668
Management	SVC OPS-CS, MBRSHP & CONFIG	$ 577,388	9.0	9	$ 230,954
Management	UNDERWRITING	$ 254,361	3.0	3	$ 101,744
Professional	ACTUARIAL & REPORTING	$ 175,010	3.0	3	$ 70,004
Professional	COMPLIANCE	$ 62,831	1.0	1	$ 25,132
Professional	CORPORATE PLANNING & PROJECTS	$ 111,976	2.0	2	$ 44,790
Professional	EXECUTIVE	$ 112,808	2.0	2	$ 45,124
Professional	FINANCE	$ 718,872	13.7	14	$ 287,547
Professional	FINANCIAL INFORMATICS	$ 56,175	1.0	1	$ 22,470
Professional	HEALTH CARE SERVICES	$ 263,920	4.0	4	$ 105,568
Professional	HUMAN RESOURCES	$ 184,740	3.0	3	$ 73,896
Professional	IHM CLINICAL OPERATIONS	$ 2,167,327	35.0	36	$ 866,929
Professional	INFORMATION SYSTEMS	$ 3,330,086	47.0	47	$ 1,332,035
Professional	INTERNAL AUDIT	$ 376,753	7.0	7	$ 150,700
Professional	LEGAL	$ 250,423	2.6	3	$ 100,168
Professional	MARKETING	$ 776,304	15.0	15	$ 310,522
Professional	MEDICAL ECONOMICS	$ 618,937	10.0	10	$ 247,575
Professional	ORGANIZATIONAL DEVELOPMENT	$ 209,340	4.0	4	$ 83,736
Professional	PHARMACY	$ 123,084	1.0	1	$ 49,234
Professional	SVC OPS-CLMS & NATIONAL PRGRMS	$ 117,618	2.0	2	$ 47,047
Professional	SVC OPS-CS, MBRSHP & CONFIG	$ 804,728	14.0	14	$ 321,891
Professional	UNDERWRITING	$ 225,381	5.0	5	$ 90,153
Sales	MARKETING	$ 863,059	13.0	13	$ 345,223
Clerical	ADMINISTRATIVE SERVICES	$ 318,755	11.0	11	$ 127,502
Clerical	EXECUTIVE	$ 42,000	1.0	1	$ 16,800
Clerical	FINANCE	$ 213,103	6.0	6	$ 85,241
Clerical	HEALTH CARE SERVICES	$ 435,264	12.1	13	$ 174,106
Clerical	HUMAN RESOURCES	$ 119,415	3.0	3	$ 47,766
Clerical	IHM CLINICAL OPERATIONS	$ 586,025	16.0	16	$ 234,410
Clerical	INFORMATION SYSTEMS	$ 492,835	12.0	12	$ 197,135
Clerical	INTERNAL AUDIT	$ 230,104	6.0	6	$ 92,043
Clerical	LEGAL	$ 147,375	3.0	3	$ 58,950
Clerical	MARKETING	$ 310,226	8.0	8	$ 124,091
Clerical	MEDICAL ECONOMICS	$ 176,311	4.0	4	$ 70,525
Clerical	ORGANIZATIONAL DEVELOPMENT	$ 114,000	3.0	3	$ 45,600
Clerical	SVC OPS-CLMS & NATIONAL PRGRMS	$ 2,465,143	70.0	70	$ 986,054
Clerical	SVC OPS-CS, MBRSHP & CONFIG	$ 3,058,785	93.5	94	$ 1,223,515
Clerical	UNDERWRITING	$ 259,778	8.0	8	$ 103,911
Service Workers	ADMINISTRATIVE SERVICES	$ 174,342	5.0	5	$ 69,737
		$ 26,949,162	506.9	510	$ 10,779,660

ECONOMIC OVERVIEW

The National Forecast

In his *September 2012 Forecast* report, **UCLA Anderson School of Business Forecast Senior Economist David Shulman** labels current conditions in the U.S. as “the muddle through economy,” noting that the economy continues to limp along at a very sluggish pace as it has since the low point of the “Great Recession” in mid-2009. Shulman notes that real GDP growth has been in the 1-3% channel and is now operating at the lower end of that range.

Shulman says this tepid growth, combined with a structural adjustment in the economy, has caused employment gains to be modest, resulting in an unemployment rate above 8% for three and a half years. “With several quarters of 1-2% growth ahead of us we do not expect the unemployment rate to dip below 8% on a quarterly basis until the first quarter of 2014,” writes Shulman. “Simply put, job growth on the order of 160,000 a month in 2013 will not be sufficient to make any real dent in the unemployment rate. However, as job growth accelerates to 200,000 a month in 2014, the unemployment rate will begin to meaningfully improve.”

Shulman’s optimism about 2013 and 2014 is buoyed by what he calls “the lone bright spot in the economy,” the long awaited rebound in housing construction. “Led by multi-family construction, housing starts are ramping up from 612,000 units in 2011 to 763,000 units this year and just-under one (1) million units in 2013.”

“By 2014, we anticipate that housing starts will-be-in-excess of 1.3 million units (and) the growth in housing will account for about a full (1) percentage point in GDP growth by 2014.” Shulman says “the strength in housing is underpinned by gradually rising home prices, record low mortgage rates, improved household formations and modest employment growth.”

On the flip side, Shulman warns that “if Congress and the President fail to agree to an end of year compromise on taxes and spending, the economy could fall off the "fiscal cliff", leading to a downturn in 2013.”

It seems that the Date of Value impact was to strengthen the perception of increasing economic risk to current and future BCBSMT subscribers. Subsequent events, to include congressional action, seem to have mitigated some of the consumer uncertainty existing at the end of June 2012.

The Montana Forecast

Eliza Wiley of the *Independent Record* – wrote on January 25, 2012 that **Patrick Barkey, Director for the Bureau of Business and Economic Research** at the University of Montana, [recently] spoke to a full house of Helena leaders and business owners at the Great Northern Hotel [Tuesday morning] on national, state and local economic outlooks for 2012.

"While Helena and Lewis and Clark County largely avoided the recent national recession, the area should also expect slower economic growth than the rest of Montana in the next few years, economists predicted [Tuesday]."

"While Montana could see economic growth in the 2 to 2.5 percent range in coming years, the Helena area will grow at a pokier pace of 1.5 to 2 percent," said **economist Paul Polzin**, speaking to about 250 people at the annual *Economic Outlook Seminar* presented by the University of Montana Bureau of Business and Economic Research.

A statewide "recession scorecard" showed and Lewis and Clark and neighboring Cascade County suffering few ill effects related to the recession, compared to Montana's other larger counties, because of the large presence of the state and local government.

"In Lewis and Clark County, state government accounts for about 46 percent of job earnings, while the federal government accounts for an additional 25 percent, according to UM statistics." "Being dependent on the government is a two-edged sword," said Polzin, "noting that the Helena-area saw few government job losses." But on the other hand, he noted, "government is not likely to be a growth industry." "Some state workers are in the third year with no pay increases and chances are slim that there will any sizable increases in government employment in the next few years. While Helena's economy slowed because of the recession, it didn't experience actual economic decline like many areas of the U.S. or elsewhere in Montana. The hardest hit by the recession in Montana were Flathead and Ravalli counties, with double-digit declines in economic activity. Gallatin and Missoula counties saw declines roughly in the 5 to 8 percent range, while Yellowstone County and the Butte-Anaconda area experienced only small declines."

"Statewide, economic growth will likely be led by the energy sector, which includes oil and gas activity and coal mining", said Patrick Barkey, director of the UM economic bureau. "Energy has potential for strong growth," Barkey said, noting "the real fast growing areas are in the east and they are not in metro areas." "The outlook for the agriculture economy is reasonably good and the state could continue to see job growth."

"Health care, while seeing continued growth, slowed a bit in 2011. Housing and construction, key sectors in the pre-recession boom years, continue to struggle. The housing bust is still very much with us in Montana," Barkey said, predicting that home-price declines could end this year and there could be a modest recovery in housing and construction in 2013. The fate of the state's wood –products industry is also tied to the housing market. While consumer confidence is higher in Montana than the rest of the nation, retail is still a troubled sector." "Retailing remains very weak in Montana," Barkey said. "There is not very much growth there at all."

"Travel and tourism, a sector also tied to consumer spending, is in much the same boat as retailing", the economist said. "We think the Montana economy is going to outperform the national economy," Barkey said, adding "that's a very guarded forecast."

The impact in local thinking closer to the Date of Value again seemed to overemphasize the continuing concern in the mind of BCBSMT subscribers for a prolonged negative fall-out from the recent recession. Fast-forward to January 2013, government has been reinvigorated with a national election and is successfully meeting many of the 2012 challenges. With other economic positives described in the earlier forecast, BCBSMT subscriber confidence should improve and with that an increased attraction to a broader foundation of economic planning (including health insurance protection).

Montana Health Insurance

The Montana Department of Labor & Industry issued a special report stating that a majority of private sector workers in the state are employed at establishments that offer at least some type of health insurance for its employees. According to the U.S. Department of Health and Human Services' Medical Expenditure Panel Survey in 2011 approximately 73% of Montana's 321,000 private sector employees worked at an establishment that offered some type of health insurance coverage. Over time, the proportion of employees in Montana working at establishments offering health insurance has remained relatively unchanged, with no statistically significant difference between the 2002 and 2011 coverage level. Relative to the United States as a whole, however, Montana is significantly below the national average, with 73% in 2011 versus 85.3% for the U.S. In fact, Montana had the lowest proportion of workers employed at health insurance-providing establishments in any U.S. state in 2011.

Just because an employer provides some type of health insurance coverage, it does not mean that the employees will choose to enroll. Approximately 234,000 private sector workers in Montana work at an establishment that offer health insurance, only 59.7% (or 139,860) of these worker are actually receiving health insurance through their employer. While it may seem odd to opt out of an employer-provided health insurance program, there are many legitimate reasons why so many people choose not to enroll. For example, some people receive insurance coverage through a spouse, a parent, or the government, making the employer-provided health insurance redundant. For others, the price of the health insurance may be so high that they decide that it would be preferable to remain uninsured, or to purchase health insurance from a different source.

Relative to the U.S., a significantly smaller portion of Montana's private sector workers receive health insurance through their employer. In 2011, approximately 50.7% of U.S. private sector workers received employer-provided health insurance, a rate more than 7% higher than Montana's rate of 43.6%. This sizeable difference is largely due to Montana's industry mix and differences in business size class relative to the United States. Compared to the U.S., Montana has a significantly larger proportion of its private sector workers employed in industries with low health insurance provision levels. While the proportion of employees that are covered under their employer-provided health insurance has not changed significantly in Montana over the past 10 years, the cost of providing the insurance has increased significantly. Over the past 10 years, the average premium for an individual increased by more than 50% in inflation-adjusted dollars, moving from $3,680 in 2002 to $5,591 in 2011. For family health insurance coverage the average premium also increased by more than 50%, reaching $14,514 in 2011. From 2002 to 2011, health insurance premiums increased, on average, about 6.5% per year for both single and family insurance plans. However, the health insurance premiums for individuals and families deviated significantly from their historical trends in 2011, growing 12.4% and 14.3% from 2010 to 2011.

In addition to health care insurance premiums rising, the average deductible associated with each health insurance policy has also increased significantly over the past 10 years. In 2011, the average deductible for a family in Montana was $2,911, slightly less than double the deductible for an individual. From 2002 to 2009, the average deductible for a family health insurance policy remained relatively unchanged once the data is corrected for inflation, moving from $1,787 in 2002 to $1,998 in 2009.

Beginning in 2010, however, the deductible for family health insurance policies began to increase, moving from $1,998 to slightly more than $2,900 in 2011, a 45% increase. A similar pattern occurred for the deductible for an individual. However, the large increases in the deductible for individuals began in 2009, when the deductible increased from $1,002 in 2008 to more than $1,500 in 2011. Overall, while there have been years when the average deductibles for employer- provided health insurance policies have declined, the long-run trend indicates higher deductibles now and in the future.

Based on data from the Medical Expenditure Panel Survey, several important revelations become clear

First, wage compensation, in the form of an hourly wage or salary, does not provide a completely accurate estimate of the total compensation that many workers receive from their employers. In 2011, nearly 140,000 private sector workers received some type of health insurance from their employer. With the 2011 average premium for individuals and families in Montana at $5,591 and $14,514, respectively, wage estimates for individuals who receive employer-provided health insurance will significantly underestimate those individual's total compensation.

Secondly, health insurance provision by employers is not distributed evenly throughout the economy, with employees in larger establishments significantly more likely to be receiving employer-provided health insurance. The same unequal distribution also occurs across industries, with barely a quarter of employees working in Retail and Other Service establishments receiving employer-provided health insurance. This unequal distribution in benefits makes it difficult to compare total compensation levels across industries.

Finally, the large changes in employer-provided health insurance premiums and deductibles over time make it difficult to examine the total compensation changes of workers over time.

The amount of compensation a worker receives comes in many forms. In 2011, the average private sector employee in Montana earned an annual wage of $34,518, an increase of nearly 4% over the previous year. However, with the cost of some employer-provided health insurance policies exceeding $15,000 for each employee, it also appears that compensation estimates that only include a worker's wage are missing a large portion of the complete picture. As Montana's population ages, and the national health care market changes over time, changes in health insurance compensation are likely to remain one of the driving factors in employee compensation within Montana and the United States.

When the State Exchanges unfold for the general public in 2014 is seems likely that BCBSMT and other more established healthcare insurers will experience some losses in their individual and small group markets for many of the reasons mentioned above. It also seems reasonable that employers (and other small groups) would be interested in the development of insurance programs that may become more noticeably a portion of each worker's base compensation and perhaps incentive compensation arrangement.

INDUSTRY OVERVIEW

Health Insurance Landscape

IBISWorld research writes that in the five (5) years leading to 2017, the Health and Medical Insurance industry's [premium] revenue is forecast to increase at an annualized rate of 5.1% including a 4.8% increase in 2013. As demonstrated later in this report, BCBSMT management have published projections showing only a slight (1.5%) increase in premium revenue in 2013 compared with the trailing twelve months ended June 30, 2012 but then more robust earnings through 2015 when growth in premium revenue is expected to average 8.5%. This trend (as defined by BCBSMT management) was extended for purposes of this report, through 2017 when the year-to-year growth was decreased to approximately 7.1% through use of a rolling average, nonetheless the expectation is that BCBSMT should average premium growth over the next five (5) years that exceeds the industry average.

While IBISWorld anticipates that medical-cost inflation will be the primary driver of this growth, increased demand for medical insurance coverage is also expected to play a role. More specifically, the industry is projected to benefit from increased demand from the aging US population. As reported by the Montana Department of Labor and Industry, Montana is the 5th oldest state in the nation with 15% of the population 65 years of age and older. Furthermore, the 65 and older population is expected to increase to more than 25% of the population by 2030 as more baby boomers reach retirement age. Individuals 65 and over spend disproportionately more money on healthcare than other age groups, partly because they are older and less healthy than younger individuals and partly because they have better access to health insurance through Medicare or Medicaid.

Insurance company profits are also forecast to remain under pressure, declining from 4.0% in 2012 to 3.7% by 2017 due to tighter government regulations, particularly once healthcare reform takes full effect in 2014. Tighter profit margins will likely inhibit insurers from hiring staff or aggressively expanding operations. As a result, the number of operators [insurers] is forecast to fall at an average annual rate of 0.3% over the five years to 2017. This might suggest the short-term attrition of less prepared and weaker competitors regardless of the attraction and initial availability of cheaper and less-complete health coverage following the advent of the 2014 Exchanges.

Because of government mandates and the changing demographics of the consumer, the Center for Medicare and Medicaid Studies report that national health expenditures are anticipated to grow during the five years leading to 2017. During this period, private health insurance expenditure is forecast to increase an average of 6.2% annually, while public- sector costs will increase at an annualized rate of 8.2%. Key health expenditure items, like hospital services, are projected to exhibit annualized growth of 7.3% in the next five years. Total expenditures on physicians and clinical care is set to grow marginally slower (5.9% per year on average) than total national health expenditure. As stated earlier, these growth trends will largely be related to the aging US population and greater demand for Medicare. As noted during management interviews, BCBSMT is keenly aware of these industry changes and is currently developing a new product offering designed to provide entrance into the Medicare Advantage niche by September 2013.

Another key area that will likely exhibit strong growth during the next five years will be prescription-drug expenditure, which is forecast to increase faster than the previous five-year period. This strong rise also marks changing age demographics and high drug costs in the United States. Public-sector expenditure on drugs will still drive this growth, increasing 10.7% per year on average over the period. However, this percentage will mark a deceleration in spending compared with the previous five-year period, when expenditures grew 13.9% annually on average.

IBISWorld projects that the fastest-growing component of health services and supplies will be government public-health activities due to population age trends. In addition to funding the care of individual citizens, the government is involved in organizing and delivering healthcare in general, the prevention and control of clinical health problems in the population and other functions. Most federal government public- health activity emanates from the Department of Health and Human Services. The Food and Drug Administration and the Centers for Disease Control and Prevention account for an overwhelming majority of federal spending in this area. State and local health departments principally make state and local expenditures. These factors will contribute to the sustained increase in government expenditure on health.

Regulatory Reform

The primary result of the Patient Protection and Affordable Care Act of 2010 (“PPACA”) is that almost all people will have health insurance coverage starting in 2014. To facilitate this, the PPACA establishes health insurance exchanges. These exchanges have the function of certifying the value of health insurance plans and provide a web-portal for individuals and small businesses to comparison-shop plans and qualify for tax credits for private insurance. In discussions with management, BCBSMT expressed much concern over the advent of the state-based exchanges and the potential loss of patients (volume and healthiness) to initially less-expensive insurers offering less-complete insurance coverage. BCBSMT employed an independent consulting firm whose survey of the current consumer-demographic suggested that BCBSMT could lose up-to 37,000 current subscribers within their individual and small-group insurance books-of-business. As scheduled earlier (page 12), BCBSMT markets to nine (9) industry segments, individuals and small groups are perhaps the most active and currently represent over 65,500 subscribers or approximately 25% of the total book-of-business.

Industry-wide individuals will be able to purchase non-group health insurance from the exchanges, and small employers can buy insurance from small-group exchanges, which will help them lower health insurance costs. Low-income individuals that participate in the exchanges will receive a tax credit to offset the cost of premiums. The PPACA also changes the eligibility requirements for Medicaid; all people under 133.0% of the poverty line will be able to participate in Medicaid. Since the Supreme Court reaffirmed the constitutionality of the law in June 2012, the net of effect of the bill will be that the number of insured Americans will increase at an estimated 2.0% average annual rate over the next five years to about 213.0 million in 2017. It is noted that BCBSMT does not offer a Medicaid product and has no plans to develop the product-line. The larger concern expressed by management was that younger and healthier consumers will opt for less-expensive and less-complete plans while the remaining and new subscribers to BCBSMT would represent the less-healthy and more needy consumers who would also be more likely to generate more frequent and more expensive claims.

With the advent of healthcare reform and state exchanges, the expectation is for the appearance of numerous smaller competitors. IBIS World notes that the geographical distribution of health insurance establishments has exhibited very little change over the past decade, because the distribution of health insurance is conducted on a state-by- state basis due to industry regulations. State insurance commissioners largely regulate health insurance, so health insurers must meet various state requirements in order to get an operating license. The state structure also has a dramatic impact on health insurance costs and coverage rates. States have the option to design, implement and run their own health insurance exchanges (within federal guidelines). In addition, while federal guidelines govern some aspects of the health insurance market, each state has a unique health insurance market based on the specific state rules that govern the private health insurance market, the make-up of the state's economy, as well as the state's decisions concerning its public coverage. State variation, for all types of coverage, is therefore expected.

The state-based health insurance exchanges will be created to facilitate coverage and choice, with the hope that enhanced competition among insurers will help to moderate premiums for individuals and small groups which is where the bulk of the change and uncertainty exists.

- While substantial variation exists in insurance market competition, a single insurer dominates at least half (50%) of the **individual** market in 30 states and the District of Columbia. In the **individual** market, the market share held by one plan ranges from 21.0% (in Wisconsin) to 86.0% (in Alabama). States in the West generally have more competitive markets, while **more rural states** in the upper Midwest and parts of the South and Mid-Atlantic are generally less competitive.
- In the **small group** market, a single insurer accounts for at least half (50%) of the market share in 26 states and D.C. The market share of the largest plan in the **small group** market ranges from less than 24.0% (in Oregon and Pennsylvania) to 96.0% (in Alabama).

To meet higher demand and cost pressures stemming from healthcare reform, larger health insurers are continuing to acquire smaller regional players to achieve scale and diversify their customer base and service offerings. In the five years to 2012, the number of industry companies decreased at a 1.8% annualized rate, while the number of employees fell at an average annual rate of 0.8% to 397,392. These types of economies of scale become trends because of the immediate defenses they provide in a fast-changing environment.

As commented earlier, BCBSMT currently subscribes approximately 30% of the entire population of the State of Montana through a menu of services to nine (9) essential consumer groups. Approximately 25% of this total book is defined by individual and small group business which suffers the greatest exposure to loss with the advent of healthcare reform. This is a significant concern but one shared by other major competitors in other state markets across the country. Further, as smaller competitors enter the state market to take advantage of changing industry regulation, it seems most likely that BCBSMT will be positioned to withstand the initial attack on premium volume; adjust internally to maintain cost efficiencies; and strengthen the market through acquisitions of less efficient and newer competitors offering limited services.

FINANCIAL ANALYSIS

Overview

The future financial performance of BCBSMT has been estimated from analyses of historical sales trends, earnings growth and financial conditions as described in audited financial statements, supporting financial worksheets and management discussions.

The historical balance sheets and common-sized comparisons utilized within this report are displayed through **Exhibit 1**. In a like manner, the results of annual operations for the five and one-half years indicated as well as a common-sized comparison of year-to-year operating results are illustrated in **Exhibit 2**. Thereafter, **Exhibits 3** and **4** present financial statements adjusted through normalization.

Before considering trends and relationships with industry averages, various adjustments were prepared to reported balances as a means of normalizing the results of operations and the financial position of BCBSMT. Further, this appraisal effort is designed to consider the enterprise value of the subject from only a controlling ownership perspective. While the first three normalization adjustment categories (discussed below) relate to either controlling or lack of control ownership interests, the last two categories of normalization adjustments are only appropriate when considering an ownership level that enjoys the prerogatives of control. All five normalizing categories were considered in this circumstance.

Normalization

When estimating a fair market value, there are five types of adjustments related to financial statements of a closely held business.

- Generally Accepted Accounting Principles (GAAP) items, which address major GAAP departures such as cash basis reporting and unrealistic inventory cost flow assumptions, etc. Immaterial GAAP departures have not been normalized.
- Non-economic items, which consider income tax based adjustments that may distort economic profit. The most common considerations within this category are accelerated depreciation methods.
- Non-recurring items, which isolate events that may distort consistent profit performance. Key considerations are the purpose for the expenditure and its effect on future reporting periods.
- Non-arm’s length items, which focus on related party transactions. The more common considerations for closely held businesses include non-market owner compensation, non-market rent paid to owners, owner travel and entertainment expenses and similar expenditures.
- Non-operational items, which are represented by assets, liabilities, and expenditures that are not required to generate normal operating income. Prime considerations might include excess cash, luxury autos, stockpiled inventory, etc. and related income statement expense accounts.

The changes in reported balances are listed below for reconciling purposes between reported and normalized financial statements.

Normalizing Adjustments

Account	2007	2008	2009	2010	2011	2012	Explanation
Investment Bonds	$ -	$ -	$ -	$ -	$ -	$ 5,830,150	To adjust investment account to market value $81,245,581.25 per Wells Fargo Bank;
Common Stock Investments						20,970,583	To adjust the equity participation balance for 4.19% of Total Equity of TriWest Alliance;
Closely Held Investments						(89,326)	To adjust the Clarkston Washington Residence to FMV at 06/30/2012;
Closely Held Investments						(67,969)	To adjust the Lewiston Idaho Residence to FMV at 06/30/2012;
Closely Held Investments						373,000	To adjust 1.9% investment in Prime Therapeutics to FMV at 06/30/12;
Investment in Subsidiaries (CBMI)						(992,756)	To adjust 1.0% investment in WPMI, LLC to FMV of $3,070,630;
Investment in Subsidiaries (CBMI)						10,938,970	To adjust 100.0% investment in Western States Insurance to FMV of $51,091,995;
Investment in Subsidiaries (CBMI)						1,601,525	To adjust 100.0% investment in Health-e-Web, Inc. to FMV of $4,290,000;
Land			Adjusting to FMV balances effective June 30, 2012			3,100,383	To record settlement for vacant land on buy/sell agreement initiated in July 2011;
Park Avenue Building						(557,181)	To adjust Park Avenue Building to FMA of $3,322,130;
Fuller Avenue Building						1,159,214	To adjust Fuller Avenue Building to FMA of $3,103,182;
Donovan Building						1,382,359	To adjust Donovan Building to FMA of $4,111,286;
Great Falls Building						1,575,177	To adjust Great Falls Building to FMA of $2,044,067;
Defined benefit pension plan						6,077,693	To record adjustments to Defined Benefit Pension Plan effective June 30, 2012;
Non-qualified deferred compensation plans						2,610,355	To adjust to normal levels following cost for departing partner.
Other short-term liabilities						3,000,385	To recognized short-term liability for vacant land paid-off in September 2012;
Claim and case reserves						(7,700,000)	To reverse liability created for internal control purposes only;
Other Operating Expenses						(149,173)	To reverse donation expenses as non-operational and non-recurring;
Subsidiary operating income	(9,314,093)	(3,568,112)	(4,425,381)	(5,186,433)	(4,192,061)	(3,477,734)	To reverse subsidiary and joint venture income not generated from BCBSMT operations;
Distribution from joint venture partners	(445,648)	(53,826)	(6,460)	-	-	295,787	To reverse distributions from partners not involved in primary business operations;
Other investment income / (loss)	136,395	111,771	98,810	53,764	-	(75,509)	To reverse the effect of investment losses from non-operating business affiliations;
Subsidiary operating income	244,353	418,509	491,135	292,572	534,577	356,625	To add back earnings from 100% wholly owned subsidiary Heath-e-Web, Inc.
	$ (9,378,993)	$ (3,091,658)	$ (3,841,896)	$ (4,840,097)	$ (3,657,484)	$ 46,162,559	

The normalized financial balances are compared with the private industry and the public marketplace through the use of common sizing relationships. For this purpose financial ratios obtained from these public companies are included for comparison with the statistical analyses of privately held firms provided by RMA Associates, Inc. and utilized within various exhibits to this report.

Balance Sheet

The short-term focus of BCBSMT and the Private and Public Markets can be easily demonstrated with an overview of their asset mix. The distinction between current (most liquid) investments and longer-termed (fixed investments) utilized by the subject and by the different market environments offer insights into management strategies. A comparison of the asset mix (as a percentage of total assets) follows:

Asset-Mix

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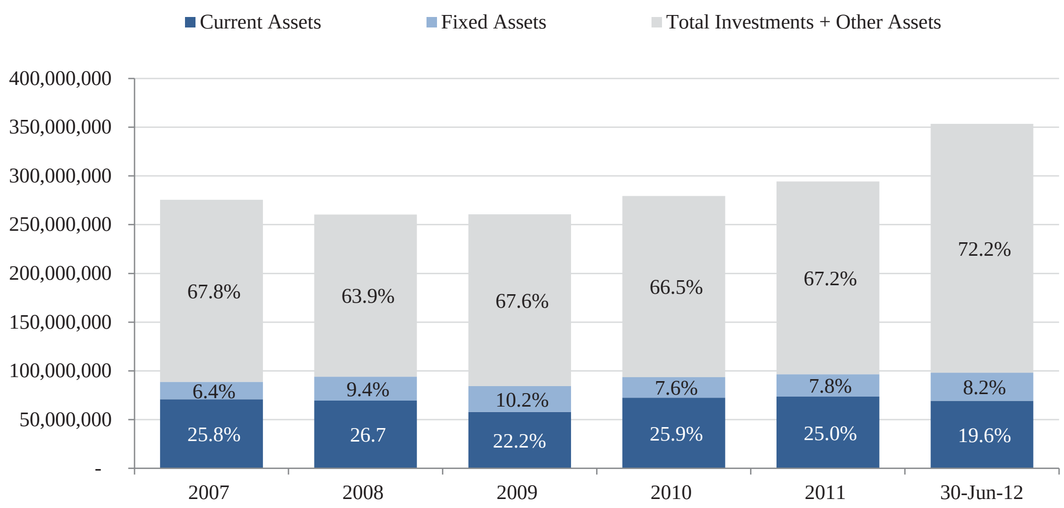
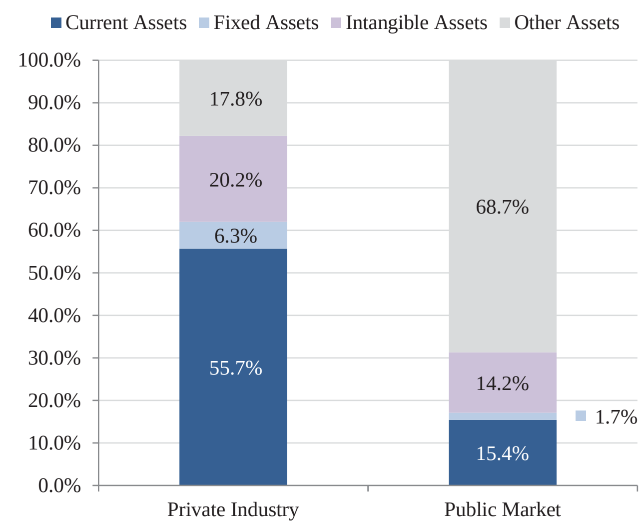
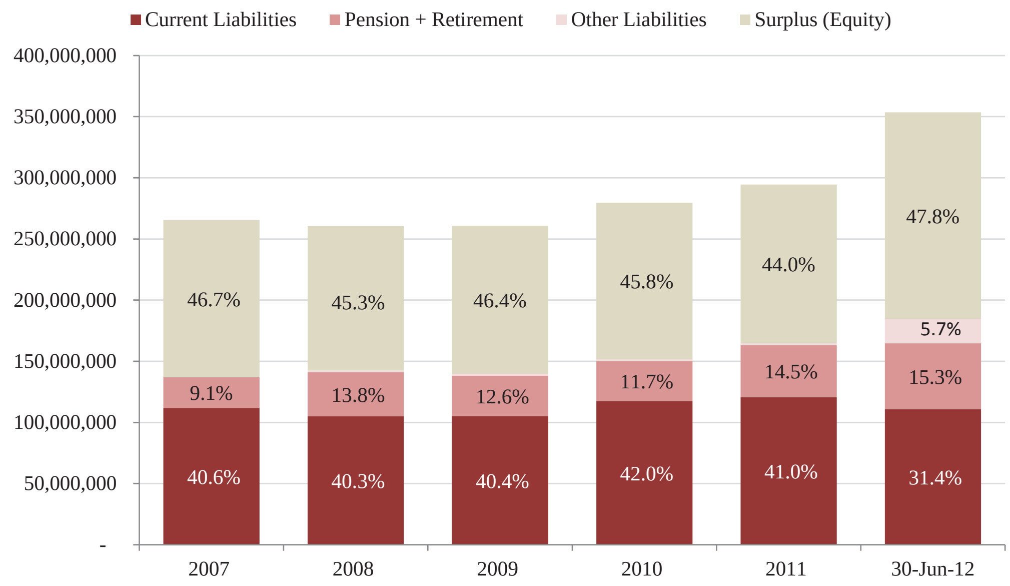


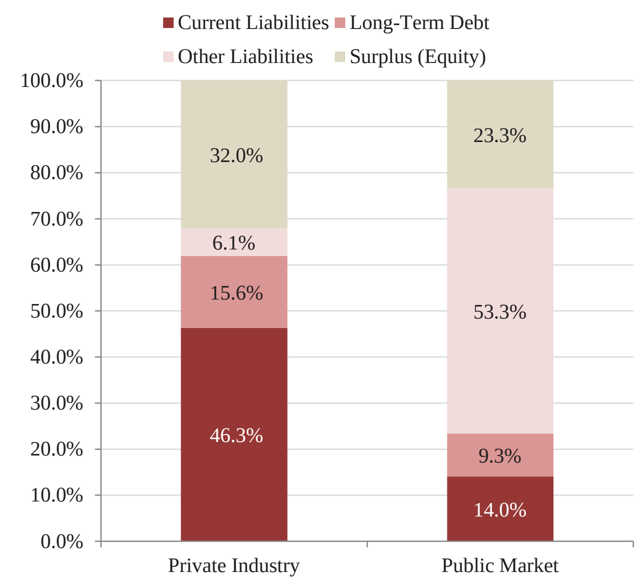


The first similarity in asset mix is with BCBSMT and the Public Market particularly with their proportional investments in current assets. BCBSMT and the Public Market also capture a significant proportion of total asset investment in long-term (Other) Asset instruments. This similarity is best applied in the measurement of total value (see Market Approach to Value) where the comparative metrics for Book Value were selected.

Liability – Equity Mix

Similarly a comparative review of BCBSMT's liability and equity mix to the Private Industry and Public Market and follows:





In contrast to the asset mix, the use of reported debt and equity by BCBSMT more closely resembles the activities of competitors in the private marketplace. This also draws attention to the capital structure of the public firms selected for comparison. As demonstrated later in the discussion on Cost of Capital, the debt leverage applied by the individual public market firms is re-levered through their market βetas as a means normalizing the financial leverage and making the comparison with BCBSMT easier. The reductions in current liabilities as of the date of value are primarily representative of reductions in accrued general expenses at mid-year in comparison to numerous year-end accruals booked at year-end (earlier periods).

A comparison of the changes in Revenues, Gross Margin, EBITDA, EBIT, and Debt Free Cash Flow (defined as after-tax earnings plus depreciation plus tax-affected interest expense) provide an overview of the growth and trending of these benefit streams over the most recent three years. These trends are identified from the normalized financial statements presented through Exhibit 3 and Exhibit 4.

Income Statement

During the most recent 5 annual periods, revenue growth has been notable and accordingly five-year compounded annual growth rate easily exceeds industry averages. Throughout this period however, utilization costs are also strong and pace gross revenues before the anomalies of unusually large claims. Because of unusually high claims activity, gross margins are trending away from gross revenues at the date of valuation.

These adjustments in growth suggest an unusual weakness which has been identified and corrected. During the period of examination BCBSMT experienced two unusually large claims which far exceeded anticipated claims activity for the book written and for which no stop-loss insurance had been arranged. BCBSMT has since capped their loss exposure through the placement of claim liability with additional insurers for a small proportion of the exposed premium. Changes in margin growth are considered below.

Margin Analysis

								Compounded Annual Growth Rates		
	2007	2008	2009	2010	2011	2012 TTM	Sparklines	2007-2012	2009-2012	2010-2012
Revenues	649,569,584	687,710,262	704,558,249	750,185,413	814,875,690	867,242,391		6.6%	8.7%	10.1%
Y-T-Y	base	5.9%	2.4%	6.5%	8.6%	6.4%				
Margin	85,382,287	79,630,127	64,473,340	67,286,029	70,784,610	67,992,766		-4.9%	2.1%	0.7%
Y-T-Y	base	-6.7%	-19.0%	4.4%	5.2%	-3.9%				
EBITDA	18,511,168	7,569,203	(7,068,653)	5,867,081	7,150,550	1,401,534		NO POSITIVE GROWTH		
Y-T-Y	base	-59.1%	-193.4%	-183.0%	21.9%	-80.4%				
EBT	15,313,659	3,835,781	(11,555,878)	727,104	3,920,725	(3,789,882)				
Y-T-Y	base	-75.0%	-401.3%	-106.3%	439.2%	-196.7%				
DFCF	12,208,305	6,006,122	(4,555,250)	5,570,786	5,552,854	2,225,833				
Y-T-Y	base	-50.8%	-175.8%	-222.3%	-0.3%	-59.9%				

Industry Financial Guidelines

In this engagement the public marketplace was used to help define and explain the industry. Morningstar, Inc. provided a listing of industry competitors within the Health Insurance market niche and EDGAR Online located the 10K (annual) and 10Q (quarterly) reports for eleven (11) SEC Registrants filing within NAICS Industry Group 52411 (Health & Medical Insurance).

Based on the detail in the public filings growth rates, financial strength, profitability ratios, management effectiveness and operating efficiency over the most recent three (3) year period and the trailing twelve months ending with June 30, 2012 were used to compare with BCBSMT.

The following publicly owned businesses define the public market place for purposes of this report.

Ticker	Exchange	Guideline Company	Insider Ownership [1]	Institutional Ownership [1]	30-Jun-12 Closing [2]	(actual) Outstanding Shares [3]	(actual) Market Capitalization	Levered βeta [2]
AET	NYSE	Aetna, Inc.	0.3%	90.8%	$ 37.44	334,200,000	$ 12,512,448,000	1.04
AFL	NYSE	AFLAC, Inc.	3.1%	62.2%	$ 42.59	466,337,000	$ 19,861,292,830	1.63
AMIC	NasdaqGM	American Independence Corp.	78.3%	12.8%	$ 5.00	8,272,332	$ 41,361,660	0.86
CI	NYSE	Cigna Corporation	2.8%	89.1%	$ 44.00	366,000,000	$ 16,104,000,000	0.55
CNO	NYSE	CNO Financial Group, Inc.	11.3%	96.5%	$ 7.80	234,026,409	$ 1,825,405,990	1.77
CVH	NYSE	Coventry Health Care, Inc.	0.9%	94.3%	$ 31.79	195,657,000	$ 6,219,936,030	1.15
HNT	NYSE	Health Net, Inc.	1.6%	21.8%	$ 24.27	82,882,000	$ 2,011,546,140	0.88
HUM	NYSE	Humana, Inc.	0.6%	93.1%	$ 77.44	163,267,000	$ 12,643,396,480	0.49
UNH	NYSE	UnitedHealth Group Incorporated	0.6%	88.4%	$ 58.50	1,034,000,000	$ 60,489,000,000	0.45
UNM	NYSE	Unum Group	0.4%	94.1%	$ 19.13	359,547,366	$ 6,878,141,112	1.30
WLP	NYSE	WellPoint, Inc.	0.3%	87.0%	$ 63.79	325,200,000	$ 20,744,508,000	0.50

[1] Detail provided by Thomson Reuters

[2] Detail derived from multiple sources or calculated by Yahoo Finance.

[3] Detail provided from 10Q Reports accessed from EDGAR Online

Exhibit 5 through Exhibit 10 provides a selection of data regarding the computed Market Value of Invested Capital for each public firm in comparison to various benefit streams available for comparison with BCBSMT. In addition to extracted public market detail, comparisons with the private industry were also completed with the help of RMA Financial Statement detail obtained from industry competitor tax returns and audit reports. The schedule on the following page considers key financial metrics calculated from the RMA detail and presented in comparison with BCBSMT financial histories.

Private Market Ratio Comparisons

		Private Industry Data				(ttm)	(2009-2010)			
						30-Jun-12	3 yr Ave	31-Dec-11	31-Dec-10	31-Dec-09
		Upper	*Average: RMA Median*	*Lower*	*Industry Ranking*					
	LIQUIDITY RATIOS									
Current Ratio	Current Assets / Current Liabilities	1.6	1.3	1.0	Lower 10th %	0.6	0.6	0.6	0.6	0.5
	ACTIVITY RATIOS									
Accounts Receivable Turnover	Sales / Accounts Receivable	44.7	16.8	9.3	Lower 40th %	14.0	14.4	13.8	14.4	15.0
Working Capital Turnover	Sales / (Current Assets - Current Liabilities)	9.3	26.5	-115.8	Lower 15th %	-22.5	-16.3	-17.3	-16.7	-14.8
Fixed Asset Turnover	Sales / Net Fixed Assets	90.9	38.5	23.3	Lower 45th %	30.0	32.4	35.3	35.6	26.4
Total Asset Turnover	Sales / Total Assets	3.7	2.2	0.9	Upper 65th %	2.5	2.7	2.8	2.7	2.7
	COVERAGE & LEVERAGE RATIOS									
Debt-to-Equity Ratio	Total Debt / Total Equity	1.3	2.4	-7.2	Upper 80th %	1.1	1.2	1.3	1.2	1.2
Fixed Asset Leverage	Net Fixed Assets / Total Equity	0.1	0.2	-0.3	Upper 60th %	0.2	0.2	0.2	0.2	0.2
Financial Leverage	Total Assets / Total Equity				na	2.1	6.0	6.3	5.9	5.8
	PROFITABILITY RATIOS									
Return on Equity (ROE)	Net Income (Before Taxes) / Tangible Net Worth	35.1	13.4	2.7	Lower 15th %	0.0	0.0	0.0	0.0	-0.1
Return on Assets (ROA)	Net Income (Before Taxes) / Assets	7.5	5.1	0.4	Lower 20th %	0.0	0.0	0.0	0.0	0.0

ttm = trailing twelve months

BCBSMT carries no interest bearing debt which generally accounts for the strong showing with Coverage and Leverage Ratios above. Liquidity is weak but all indications suggest that Profitability is a more demanding focus. Except for a slight downturn in 2008, the Company has maintained an increasing trend in total asset investment and positive surplus growth. This is due in part to the participation of various subsidiaries and affiliates in the mix of earnings. Hence, this examination seeks to remove the impact of subsidiary and affiliate earnings through normalization and thereby allow a more refined focus of the subject’s returns from operations. Despite the continuing growth in revenues, the claims experience of the firm seems to be growing at a faster pace suggesting a more vulnerable subscriber base. Further, the intangible value of the contracts may become diminished from the supposed attrition of the healthier customer. The consistently decreasing patterns among the other benefit streams might also suggest that there is not a strong will to tighten-up operating expenses.

COST OF CAPITAL

General Description of Model

In economic terms the total cost of capital is the rate of return that the *fair* market (defined as *all hypothetical* investors) require in order to attract funds to a particular investment. Within that fair market, risk can be divided into three components:

- *Maturity risk* is the risk that value may increase or decrease because of changes in the general level of interest rates. Much of this uncertainty is based on future inflation levels.
- *Systematic risk* measures the sensitivity to changes in market as a whole and generally cannot be avoided through diversification. Diversification removes the impact of unsystematic risk.
- *Unsystematic risks* are unique to a specific company. As with all measurements of risk, these factors may be positive or negative.

These measurements of risk can be organized for use through the *Capital Asset Pricing Model* ("CAPM") which can be used to estimate the cost of common *equity* for non-publicly traded companies. The essential components for the discount rates used in this measurement are outlined below:

- **Risk free return** (*Rf*) – the rate of return on a risk-free security, which is generally found within the market yield of United States Treasuries. The duration of the security used should match the horizon of future production for the business. In this instance, the horizon is into perpetuity.
- **Equity Risk Premium** (*RPm*) – the risk premium demonstrated for the equity marketplace and the risk premium for small company stocks can be calculated based on published detail of actual market performance over a specified period of time.
- **Size Risk Premium** (*RPs*) – the premium for small stocks (over the risk premium for the market) can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies.
- **Beta** (β) – a measure of the systematic risk of a particular investment relative to the market for all investment assets. In this instance the median Beta of public companies being examined was unlevered to release the bias of debt structure and then re-levered with a common industry debt to equity ratio. The relevered Beta has been applied in the CAPM Build-Up (below).
- **Industry Risk Premium** (*RPI*) – systematic risk for the industry in which the subject practices.
- **Business Specific (Unsystematic) Risk** (*RPu*) – The risk premium for unsystematic risk attributable to the specific business is designed to account for additional risk factors specific to the medical insurer.

These components can then be quantified through the application of the following relationship:

$ke = Rf + (RPm * \beta) + RPs + RPu + RPI$

The Capital Asset Pricing Model has been selected for use because I have identified a sufficient number of comparable companies that are actively traded on the public market. Hence, their relationships with the public marketplace (defined through their individual βetas) are being used as indications of general risk.

As described earlier, the measure of volatility between the freely traded companies and (in this case) the S&P 500 (market) is called **βeta**. Published **βetas** for publicly traded stocks reflect the actual capital structure of each respective company. As such, they are referred to as levered **βetas** which reflect the actual financial leverage in the company's capital structure.

In this engagement, I have identified eleven (11) comparative companies that are currently being traded in public markets. Their **βetas** and their re-levering calculations follow:

Ticker	Exchange	Guideline Company	(000) TBV	(000) BV	(000) BV of IBD	(000) TBVIC	Levered βeta [1]	IBD/BV	Tax	Unlevered Beta	Re-Levered Beta
AET	NYSE	Aetna, Inc.	4,053,600	10,255,800	4,706,300	8,759,900	1.04	0.4589	35.47%	0.80	1.04
AFL	NYSE	AFLAC, Inc.	14,179,000	14,179,000	3,864,000	18,043,000	1.63	0.2725	34.11%	1.38	1.80
AMIC	NasdaqGM	American Independence Corp.	72,298	95,859	-	72,298	0.86	0.0000		0.86	1.12
CI	NYSE	Cigna Corporation	3,312,000	9,022,000	5,211,000	8,523,000	0.55	0.5776	34.25%	0.40	0.52
CNO	NYSE	CNO Financial Group, Inc.	4,893,100	4,893,100	2,466,100	7,359,200	1.77	0.5040	4.22%	1.19	1.55
CVH	NYSE	Coventry Health Care, Inc.	1,916,270	4,506,283	1,584,945	3,501,215	1.15	0.3517	31.25%	0.93	1.20
HNT	NYSE	Health Net, Inc.	973,154	1,539,040	857,691	1,830,845	0.88	0.5573	34.95%	0.65	0.84
HUM	NYSE	Humana, Inc.	5,663,000	8,455,000	5,612,000	11,275,000	0.49	0.6637	36.52%	0.34	0.45
UNH	NYSE	UnitedHealth Group Incorporated	3,184,000	29,375,000	12,617,000	15,801,000	0.45	0.4295	35.28%	0.35	0.46
UNM	NYSE	Unum Group	8,184,600	8,385,900	3,007,400	11,192,000	1.30	0.3586	6.35%	0.97	1.27
WLP	NYSE	WellPoint, Inc.	9,109,500	23,643,800	11,149,300	20,258,800	0.50	0.4716	35.12%	0.38	0.50
						Median	0.88	0.4589	34.60%		114.4%
											Re-Levered

[1] Detail provided by Thomson Reuters

Due to the fact that the individual financial leverage of each comparable company is considerably different from that of BCBSMT their **βetas** have been adjusted for use in estimating the required rate of return on equity through the CAPM. This adjustment requires the original **βetas** be unlevered (thereby releasing the impact of their capital structure) and then re-levered with the median market interest-bearing debt / equity relationship (see above).

The re-levered beta can now be used to adjust the Equity Risk Premium within the CAPM.

Private Market Build-Up - Capital Asset Pricing Model (determination of *ke*)

		Percent	
Risk-free Rate 30 year T-bills bought down to 20 year constant maturities		0.0238	1
Equity Risk Rate, in excess of Risk Free Rate times Beta (1982-2011)	0.0490		2
Unlevered Beta for comparison of equity with public market guidelines	1.14		3
Adjusted Equity Risk Premium for Specific Company (BCBSMT)		0.0561	
Industry Risk Premium (Medical insurance related services)		0.0164	4
Size Premium in for micro-cap 10a (128,174MM through 206,795MM as adjusted)		0.0475	5
Average Market Return at Valuation Date		0.1438	
Specific Company Risk			
Underwriting loss history controllable even as 2014 Exchange suggest loss of book.		0.0250	6
ICD-10 upgrade places untimely burden and use of reserves.		0.0100	6
Limitation of state boundary offset by proportion of population subscribed		0.0050	6
Discount Rate for Cash Flow to Equity		0.1838	
Less: Growth Rate (Current Period = 2012)		0.0285	7
Net Cash Flow Capitalization Rate for Current Period = 2012		0.1553	
Divided by (1+g)		1.0310	
Net Cash Flow Capitalization Rate for the Future Periods		0.1506	
Less Sustainable Average Growth (Future Periods = 2013-2017)		0.0298	
Net Cash Flow Capitalization Rate for the Future Periods		0.1462	

Inflation / Growth

Year	***MCS***	***Midwest***	***Average***
2002	4.8	0.9	2.9
2003	4.6	1.8	3.2
2004	5.2	2.7	4.0
2005	4.8	2.5	3.7
2006	4.2	3.4	3.8
2007	5.0	2.7	3.9
2008	4.6	4.9	4.8
2009	3.1	(1.7)	0.7
2010	3.5	1.2	2.4
2011	2.9	3.9	3.4
2012	4.3	1.4	2.9
Average Growth			(weighted)
10 yrs.	4.2	2.3	3.3
5 yrs.	3.9	2.1	3.0
3 yrs.	3.6	2.2	2.9

Footnotes

1 *Federal Reserve Statistical Release H.15 (Daily Historical Data) effective 06/30/2012- set time-frame for ERP.*

2 *Based on Ibbotson Associates, Stocks, Bonds, Bills and Inflation, Valuation Ed 2012 Yearbook, (1982-2012) p: 133*

3 *Public market guideline Betas adjusted to correct for impact of public company debt structures.*

4 *See Ibbotson Associates, Stocks, Bonds, Bills and Inflation, Valuation Ed 2012 Yearbook, 6324x p.39*

5 *See Ibbotson Associates, Stocks, Bonds, Bills and Inflation, Valuation Ed 2012 Yearbook, 10a-x decile p: 92*

6 *Appraiser judgment (major factors identified)*

7 *BLS average change in CPI for 2002 - 2012 per index at right*

The structure of the CAPM method generates a discount and/or capitalization rate that is designed to support Net Cash Flow to Equity as the primary benefit stream. If a different benefit stream is considered i.e., Net Earnings, E.B.I.T.D.A., etc. then an appropriate adjustment to the base discount rate will be necessary.

When considering the market value of all debt and equity, i.e., Invested Capital (MVIC), as can be accomplished when measuring a controlling level of ownership, it is reasonable to use discount rates that are blended to account for both the costs of debt and equity financing. The following schedule provides the basic determination of adjusted discount / capitalization rates, blended by the debt to equity ratio of the public market, into a weighted average cost of capital.

Cost of Equity Capital (per CAPM Build-Up)	
Total Equity Rate	0.1838
Cost of Debt Capital	
Average cost of interest-bearing debt (market-basis)	0.0510
Estimated Federal & State Tax Rate (current cash flows)	0.4075
After tax debt rate	0.0302
Capital Structure of Industry niche	0.3260
Weighted Average Cost of Capital	0.1460
Less: Growth Rate (Current Period = 2012)	0.0285
Net Cash Flow Capitalization Rate for Current Period = 2012	0.1175
Divided by (1+g)	1.0285
Net Cash Flow Capitalization Rate for the Future Periods	0.1143
Less Sustainable Average Growth (Future Periods = 2013-2017)	0.0298
Net Cash Flow Capitalization Rate for the Future Periods	0.1110

APPROACHES TO VALUE

The selection of alternative methods appropriate to a specific valuation circumstance is often dependent on the analysts' knowledge of the business, its industry and the unique purpose for measuring value in accordance with a specific standard of value. Three fundamental approaches to value comprise the generally accepted basis from which all indications of value are developed and refined into a unique selection of valuation methods.

The ***Income Approach*** relates the value of the business to its ability to generate a return-on-investment measured as its economic income stream. Since the value of a business depends on the future benefits it will generate, then the basis of the *income approach* is to project the future economic benefit associated with the business and to measure the present value of that benefit at a discount rate that is appropriate for the expected risks associated with obtaining that prospective economic income stream. The income approach is based upon the economic *principle of anticipation* (expectation). The investor *anticipates* the *expected* economic income to be earned from the business. This expectation of prospective economic income is then converted to a present value, which is an indication of value of the subject business. Key in the application of this method is the development of a discount rate that is appropriate for the specific definition of economic *(as opposed to accounting)* income.

The ***Cost Approach*** is built around valuing the existing assets of a business, with accounting estimates of value or book value often as a starting point. A fundamental business valuation principle is: the current value of the business assets minus the current value of liabilities equals the current value of the business owners' equity. When using this approach, the analyst will apply the appropriate standard of value as current value (for example, "mark-to-market") for all of the assets and liabilities of the valuation subject.

The ***Market Approach*** estimates the value of a business by looking at the pricing of comparable businesses relative to a selection of common variables like economic earnings, cash flows, book value, gross sales, etc. Regardless of the method selected within this approach, finding a business with the exact characteristics as the valuation subject is an impossibility. Rather, the standard sought is one of reasonable and justifiable similarity. The preliminary distinction as a comparable business should include more than just a similar line of business or similar industry. Recent court cases have mandated that the search for similarities should include: capital structure; management depth; personnel experience and duties; nature of competition; maturity and market share of the business.

The methods selected for this engagement include the analysis of cash flows to invested capital, a consideration of excess earnings underwriting the business's net tangible and intangible asset-base, and an examination of guideline firms doing business in the public market place.

Identification of Intangible Assets

The following intangible assets were suggested from the financial examination:

- Assembled & Trained Workforce;
- The Blue Cross / Blue Shield Brand; and
- Patient and Community Relationships as defined through Payer Contracts.

This selection of intangible assets may not be a complete selection of intangible assets (to be discussed with management) but these intangible assets are easily identified and (except for the workforce) capable of being independently sold or leased.

Accounting regulations do not consider an Assembled & Trained Workforce separable from the business. Accordingly, it cannot be assigned a finite life and is generally considered to be a part of residual (Purchased Goodwill).

INCOME APPROACH TO VALUE

Financial Projections

The projections developed for this engagement are built on the expectation that future production of Blue Cross Blue Shield of Montana, Inc. will be trended from the production levels demonstrated since 2010.

Primary Assumptions

- Revenue growth trends were developed by management through the year 2015. Thereafter, the growth is trended based on a rolling average.

	TTM 30-Jun-12	Projected 31-Dec-12	2013	2014	2015	2016	2017
Revenues, net of commissions & assessments	$ 867,242,391	$ 941,242,616	$ 880,070,603	$ 949,481,421	$ 1,036,250,051	$ 1,117,867,503	$ 1,197,220,337
Claims incurred	(799,249,625)	(865,967,622)	(792,879,603)	(856,014,421)	(927,014,051)	(1,000,027,823)	(1,071,015,700)
Underwriting gross margin	$ 67,992,766	$ 75,274,994	$ 87,191,000	$ 93,467,000	$ 109,236,000	$ 117,839,680	$ 126,204,636

- Operating expenses follow the rolling average begun with management. Some account balances reflect the impact of normalization (scheduled earlier in this report) of historical costs which allow for a better comparison with other market participants.
- Operating expenses have been defined as: (1) Fixed in nature (changing only with modifications in the inflation rate); (2) Variable with revenues (changing in direct relationship to changing medical revenue); (3) Variable with labor (changing in relationship to labor patterns); and/or (4) independently scheduled (such as depreciation, etc.)
- Working Capital requirements are estimated as the Reinvestment Rate = (Growth Rate / Return on Capital) demanded by projected operations.
- Capital expenditures are expected to represent small upgrades and general replacement costs for office equipment. Minimal costs for replacements and upgrades are estimated in the forecast.
- The sustainable growth rates applied in the engagement are the blended average CPI index (Medical Care Services / Rural Western Montana) dating from November 2002 through November 2012 (see CAPM build-up). The implied Cost of Equity Capital developed through the CAPM is 18.4% while the Cost of Total Invested Capital is 14.6%.

Discounted Cash Flow Analysis

Valuation methodologies derived from earnings and expressed as cash flows are the most intuitive value measurements available to the analyst. The basic concept is that business value is a direct reflection of the future cash flow expected to be generated from the investment. The Discounted Cash Flow methodology ("DCF") bases the value of a company on the future cash flows attributable to that company. This methodology assumes that the cash flows derived from a company will, to a large extent, control the value of that company.

The Estimate of Fair Market Value is summarized below.

	2013	2014	2015	2016	2017	Terminal Year
Operating Revenue	$ 880,070,603	$ 949,481,421	$ 1,036,250,051	$ 1,117,867,503	$ 1,197,220,337	
Less: Direct Medical Expenses	(792,879,603)	(856,014,421)	(927,014,051)	(1,000,027,823)	(1,071,015,700)	
GM = Gross Margin	87,191,000	93,467,000	109,236,000	117,839,680	126,204,636	
Less: Operating Expenses	(74,383,740)	(83,347,732)	(90,125,666)	(98,290,669)	(106,147,801)	
Add: Depreciation and other non-cash expenses	5,800,000	7,421,000	9,249,000	10,914,000	12,502,000	
Add: Other Income	4,937,186	5,119,991	5,740,963	6,069,824	6,471,712	
EBITDA = Earnings Before Interest, Taxes, Depreciation /Amortization	$ 23,544,446	$ 22,660,259	$ 34,100,297	$ 36,532,835	$ 39,030,547	
Less: Depreciation and other non-cash expenses	(5,800,000)	(7,421,000)	(9,249,000)	(10,914,000)	(12,502,000)	
EBT = Earnings Before Taxes	$ 17,744,446	$ 15,239,259	$ 24,851,297	$ 25,618,835	$ 26,528,547	
Effective Income Taxes	(7,390,640)	(6,269,569)	(10,375,417)	(10,695,864)	(11,075,668)	
EAT = Earnings After Taxes = Net Income	$ 10,353,807	$ 8,969,691	$ 14,475,881	$ 14,922,971	$ 15,452,879	
Add: Depreciation and other non-cash expenses	5,800,000	7,421,000	9,249,000	10,914,000	12,502,000	
GCF = Gross Cash Flow	$ 16,153,807	$ 16,390,691	$ 23,724,881	$ 25,836,971	$ 27,954,879	
Less: Working capital needed to support operations	(2,020,624)	(1,750,504)	(2,825,079)	(2,912,332)	(3,015,747)	
NOCF = Net Operating Cash Flow	$ 14,133,182	$ 14,640,187	$ 20,899,802	$ 22,924,640	$ 24,939,131	
Fixed asset purchases / replacements	(2,000,000)	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)	
CFIC = Cash Flow to Invested Capital (requires WACC)	$ 12,133,182	$ 6,640,187	$ 12,899,802	$ 14,924,640	$ 16,939,131	$ 16,939,131
Terminal Year Exit Multiple						8.508
Present Value into Perpetuity at Terminal Year						144,118,921
Present Value Factor	0.9341	0.8151	0.7112	0.6206	0.5415	0.5415
Present Value - Cash Flow to Invested Capital and Terminal Value	$ 11,333,802	$ 5,412,315	$ 9,174,610	$ 9,262,116	$ 9,172,745	$ 78,042,144

The DCF method requires:

1. Determination of the expected annual cash flows available to the company based on projected earnings.
2. Determination of the future value of the cash flows at the end of the projection horizon (i.e., "Terminal Value").
3. Determination of a discount rate for the present value of the projected annual cash flows and the Terminal Value.

Description of Source	Value Estimate
Present Value of near term Cash Flows to Invested Capital	$ 44,355,588
Terminal year value (assuming perpetuity)	78,042,144
Preliminary Indication of Equity Value	$ 122,397,731
Tangent Investments	88,167,024
Indication of Market Value of Equity	$ 210,564,755

COST (ASSET-BASED) APPROACH TO VALUE

Assembled & Trained Workforce

The theory associated with this measurement is that an acquirer of the business would not have to spend the time or money needed to recruit and adapt new personnel with comparable skills demonstrated by current employees. These costs may also include the use of temporary contractors (at all levels) during the recruiting-training period. The estimate of value appropriate to BCBSMT was completed using the Replacement Cost method.

The specific estimates used in this circumstance include:

- the cost to recruit replacements including the cost of temporary help that may be required; these costs include the use of various advertising media and special fees that may be associated with the process. In this circumstance BCBSMT estimates that these costs would approximate a variable percentage of the employee's annual base salary.
- The cost to train new employees to include a period of personal acclamation and the time needed for the employee to gain a level of individual proficiency with the requirements of their position. Reaching trained efficiency is expected to cost variable percentages of the annual salaries multiplied times the fraction of time needed to complete the training / acclamation process.
- The costs associated with interviewing, achieving a decision and processing the offer to hire. These costs will vary with the position, generally ranging from 5 to 15 hours of human-resources time and attention. This cost is currently expected to average $100 per hour.

Five (5) sets of employees have been identified and valued independently.

Executives

Replacement Cost for Executives		$ 1,239,150
Estimated Taxes		(504,954)
Costs Avoided		734,196
Amortization Benefit:		
Discount Rate	16%	
Tax Rate	41%	
Tax Amortization Period	15	
Amortization Benefit		204,975
Estimated Cost Savings		$ 939,172

Assembled & Trained Workforce - continued

Management

Replacement Cost for Management		$ 2,682,852
Estimated Taxes		(1,093,262)
Costs Avoided		1,589,590
Amortization Benefit:		
Discount Rate	16%	
Tax Rate	41%	
Tax Amortization Period	15	
Amortization Benefit		443,787
Estimated Cost Savings		$ 2,033,377

Professional (Technical)

Replacement Cost for Professionals		$ 6,806,367
Estimated Taxes		(2,773,594)
Costs Avoided		4,032,772
Amortization Benefit:		
Discount Rate	16%	
Tax Rate	41%	
Tax Amortization Period	15	
Amortization Benefit		1,125,883
Estimated Cost Savings		$ 5,158,656

Administrative (Clerical)

Replacement for Administration		$ 6,410,264
Estimated Taxes		(2,612,183)
Costs Avoided		3,798,081
Amortization Benefit:		
Discount Rate	16%	
Tax Rate	41%	
Tax Amortization Period	15	
Amortization Benefit		1,060,362
Estimated Cost Savings		$ 4,858,443

Marketing (Sales)

Replacement Cost for Sales		$ 548,124
Estimated Taxes		(223,360)
Costs Avoided		324,763
Amortization Benefit:		
Discount Rate	16%	
Tax Rate	41%	
Tax Amortization Period	15	
Amortization Benefit		90,669
Estimated Cost Savings		$ 415,432

Capitalization of Excess Earnings

This method develops an indication of value by considering all net tangible and intangible assets of normal operations, in a single analysis. This is done by first developing a return-on-investment ("ROI") that should be expected in the market place for the tangible assets of the business.

As scheduled below, accounts receivable and investments in fixed assets can be used as collateral for short-term financing. The resulting estimate of collateral financing is scheduled below.

Estimated Financing Strength	*Asset Value*	*Financeable*	*Estimated Loan*
Accounts Receivable	$ 49,744,411	35%	$ 17,410,544
Fixed Assets	84,707,668	15%	12,706,150
Cost basis available for external financing	$ 134,452,079	22%	$ 30,116,694
Weighted Average Cost of Debt			
Federal and CA State (pass-through)	41%		
Required Return on Debt	5%	78%	0.023
Market Equity Rate	16%	22%	0.036
Rate of Return on Net Tangible Assets			0.059

The scheduled calculation (above) is designed to estimate a rate of return (illustrated as 5.9%) which is applied to normalized Tangible Assets (net of short-term debt) that are expected to generate a return on investment as of the Date of Value. This ROI is compared with the Net Cash Flow to Equity in an effort to determine the portion of said cash flow that is generated from the intangible assets of the business. This measurement requires assumptions regarding market rates and the average cash flows appropriate to those rates.

In the schedule on the following page, the estimated return on tangible assets (computed above) is subtracted from the Net Cash Flows to Equity. The resulting "excess earnings" is assumed to be earned on the intangible strength of the business. These earnings (in excess of the returns generated from tangible asset investments) can be capitalized to estimate the value-added by intangible assets (undefined at this point of measurement).

By adding together the computed value of intangible assets with the known tangible asset value of the business, an indication of the total asset value of the business can be estimated.

A scheduled expectation of total asset value:

Capitalization of Excess Earnings	*Assets*	*Cash Flow*
Weighted Average Cash Flow to Equity Capital [1]		$ 4,798,667
Tangible Assets (generating a return - net of current debt) [2]	$ 80,666,700	
Rate of Return on Net Tangible Assets	0.059	
Less dollar return on tangible assets		4,750,917
Excess Earnings (from new base of intangible assets)		47,750
Excess Earnings Capitalization Rate [3]		20%
Inferred Intangible Value [4]		238,748
Intangible value of Assembled Workforce		13,405,079
Non-Operating Assets		88,167,024
Tangible and booked Intangible Assets (net of current debt)		80,666,700
Indicated Market Value of Equity		$ 182,477,551

Footnotes

[1] Cash flows include adjustments for normalization, depreciation, capital expenditures and working capital;

[2] Net tangible assets exclude investments that are not a part of normal operations.

[3] It is estimated that goodwill effective 06/30/12 will continue for a minimum of five (5) years.

[4] Increase in aggregated goodwill, includes estimated amount for all contracts and brands.

MARKET APPROACH TO VALUE

The transactions that are used as valuation evidence within this approach, come from “the market”, i.e., where willing buyers and willing sellers, each looking out for their own economic self-interests, exchange property at a negotiated price. Accordingly, the market approach emphasizes the economic principle of substitution, where a buyer will pay no more for something than for a substitute that provides equivalent economic utility. Hence, “arm’s length” sales transactions involving comparative companies are frequently used to identify financial relationships between the sales price and the underlying financial performance of the sale property which can then be applied to the subject business being valued.

Guideline Comparative Companies

This methodology develops value measures based on prices at which stocks of similar companies are trading in a public market. The value measures are then applied to the subject company’s fundamental data and correlated to reach an estimate of value. In this circumstance, the valuation multiples from the selected guideline companies were analyzed on a debt-free basis. When adjusting period earnings to a debt-free basis it is necessary to add back interest to pre-tax income. The resulting classification is earnings before interest and taxes (EBIT), which is the first measure of benefits used in comparison. The second measure of benefits is referred to as (EBITDA) earnings before depreciation / amortization, interest and taxes. As might be expected it is achieved by simply adding back non-cash allocations (depreciation / amortization) to EBIT. The third benefit steam considered is debt-free net income (DFNI), which is calculated as net income plus tax affected interest expense. The fourth stream considered is debt-free cash flow (DFCF), which is debt-free net income, plus non-cash allocations.

A brief profile of each guideline company provides a general overview of their similarity with BCBSMT and the normalization needed to develop appropriate metrics for the guidance:

American Independence Corporation

Through its subsidiaries, engages in the health insurance and reinsurance businesses primarily in the United States. The company 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. The company also writes fully insured health and short-term statutory disability insurance, as well as reinsurance. American Independence Corp. offers its products and services through managing general underwriters and agency subsidiaries, independent brokers, producers, and agents. The company is based in New York, New York.

Aetna Inc.

This guideline company operates as a diversified health-care-benefits company based in Hartford, CT. Aetna operates in three business segments: 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. This segment offers its products and services to large multi-site national, mid-sized, and small employers, as well as individual customers. The ***Group Insurance*** segment provides life insurance products that consist of group term life insurance, voluntary spouse and dependent term life insurance, group universal life, and accidental death and dismemberment insurance; disability insurance products; and long-term care insurance products, which offer benefits to cover the cost of care in private home settings, adult day care, assisted living, or nursing facilities. This segment provides insurance products principally to employers that sponsor its products for the benefit of their employees and their employees' dependents. The ***Large Case Pensions*** segment manages various retirement products, including pension and annuity products for tax qualified pension plans. The company's customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers, governmental units, government-sponsored plans, labor groups, and expatriates.

Cigna Corporation

This guideline company is a health services organization located in Bloomfield, CT providing insurance and related products and services throughout 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. The company's ***Disability and Life*** segment offers various insurance products and related services, including group long-term and short-term disability insurance; group life insurance products comprising group term life and group universal life; and personal accident insurance consisting of accidental death and dismemberment, and travel accident insurance to employers. This segment also provides specialty insurance services that include disability and life, accident, and hospital indemnity products to professional or trade associations, and financial institutions. Its ***International*** segment offers supplemental health, life, and accident insurance products; and international health care products and services. The company's ***Run-off Reinsurance*** segment manages its run-off reinsurance coverage for risks written by other insurance companies under life and annuity policies and accident policies under guaranteed minimum death benefits and minimum income benefits contracts. Its ***Other Operations*** segment provides corporate owned life insurance that is permanent insurance contracts sold to corporations to offer life coverage for certain employees, as well engages in run-off settlement annuity business. The company has a strategic alliance with Audax Health to develop a digital engagement platform. CIGNA Corporation distributes its products and services through independent brokers and agents, consultants, and direct sales personnel, as well as through the Internet.

Coventry Health Care, Inc.

The guideline company operates as a managed healthcare company headquartered in Bethesda, MD. 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. In addition, this segment provides health insurance benefits under the federal employees health benefits program; administrative services only products, such as medical claims administration, pharmacy benefits management, and utilization management and quality assurance programs; consumer-directed benefit options comprising health reimbursement accounts and health savings accounts to commercial customers; and comprehensive health benefits on a risk basis to members participating in the Medicare Advantage Coordinated Care Plans and Medicaid programs. The company's ***Workers'Compensation*** division offers managed care services, such as provider network access and bill review; care management services; and pharmacy benefit management services. The company primarily serves individuals, employer and government-funded groups, government agencies, and other insurance carriers and administrators through direct sales staff and a network of independent insurance brokers and agents.

UnitedHealth Group Incorporated

UHG operates as a diversified health and well-being company in the United States. The company's ***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. This segment serves through a network of 754,000 physicians and other health care professionals, and 5,400 hospitals. Its ***OptumHealth segment*** provides personalized health management services, decision support services, access to networks of care provider specialists, well-being solutions, behavioral health management solutions, financial services, and clinical services. This segment serves individuals through programs offered by employers, payers, government entities, and directly with the care delivery system. The company's ***OptumInsight segment*** offers software and information products, advisory consulting services, and business process outsourcing services to hospitals, physicians, commercial health plans, government agencies, life sciences companies, and other organizations that comprise the health care system work. Its ***OptumRx segment*** provides a multitude of pharmacy benefit management services, including prescribed medications and patient support. This segment also offers claims processing, retail network contracting, and rebate contracting, as well as management and clinical programs, such as step therapy, formulary management, and disease/drug therapy management programs. The company was founded in 1974 and is based in Minnetonka, Minnesota with an additional office in New Delhi, India.

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. The company 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. In addition, it offers specialty and other products and services, including life and disability insurance benefits; dental, vision, and behavioral health benefit services; radiology benefit management; personal health care guidance; and long-term care insurance. Further, the company serves as an intermediary providing administrative service for the Medicare program that offers coverage for persons, who are 65 or older, and for persons who are disabled or with end-stage renal disease. WellPoint, Inc. markets its products through a network of independent agents and brokers, consultants, in-house sales force, or Internet. The company, formerly known as Anthem, Inc., was founded in 1944 and is headquartered in Indianapolis, Indiana.

Aflac Incorporated

Through its subsidiary, ***American Family Life Assurance Company of Columbus*** provides supplemental health and life insurance. The company 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. The company sells its products through sales associates and brokers, independent corporate agencies, individual agencies, and affiliated corporate agencies. Aflac Incorporated was founded in 1955 and is headquartered in Columbus, Georgia.

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. The company’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. Its products also include individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities. Unum Group markets its products primarily to employers interested in providing benefits to their employees. The company sells its products through field sales personnel, independent brokers, consultants, and agency sales force. Unum Group was founded in 1848 and is based in Chattanooga, Tennessee.

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. The company'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. Its ***Washington National segment*** markets and distributes supplemental health insurance, including specified disease, accident, and hospital indemnity insurance products; and life insurance to middle-income consumers at home and the worksite through independent marketing organizations and insurance agencies. The company's ***Colonial Penn segment*** markets primarily graded benefit and simplified issue life insurance products directly to customers through television advertising, direct mail, Internet, and telemarketing. CNO Financial Group sells its products through career agents, independent producers, and direct marketing. The company was formerly known as Conseco, Inc. and changed its name to CNO Financial Group, Inc. in May 2010. CNO Financial Group, Inc. was founded in 1979 and is headquartered in Carmel, Indiana.

Humana Inc.

HUM operates as a health care company that offers a range of insurance products and health and wellness services that incorporate an integrated approach to lifelong well-being. Its ***Retail segment*** provides Medicare and commercial fully-insured medical and specialty health insurance benefits, including dental, vision, and other supplemental health and financial protection products to individuals. The company's ***Employer Group segment*** offers Medicare and commercial fully-insured medical and specialty health insurance benefits, as well as administrative services to employer groups. Its ***Health and Well-Being services segment*** provides primary care, pharmacy, integrated wellness, and home care services to members enrolled in its health plan, as well as to third parties that promote health and wellness. The company's other businesses category consists of military services, primarily its TRICARE south region contract that provides health insurance coverage to the dependents of active duty and retired military personnel, and their dependents; Medicaid, a federal program to facilitate the delivery of health care services primarily to low-income residents; and closed-block long-term care businesses, as well as contract with Centers for Medicare and Medicaid Services (CMS) to administer the LI-NET program, which allows individuals to receive immediate prescription drug coverage. As of December 31, 2011, Humana Inc. had approximately 11.2 million members enrolled in medical benefit plans; and approximately 7.3 million members enrolled in specialty products programs. The company was founded in 1961 and is headquartered in Louisville, Kentucky.

Health Net, Inc.

Through its subsidiaries, provides managed health care services. The company offers commercial health care products, such as health maintenance organization plans through contracts with participating network physicians, hospitals, and other providers; preferred provider organization plans that provide coverage for services received from health care provider; and point of service plans. It also provides Medicare products, including Medicare advantage plans with and without prescription drug coverage; Medicare part D stand-alone prescription drug plan (PDP); and Medicare supplement products that supplement fee-for-service Medicare coverage. In addition, the company offers Medicaid and related products; indemnity insurance products; auxiliary non-health products, such as life, accidental death and dismemberment, dental, vision, and behavioral health insurance; and other specialty services and products comprising pharmacy benefits, behavioral health, dental, and vision products and services, as well as managed care products for hospitals, health plans, and other entities. Further, it provides administrative services comprising provider network and referral management, medical and disease management, enrollment, customer service, clinical support service, and claims processing service to military health system eligible beneficiaries. It serves approximately 6.0 million individuals in the United States through group, individual, Medicare, Medicaid, the U.S. Department of Defense, TRICARE, and Veterans Affairs programs. Health Net, Inc. was founded in 1979 and is headquartered in Woodland Hills, California.

Based on the financial detail available from Company reports the MVIC for each Company as of the Date of Value was calculated the schedule below.

COMPANY	TICKER	(ttm) Annualized	(000) TBV	(000) BV	(000) BV of IBD	(000) TBVIC		(actual) 30-Jun-12 CLOSE	(actual) O/S SHARES		(actual) M.V. of EQUITY		M.V.I.C.
WellPoint, Inc.	WLP	30-Jun-12	9,109,500	23,643,800	11,149,300	20,258,800	$	63.79	325,200,000	$	20,744,508,000	$	31,893,808,000
Coventry Health Care, Inc.	CVH	30-Jun-12	1,916,270	4,506,283	1,584,945	3,501,215	$	31.79	195,657,000	$	6,219,936,030	$	7,804,881,030
UnitedHealth Group Incorporated	UNH	30-Jun-12	3,184,000	29,375,000	12,617,000	15,801,000	$	58.50	1,034,000,000	$	60,489,000,000	$	73,106,000,000
Cigna Corporation	CI	30-Jun-12	3,312,000	9,022,000	5,211,000	8,523,000	$	44.00	366,000,000	$	16,104,000,000	$	21,315,000,000
Aetna, Inc.	AET	30-Jun-12	4,053,600	10,255,800	4,706,300	8,759,900	$	37.44	334,200,000	$	12,512,448,000	$	17,218,748,000
American Independence Corp.	AMIC	30-Jun-12	72,298	95,859	-	72,298	$	5.00	8,272,332	$	41,361,660	$	41,361,660
AFLAC, Inc.	AFL	30-Jun-12	14,179,000	14,179,000	3,864,000	18,043,000	$	42.59	466,337,000	$	19,861,292,830	$	23,725,292,830
CNO Financial Group, Inc.	CNO	30-Jun-12	4,893,100	4,893,100	2,466,100	7,359,200	$	7.80	234,026,409	$	1,825,405,990	$	4,291,505,990
Unum Group	UNM	30-Jun-12	8,184,600	8,385,900	3,007,400	11,192,000	$	19.13	359,547,366	$	6,878,141,112	$	9,885,541,112
Humana, Inc.	HUM	30-Jun-12	5,663,000	8,455,000	5,612,000	11,275,000	$	77.44	163,267,000	$	12,643,396,480	$	18,255,396,480
Health Net, Inc.	HNT	30-Jun-12	973,154	1,539,040	857,691	1,830,845	$	24.27	82,882,000	$	2,011,546,140	$	2,869,237,140

Following examinations of the benefits stream detail in the Exhibits, the following

						EBIT RETURN on TBVIC		EBITDA RETURN on TBVIC		DFNI RETURN on TBVIC		DFCF RETURN on TBVIC	
COMPANY	MVIC	MVIC / BVIC	MVIC / TBVIC	IBD / TBVIC	MVIBD MVIC	TTM	MEAN	TTM	MEAN	TTM	MEAN	TTM	MEAN
WellPoint, Inc.	$ 31,893,808,000	0.92	1.57	0.55	0.35	0.21	0.28	0.25	0.31	0.14	0.18	0.17	0.21
Coventry Health Care, Inc.	$ 7,804,881,030	1.28	2.23	0.45	0.20	0.29	0.22	0.35	0.27	0.20	0.14	0.25	0.19
UnitedHealth Group Incorporated	$ 73,106,000,000	1.74	4.63	0.80	0.17	0.55	0.48	0.63	0.55	0.36	0.31	0.43	0.37
Cigna Corporation	$ 21,315,000,000	1.50	2.50	0.61	0.24	0.23	0.22	0.28	0.26	0.15	0.16	0.21	0.19
Aetna, Inc.	$ 17,218,748,000	1.15	1.97	0.54	0.27	0.35	0.32	0.40	0.36	0.23	0.21	0.28	0.26
American Independence Corp.	$ 41,361,660	0.43	0.57	-	-	0.07	0.06	0.08	0.07	0.05	0.04	0.06	0.05
AFLAC, Inc.	$ 23,725,292,830	1.31	1.31	0.21	0.16	0.23	0.17	0.23	0.17	0.15	0.11	0.15	0.11
CNO Financial Group, Inc.	$ 4,291,505,990	0.58	0.58	0.34	0.57	0.07	0.05	0.07	0.05	0.07	0.05	0.07	0.05
Unum Group	$ 9,885,541,112	0.87	0.88	0.27	0.30	0.03	0.10	0.04	0.10	0.03	0.07	0.04	0.08
Humana, Inc.	$ 18,255,396,480	1.30	1.62	0.50	0.31	0.18	0.17	0.21	0.20	0.12	0.11	0.14	0.14
Health Net, Inc.	$ 2,869,237,140	1.20	1.57	0.47	0.30	0.11	0.11	0.15	0.13	0.07	0.06	0.11	0.08
Mean		1.12	1.77	0.43	0.26	0.21	0.20	0.24	0.23	0.14	0.13	0.17	0.16
Median		1.20	1.57	0.47	0.27	0.21	0.17	0.23	0.20	0.14	0.11	0.15	0.14
Standard Deviation		0.39	1.14	0.22	0.14	0.15	0.13	0.17	0.15	0.09	0.08	0.12	0.10
Coefficient of Variation		0.35	0.64	0.50	0.54	0.71	0.64	0.70	0.65	0.66	0.61	0.66	0.63

The application of Book Value metric follows:

Normalized Book Value	$	171,834,109
Less Investments not directly related		(88,167,024)
Residual Book Value		83,667,084
BV Median Multiple		100,161,723
Add Back Investments		88,167,024
Indication of Value	$	188,328,747

RECONCILIATION OF VALUE

Reconciliation of Indications of Value Achieved

The essential consideration used in weighting the indications of value within this reconciliation is the reliability of these valuation methods and the associated degree of confidence to be attributed to each indication of value when achieving the final Conclusion of Value.

Indications of Market Value of Equity	Historical	Projected	Reliability	Weighted Indications
Income Approach:				
DISCOUNTED FUTURE CASH FLOWS		$ 210,564,755	33%	$ 70,188,182
Asset Approach:				
CAPITALIZATION OF EXCESS EARNINGS	$ 182,477,551		33%	$ 60,825,789
Market Approach:				
PUBLIC MARKET GUIDELINE COMPANIES	$ 188,328,747		33%	$ 62,776,186
Weighted indications of Market Value of Equity			100.0%	$ 193,790,157

The essential distinctions among the indications of value follow this hierarchy:

- The key consideration when achieving a *fair market value* is *return on investment*. Hence, actual cash flows produced by the business offer the best indication of present value. This measurement was developed from projected cash flows which were normalized to achieve historical trends in operating expenses. Forecasts limit the reliability of the method even though they were prepared (essentially) by management. Hence, the applied reliability of the Income Approach to Value is limited to 33% of the conclusion of value achieved.
- The Asset Approach to Value is also limited by the number of assumptions being applied as well as the various calculations made separately and then applied through the method. The multiple measurements force the use of the most estimates and cause the reliability of this method to be reduced. This indication has also been given an equal weight of 33% of the total value achieved.
- Private market indications of value have been obtained from publicly reported summaries which allow for comparisons among numerous sample transactions before reconciling. All indications were from the current marketplace but require additional adjustments for growth, capital structure and market exposure. This approach has also been given an equal expectation of accuracy and represents 33% of total value.

INFERRED INTANGIBLE VALUE

The rounded estimate of value for the net assets of BCBSMT is $193,790,157.

From that amount the known tangible assets (inclusive of historically purchased goodwill) can be subtracted. The remaining balance represents the intangible assets of the medical practice.

Through this engagement, the most obvious undivided intangible assets groups have been identified, valued and given an amortizable life.

A preliminary value for intangible assets and practice goodwill of $24,956,433 is scheduled at right.

NET TANGIBLE ASSETS		VALUE	
Cash & Short-Term Investments	$	7,366,474	
Receivables		58,425,742	
Prepaid Expenses		3,512,167	
Land		4,657,182	
Depreciable Assets, net		20,508,451	
Projects in Progress		3,754,239	
Stock, Bonds, Annuities and Other Investments		255,229,961	
Current Liabilities		(110,844,630)	
Pensions and Retiree Obligations		(53,743,282)	
Responsibilities for New West Health Service		(20,032,580)	
Total Net Tangible Assets	$	168,833,724	
UNIDENTIFIED GOODWILL	$	24,956,433	[1]
ESTIMATED VALUE OF NET ASSETS	$	193,790,157	

[1] *PROOF OF GOODWILL*		Estimated Value	Life
Executive Workforce		939,172	NA
Management Workforce		2,033,377	NA
Professional (Technical) Workforce		5,158,656	NA
Sales (Marketing) Workforce		415,432	NA
Clerical (Administrative) Workforce		4,858,443	NA
Contracts, Brand and Community Goodwill		11,551,354	5 years
IDENTIFIED GOODWILL	$	24,956,433	

CONCLUSION OF VALUE

It was my opinion that the value of a 100% controlling-ownership interest in all tangible and intangible assets of this subject assuming a *fair market value* standard, as of the effective date of appraisal, June 30, 2012 was:

ONE HUNDRED NINETY-THREE MILLION EIGHT-HUNDRED THOUSAND DOLLARS

$ 193,800,000

Allocation of the Conclusion of Value

Current Assets		
Cash & Short-Term Investments	$	7,366,474
Receivables		58,425,742
Prepaid Expenses		3,512,167
Fixed Assets		
Land		4,657,182
Depreciable Assets, net		20,508,451
Projects in Progress		3,754,239
Other Assets		
Stock, Bonds, Annuities and Other Investments		255,229,961
Intangible Assets and Goodwill		24,956,433
Current Liabilities		
Current Liabilities		(110,844,630)
Pensions and Retiree Obligations		(53,743,282)
Responsibilities for New West Health Service		(20,032,580)
Estimated Net Asset Value	$	193,790,157
Rounded Net Asset Value	$	193,800,000

ASSUMPTIONS AND LIMITING CONDITIONS

This report is made expressly subject to the conditions and stipulations following:

1. It is assumed that the legal description as obtained from public records or as furnished is correct. No responsibility is assumed for matters that are legal in nature, nor is any opinion on the title to assets rendered herewith. This report assumes good title, responsible ownership and competent management. Any liens or encumbrances that may now exist have been disregarded, and the assets have been analyzed as though free of indebtedness, unless otherwise stated.

2. Any plans, sketches, drawings or other exhibits in this report are included only to assist the reader in visualizing the property and/or operating structures. I have made no separate asset appraisals for this report and assume no responsibility for such.

3. Unless otherwise noted herein, it is assumed that there are no violations of any regulations affecting the subject business of this report.

4. It is stated in the transmittal letter that this study was performed in accordance with the regulations of The American Institute of Certified Public Accountants. Therefore the Bylaws and Regulations of that organization govern disclosure of the contents of this report. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the analyst or the firm with which he is connected, or any reference to The American Institute of Certified Public Accountants, or the CPA designation) shall be disseminated to the general public through advertising media, public relations media, news media, sales media, or any other public means of communication without prior written consent and prior approval of the analyst.

5. The opinions of value expressed within this report are appropriate only for the valuation date specified (June 30, 2012) and only for the purpose discussed within this report (and for no other purpose). This report shall be used only in its entirety and no part shall be used with any other study and is invalid if so used.

6. This employment does not require testimony in court, unless mutually satisfactory arrangements are made in advance.

ASSUMPTIONS AND LIMITING CONDITIONS - continued

7. Information, estimates, and opinions furnished to the analyst, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, the analyst can assume no responsibility for the accuracy of such items furnished to the analyst. Timothy Blackmer reserves the right to make report corrections at the time they are brought to his attention and to have all original reports and copies returned for these corrections.

8. In reporting prospective (future) values, the analyst cannot be held responsible for events that alter market conditions prior to the effective date of the opinion.

9. This is an economic report designed to provide an estimate of the fair market value of the business interest being appraised. It is not an accounting report, and it should not be relied on to disclose hidden assets or to verify financial reporting. It is an opinion of value of the specific assets and liabilities considered.

10. The financial statements of the firm have been accepted as presented without additional verification. Timothy Blackmer, CPA, ABV, CBA, ASA did not audit these statements and their accuracy is solely the responsibility of management.

11. This report should not be considered as a determination of the price at which the business would be sold. It is intended to provide an estimated value for a very limited and specific purpose.

12. Possession of this report, or copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the analyst and in any event only with properly written qualifications and only in its entirety.

13. Acceptance of and/or use of this report constitutes acceptance of the forgoing "*Assumptions and Limiting Conditions*".

14. Please refer to the cover letter and "*Certification*" for further clarification of these assumptions and limiting conditions.

SUMMARY QUALIFICATIONS OF ANALYST

Professional Overview

Mr. Blackmer provides business valuations, forensic financial investigations and other financial consulting services. Recent engagements have included business appraisals, fairness opinions, economic damage investigations, and other examinations for closely held companies and professional practices, following requests of bankers, attorneys, business brokers, owner/shareholders, consultants and other principal parties.

Hundreds of net tangible and intangible asset appraisals have been prepared for clients within a variety of regulated industries. The most frequent industry focus has been within the following sectors:

- Healthcare
- Insurance (Property and Casualty)
- Commercial Construction
- Hospitality and Resort
- Retail Enterprises
- Commercial Lending
- Professional Services

As a CPA, Accredited in Business Valuation and Certified in Financial Forensics, an Accredited Senior Appraiser and as a Certified Business Appraiser, Mr. Blackmer is particularly experienced in the valuation of businesses as well as in the general operations of various business ventures. He has completed valuations of asset portfolios for principals with annual gross revenues ranging from $100K to over $800M.

In addition to his appraisal experience, Mr. Blackmer has designed and created accounting systems and internal control procedures for multimillion-dollar start-up projects; planned and performed financial and operational audits of for-profit, not-for-profit and governmental agencies; provided financial analysis, financial modeling, budget planning and financial forecasts for assorted industry clientele. Because of this industry experience and other professional accomplishments Mr. Blackmer has recently been presented the AICPA's designation of Chartered Global Management Accountant (**CGMA**) for his work as a business strategist. He also has conducted investigative audits, testified in state court, served as a court appointed referee completing numerous forensic examinations.

Analyst Qualifications - continued

Professional Licenses and Accreditations

CPA Certified Public Accountant, California (2001) and Washington State (1982)
ABV Accredited Business Valuation, American Institute of CPAs (1998)
CFF Certified in Financial Forensics, American Institute of CPAs (2008)
CGMA Chartered Global Management Accountant, American Institute of CPAs (2012)
CBA Certified Business Appraiser, Institute of Business Appraisers (1997)
ASA Accredited Senior Appraiser, American Society of Appraisers (2002)

Professional Education

MBA Masters in Business Administration (emphasis Finance), University of Nevada, 1987
BS Bachelor of Science, Business Administration (Accounting), University of San Francisco

Professional Affiliations

- Member, American Institute of Certified Public Accountants
- Member, California Society of Certified Public Accountants
- Member, Institute of Business Appraisers
- Member, American Society of Appraisers

Seminars, Appointments, Lectures and Classroom Instructor

- "Valuation and Physician Integration during Healthcare Reform" HFMA sponsored webinar, 2011
- "Business Valuation and the HealthCare Industry", HealthCare Financial Management Association (HFMA), 2008
- "An Overview of Business Valuation" Whittier Bar Association, 2007
- "Masters of Business Administration Program", Advanced Acctg., University of Phoenix, 2002-2003
- "Bachelor of Business Program", Financial Accounting curriculum, Seattle City University, 1998-1999
- "Bachelor of Business Program", Financial Accounting curriculum, National University, 1986-1987

Publications

- "*Normalization for Financial Reporting"* California Society of CPAs (CalCPA) *BUZZ*, December 2002

EXHIBITS

- Exhibit 1 Historical Balance Sheets
- Exhibit 2 Historical Income Statements
- Exhibit 3 Normalized Balance Sheets
- Exhibit 4 Normalized Income Statements
- Exhibit 5 Public Company (EBIT to MVIC)
- Exhibit 6 Public Company (EBITDA to MVIC)
- Exhibit 7 Public Company (DFNI to MVIC)
- Exhibit 8 Public Company (DFCF to MVIC)
- Exhibit 9 Public Company (Revenue to MVIC)
- Exhibit 10 Public Company (Revenue Performance Ratios)

Exhibit 1A
Historical (GAAP basis) **Balance Sheets**

	Audit 2007	Audit 2008	Audit 2009	Audit 2010	Audit 2011	TTM 30-Jun-12	Common Sizing 2008	2009	2009	2010	2011	30-Jun-12	Industry Average
Assets													
Current Assets													
Cash and short-term investments	$ 27,875,316	$ 15,624,470	$ 10,953,958	$ 20,185,219	$ 14,506,339	$ 7,366,474	10.1%	6.0%	4.2%	7.2%	4.9%	2.4%	34.6%
Receivables													
Health care & other receivables	32,052,119	42,367,613	34,891,418	38,387,226	42,078,457	45,079,450	11.6%	16.3%	13.4%	13.7%	14.3%	14.6%	15.0%
Investment income accrued	1,262,006	1,020,702	941,446	913,870	898,429	895,100	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	
Amounts due from subsidiaries and affiliates	3,461,105	2,590,788	2,168,892	2,854,901	3,123,492	3,769,861	1.3%	1.0%	0.8%	1.0%	1.1%	1.2%	
Notes receivable, current portion	13,349	28,084	13,793	-	-	22,141	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Income tax receivable & deferred taxes	100,214	1,211,459	2,220,327	4,079,396	6,352,897	8,659,190	0.0%	0.5%	0.9%	1.5%	2.2%	2.8%	
Medicare subsidies receivable	2,773,370	1,534,720	402,772	-	741,483	-	1.0%	0.6%	0.2%	0.0%	0.3%	0.0%	
Amount due from managed companies	717,542	-	1,701,995	1,344,261	2,001,030	-	0.3%	0.0%	0.7%	0.5%	0.7%	0.0%	
Prepaid Expenses	2,696,742	5,243,532	4,488,853	4,697,136	3,863,104	3,512,167	1.0%	2.0%	1.7%	1.7%	1.3%	1.1%	
Total Current Assets	70,951,763	69,621,368	57,783,454	72,462,009	73,565,231	69,304,383	25.8%	26.7%	22.2%	25.9%	25.0%	22.5%	55.7%
Investments & Other Assets													
Bonds	79,166,409	71,074,605	68,863,403	69,327,796	74,164,463	75,415,431	28.7%	27.3%	26.4%	24.8%	25.2%	24.5%	
Common Stock	38,816,582	26,626,872	32,323,856	35,124,313	35,058,805	39,130,629	14.1%	10.2%	12.4%	12.6%	11.9%	12.7%	
Closely Held Investments	-	-		1,131,755	1,131,755	3,198,075	0.0%	0.0%	0.0%	0.4%	0.4%	1.0%	
Annuities	12,918,398	14,633,724	13,971,753	13,427,711	12,793,734	12,482,300	4.7%	5.6%	5.4%	4.8%	4.3%	4.0%	
Cash Value of Life Insurance	11,142,165	12,785,614	16,216,591	17,026,023	17,854,423	15,220,862	4.0%	4.9%	6.2%	6.1%	6.1%	4.9%	
Subsidiaries	44,102,193	36,597,838	41,032,171	45,678,233	47,254,223	48,215,435	16.0%	14.0%	15.7%	16.3%	16.0%	15.6%	
Intangible Assets, Net	-	-	-	-		23,003,051	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	
Deferred Income Taxes	549,679	4,720,000	3,792,000	4,170,000	9,495,000	-	0.2%	1.8%	1.5%	1.5%	3.2%	0.0%	
Total Investments & Other Assets	186,695,426	166,438,653	176,199,774	185,885,831	197,752,403	216,665,783	67.8%	63.9%	67.6%	66.5%	67.2%	70.3%	38.0%
Notes Receivable, less current portion	13,500	164,493	10,137	262,688	70,833	-	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%	
Fixed Assets													
Land	1,556,799	1,556,799	1,556,799	1,556,799	1,556,799	1,556,799	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	
Buildings and Improvements	13,570,006	13,590,496	15,884,397	15,884,397	15,911,909	15,911,909	4.9%	5.2%	6.1%	5.7%	5.4%	5.2%	
Furniture & Equipment	9,049,956	9,206,680	11,129,386	11,153,137	12,066,310	12,066,310	3.3%	3.5%	4.3%	4.0%	4.1%	3.9%	
Automobiles	249,493	313,331	313,303	289,194	367,156	367,156	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Software	31,113,084	34,982,441	41,696,649	42,490,746	44,391,303	44,391,303	11.3%	13.4%	16.0%	15.2%	15.1%	14.4%	
Projects in Progress	2,565,318	7,868,330	3,075,336	1,598,531	3,754,239	3,754,239	0.9%	3.0%	1.2%	0.6%	1.3%	1.2%	
Total Fixed Assets	58,104,656	67,518,077	73,655,870	72,972,804	78,047,716	78,047,716	21.1%	25.9%	28.3%	26.1%	26.5%	25.3%	
Accumulated Depreciation	(40,264,056)	(43,101,669)	(46,990,872)	(51,873,797)	(54,958,343)	(55,787,796)	-14.6%	-16.5%	-18.0%	-18.5%	-18.7%	-18.1%	
Net Fixed Assets	17,840,600	24,416,408	26,664,998	21,099,007	23,089,373	22,259,920	6.5%	9.4%	10.2%	7.5%	7.8%	7.2%	6.3%
Total Assets	$ 275,501,289	$ 260,640,922	$ 260,658,363	$ 279,709,535	$ 294,477,840	$ 308,230,086	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Exhibit 1B
Historical (GAAP basis) **Balance Sheets**

	Audit 2007	Audit 2008	Audit 2009	Audit 2010	Audit 2011	TTM 30-Jun-12	Common Sizing 2008	2009	2009	2010	2011	30-Jun-12	Industry Average
Liabilities & Capital													
Current													
Unpaid claims (including adjustment expenses)	$ 52,358,160	$ 55,088,766	$ 51,079,927	$ 57,181,944	$ 61,711,466	$ 58,027,742	19.0%	21.1%	19.6%	20.4%	21.0%	18.8%	
Rate stabilization and case & claim reserves	5,177,822	3,502,319	1,952,853	4,007,691	1,916,553	9,074,656	1.9%	1.3%	0.7%	1.4%	0.7%	2.9%	
Premiums received in advance	15,839,571	11,028,748	12,772,952	17,801,240	16,430,994	18,755,103	5.7%	4.2%	4.9%	6.4%	5.6%	6.1%	
Health care and other claims liabilities	4,624,712	7,293,548	6,726,565	6,291,220	10,053,399	16,145,685	1.7%	2.8%	2.6%	2.2%	3.4%	5.2%	
Checks issued but not presented for payment	5,155,867	4,252,257	3,902,009	230,231	3,431,712	792,886	1.9%	1.6%	1.5%	0.1%	1.2%	0.3%	
Accounts payable	11,865,023	11,503,800	9,913,403	8,929,172	8,931,878	726,965	4.3%	4.4%	3.8%	3.2%	3.0%	0.2%	22.4%
Accrued general expenses	8,950,890	5,633,471	6,254,137	8,193,068	7,240,640	1,567,895	3.2%	2.2%	2.4%	2.9%	2.5%	0.5%	
Pension liabilities, current portion	3,927,869	4,318,215	3,544,404	5,647,698	2,000,816	-	1.4%	1.7%	1.4%	2.0%	0.7%	0.0%	
Payables to affiliates	623,096	369,828	355,103	561,006	535,666	-	0.2%	0.1%	0.1%	0.2%	0.2%	0.0%	
Due to managed companies	36,482	281,196	-	-	-	-	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	
Premium deficiency reserves	-	-	1,025,000	-	-	-	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	
Medicare subsidies payable	-	-	-	897,677	-	-	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	
Loss contingency (lawsuit)	-	-	-	4,870,000	4,870,000	4,870,000	0.0%	0.0%	0.0%	1.7%	1.7%	1.6%	
Other current liabilities	3,320,861	1,726,050	7,749,006	2,848,252	3,518,231	5,583,313	1.2%	0.7%	3.0%	1.0%	1.2%	1.8%	
Total Current Liabilities	111,880,353	104,998,198	105,275,359	117,459,199	120,641,355	115,544,245	40.6%	40.3%	40.4%	42.0%	41.0%	37.5%	46.3%
Pension & other retiree obligations													
Defined benefit pension plan	8,258,655	18,588,006	14,863,013	15,624,477	19,385,912	20,022,307	3.0%	7.1%	5.7%	5.6%	6.6%	6.5%	
Non-qualified deferred compensation plans	20,017,151	21,040,215	20,904,151	21,923,842	24,357,541	23,586,949	7.3%	8.1%	8.0%	7.8%	8.3%	7.7%	
Accounts payable - deferred compensation	-	-	-	-	-	659,716	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	
Post retirement - life insurance	18,350	16,002	23,159	18,335	15,307	15,172	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Post Retirement - medical plan	534,679	370,684	410,882	459,399	531,966	547,966	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	
Defined contribution pension plan	117,374	231,882	306,025	297,535	320,059	223,123	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	
Net pension & post retirement liability	28,946,209	40,246,788	36,507,230	38,323,588	44,610,785	45,055,234	10.5%	15.4%	14.0%	13.7%	15.1%	14.6%	
Amounts included in current liabilities	(3,927,869)	(4,318,215)	(3,544,404)	(5,647,698)	(2,000,816)	-	-1.4%	-1.7%	-1.4%	-2.0%	-0.7%	0.0%	
Amounts included in pension and other retiree obligations	25,018,340	35,928,573	32,962,826	32,675,890	42,609,969	45,055,234	9.1%	13.8%	12.6%	11.7%	14.5%	14.6%	
Notes Payable	10,070,214	38,783	-	-	-	-	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	
Impairments	-	1,512,336	1,512,336	1,512,336	1,512,336	20,032,580	0.0%	0.6%	0.6%	0.5%	0.5%	6.5%	
Total Long-Term Liabilities	35,088,554	37,479,692	34,475,162	34,188,226	44,122,305	65,087,814	12.7%	14.4%	13.2%	12.2%	15.0%	21.1%	21.7%
Total Liabilities	146,968,907	142,477,890	139,750,521	151,647,425	164,763,660	180,632,059	53.3%	54.7%	53.6%	54.2%	56.0%	58.6%	
Surplus													
Unassigned Reserves	136,769,923	152,376,082	146,676,043	155,027,285	168,422,114	162,903,580	49.6%	58.5%	56.3%	55.4%	57.2%	52.9%	
Accumulated Other Comprehensive Loss	(8,237,541)	(34,213,050)	(25,768,201)	(26,965,175)	(38,707,934)	(35,305,553)	-3.0%	-13.1%	-9.9%	-9.6%	-13.1%	-11.5%	
Valuation Adjustments													
Total Surplus	128,532,382	118,163,032	120,907,842	128,062,110	129,714,180	127,598,027	46.7%	45.3%	46.4%	45.8%	44.0%	41.4%	32.0%
Total Liabilities & Surplus	$ 275,501,289	$ 260,640,922	$ 260,658,363	$ 279,709,535	$ 294,477,840	$ 308,230,086	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Exhibit 2

Historical (GAAP Basis) **Income Statements**

	Audit 2007	Audit 2008	Audit 2009	Audit 2010	Audit 2011	TTM 30-Jun-12	Common Sizing 2007	2008	2009	2010	2011	30-Jun-12	Industry Averages
Revenues, net of commissions & assessments	$ 649,569,584	$ 687,710,262	$ 704,558,249	$ 750,185,413	$ 814,875,690	$ 867,242,391	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Claims incurred	564,187,297	608,080,135	640,084,909	682,899,384	744,091,080	799,249,625	86.9%	88.4%	90.8%	91.0%	91.3%	92.2%	
Underwriting gross margin	85,382,287	79,630,127	64,473,340	67,286,029	70,784,610	67,992,766	13.1%	11.6%	9.2%	9.0%	8.7%	7.8%	
Total Operating expenses	82,125,009	80,940,458	81,497,976	81,758,811	74,911,501	77,418,898	12.6%	11.8%	11.6%	10.9%	9.2%	8.9%	
Total Administrative expense reimbursement	(8,914,190)	(10,614,799)	(9,051,423)	(15,429,467)	(9,361,694)	(9,495,799)	-1.4%	-1.5%	-1.3%	-2.1%	-1.1%	-1.1%	
Net operating expenses	73,210,819	70,325,659	72,446,553	66,329,344	65,549,807	67,923,099	11.3%	10.2%	10.3%	8.8%	8.0%	7.8%	
Change in premium deficiency reserves	-	-	1,025,000	(1,025,000)	-	-	0.0%	0.0%	0.1%	-0.1%	0.0%	0.0%	
Cost containment	-	8,152,956	6,651,336	5,598,867	5,816,723	6,860,906	0.0%	1.2%	0.9%	0.7%	0.7%	0.8%	
Total Operating expenses, net	73,210,819	78,478,615	80,122,889	70,903,211	71,366,530	74,784,005	11.3%	11.4%	11.4%	9.5%	8.8%	8.6%	
Net Underwriting Profit / (Loss)	12,171,468	1,151,512	(15,649,549)	(3,617,182)	(581,920)	(6,791,239)	1.9%	0.2%	-2.2%	-0.5%	-0.1%	-0.8%	5.5%
Investment income / (expense)													
Realized loss on sale of securities	1,916,608	(2,134,044)	(260,073)	(101,613)	(402,124)	(2,144,921)	0.3%	-0.3%	0.0%	0.0%	0.0%	-0.2%	
Investment income	6,916,313	6,388,544	4,995,460	5,051,743	5,337,940	5,303,145	1.1%	0.9%	0.7%	0.7%	0.7%	0.6%	
Other investment expense	(879,687)	(1,270,205)	(1,485,040)	(1,456,294)	(1,657,025)	(568,513)	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	
Total investment income / expense)	7,953,234	2,984,295	3,250,347	3,493,836	3,278,791	2,589,711	1.2%	0.4%	0.5%	0.5%	0.4%	0.3%	
Investment income / (loss), subsidiaries & affiliates													
Subsidiary operating income	9,314,093	3,568,112	4,425,381	5,186,433	4,192,061	3,477,734	1.4%	0.5%	0.6%	0.7%	0.5%	0.4%	
Distribution from joint venture partners	445,648	53,826	6,460	-	-	(295,787)	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other investment loss	(136,395)	(111,771)	(98,810)	(53,764)	-	75,509	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net investment income, subsidiaries and affiliates	9,623,346	3,510,167	4,333,031	5,132,669	4,192,061	3,257,456	1.5%	0.5%	0.6%	0.7%	0.5%	0.4%	
Total investment income, net	17,576,580	6,494,462	7,583,378	8,626,505	7,470,852	5,847,166	2.7%	0.9%	1.1%	1.1%	0.9%	0.7%	
Other income / (expense)	(4,918,892)	(490,505)	624,931	557,878	689,276	-	-0.8%	-0.1%	0.1%	0.1%	0.1%	0.0%	-2.1%
Net Income, before income taxes	$ 24,829,156	$ 7,155,469	$ (7,441,240)	$ 5,567,201	$ 7,578,208	$ (944,073)	3.8%	1.0%	-1.1%	0.7%	0.9%	-0.1%	3.3%

[1] Industry averages obtained from RMA Financial Statement studies for NAICS 524114 (Health and Medical Insurance) reveal profit margins for BCBSMT reflect firms reporting within the bottom 10th %-tile of the industry;

Exhibit 3A

Normalized (GAAP Basis) **Balance Sheets**

	Audit	Audit	Audit	Audit	Audit	TTM	Common Sizing						Industry
	2007	2008	2009	2010	2011	30-Jun-12	2008	2009	2009	2010	2011	30-Jun-12	Average
Assets													
Current Assets													
Cash and short-term investments	$ 27,875,316	$ 15,624,470	$ 10,953,958	$ 20,185,219	$ 14,506,339	$ 7,366,474	10.1%	6.0%	4.2%	7.2%	4.9%	2.1%	34.6%
Receivables													
Health care & other receivables	32,052,119	42,367,613	34,891,418	38,387,226	42,078,457	45,079,450	11.6%	16.3%	13.4%	13.7%	14.3%	12.8%	15.0%
Investment income accrued	1,262,006	1,020,702	941,446	913,870	898,429	895,100	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	
Amounts due from subsidiaries and affiliates	3,461,105	2,590,788	2,168,892	2,854,901	3,123,492	3,769,861	1.3%	1.0%	0.8%	1.0%	1.1%	1.1%	
Notes receivable, current portion	13,349	28,084	13,793	-	-	22,141	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Income tax receivable & deferred taxes	100,214	1,211,459	2,220,327	4,079,396	6,352,897	8,659,190	0.0%	0.5%	0.9%	1.5%	2.2%	2.4%	
Medicare subsidies receivable	2,773,370	1,534,720	402,772	-	741,483	-	1.0%	0.6%	0.2%	0.0%	0.3%	0.0%	
Amount due from managed companies	717,542	-	1,701,995	1,344,261	2,001,030	-	0.3%	0.0%	0.7%	0.5%	0.7%	0.0%	
Prepaid Expenses	2,696,742	5,243,532	4,488,853	4,697,136	3,863,104	3,512,167	1.0%	2.0%	1.7%	1.7%	1.3%	1.0%	
Total Current Assets	70,951,763	69,621,368	57,783,454	72,462,009	73,565,231	69,304,383	25.8%	26.7%	22.2%	25.9%	25.0%	19.6%	55.7%
Investments & Other Assets													
Bonds	79,166,409	71,074,605	68,863,403	69,327,796	74,164,463	81,245,581	28.7%	27.3%	26.4%	24.8%	25.2%	23.0%	
Common Stock	38,816,582	26,626,872	32,323,856	35,124,313	35,058,805	60,101,212	14.1%	10.2%	12.4%	12.6%	11.9%	17.0%	
Closely Held Investments	-	-	-	1,131,755	1,131,755	3,413,780	0.0%	0.0%	0.0%	0.4%	0.4%	1.0%	
Annuities	12,918,398	14,633,724	13,971,753	13,427,711	12,793,734	12,482,300	4.7%	5.6%	5.4%	4.8%	4.3%	3.5%	
Cash Value of Life Insurance	11,142,165	12,785,614	16,216,591	17,026,023	17,854,423	15,220,862	4.0%	4.9%	6.2%	6.1%	6.1%	4.3%	
Subsidiaries	44,102,193	36,597,838	41,032,171	45,678,233	47,254,223	59,763,174	16.0%	14.0%	15.7%	16.3%	16.0%	16.9%	
Intangible Assets, Net	-	-	-	-	-	23,003,051	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%	
Deferred Income Taxes	549,679	4,720,000	3,792,000	4,170,000	9,495,000	-	0.2%	1.8%	1.5%	1.5%	3.2%	0.0%	
Total Investments & Other Assets	186,695,426	166,438,653	176,199,774	185,885,831	197,752,403	255,229,961	67.8%	63.9%	67.6%	66.5%	67.2%	72.2%	38.0%
Notes Receivable, less current portion	13,500	164,493	10,137	262,688	70,833	-	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%	
Fixed Assets													
Land	1,556,799	1,556,799	1,556,799	1,556,799	1,556,799	4,657,182	0.6%	0.6%	0.6%	0.6%	0.5%	1.3%	
Buildings and Improvements	13,570,006	13,590,496	15,884,397	15,884,397	15,911,909	19,471,478	4.9%	5.2%	6.1%	5.7%	5.4%	5.5%	
Furniture & Equipment	9,049,956	9,206,680	11,129,386	11,153,137	12,066,310	12,066,310	3.3%	3.5%	4.3%	4.0%	4.1%	3.4%	
Automobiles	249,493	313,331	313,303	289,194	367,156	367,156	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Software	31,113,084	34,982,441	41,696,649	42,490,746	44,391,303	44,391,303	11.3%	13.4%	16.0%	15.2%	15.1%	12.6%	
Projects in Progress	2,565,318	7,868,330	3,075,336	1,598,531	3,754,239	3,754,239	0.9%	3.0%	1.2%	0.6%	1.3%	1.1%	
Total Fixed Assets	58,104,656	67,518,077	73,655,870	72,972,804	78,047,716	84,707,668	21.1%	25.9%	28.3%	26.1%	26.5%	24.0%	
Accumulated Depreciation	(40,264,056)	(43,101,669)	(46,990,872)	(51,873,797)	(54,958,343)	(55,787,796)	-14.6%	-16.5%	-18.0%	-18.5%	-18.7%	-15.8%	
Net Fixed Assets	17,840,600	24,416,408	26,664,998	21,099,007	23,089,373	28,919,872	6.5%	9.4%	10.2%	7.5%	7.8%	8.2%	6.3%
Total Assets	$ 275,501,289	$ 260,640,922	$ 260,658,363	$ 279,709,535	$ 294,477,840	$ 353,454,216	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Industry averages were obtained from RMA Financial Statement studies for NAICS 524114 (Health and Medical Insurance) and from BVR First Research (Health Insurance carriers) Over $50M;

Exhibit 3B

Normalized (GAAP Basis) **Balance Sheets**

	Audit 2007	Audit 2008	Audit 2009	Audit 2010	Audit 2011	TTM 30-Jun-12	Common Sizing 2008	2009	2009	2010	2011	30-Jun-12	Industry Average
Liabilities & Capital													
Current													
Unpaid claims (including adjustment expenses)	$ 52,358,160	$ 55,088,766	$ 51,079,927	$ 57,181,944	$ 61,711,466	$ 58,027,742	19.0%	21.1%	19.6%	20.4%	21.0%	16.4%	
Rate stabilization and case & claim reserves	5,177,822	3,502,319	1,952,853	4,007,691	1,916,553	1,374,656	1.9%	1.3%	0.7%	1.4%	0.7%	0.4%	
Premiums received in advance	15,839,571	11,028,748	12,772,952	17,801,240	16,430,994	18,755,103	5.7%	4.2%	4.9%	6.4%	5.6%	5.3%	
Health care and other claims liabilities	4,624,712	7,293,548	6,726,565	6,291,220	10,053,399	16,145,685	1.7%	2.8%	2.6%	2.2%	3.4%	4.6%	
Checks issued but not presented for payment	5,155,867	4,252,257	3,902,009	230,231	3,431,712	792,886	1.9%	1.6%	1.5%	0.1%	1.2%	0.2%	
Accounts payable	11,865,023	11,503,800	9,913,403	8,929,172	8,931,878	726,965	4.3%	4.4%	3.8%	3.2%	3.0%	0.2%	22.4%
Accrued general expenses	8,950,890	5,633,471	6,254,137	8,193,068	7,240,640	1,567,895	3.2%	2.2%	2.4%	2.9%	2.5%	0.4%	
Pension liabilities, current portion	3,927,869	4,318,215	3,544,404	5,647,698	2,000,816	-	1.4%	1.7%	1.4%	2.0%	0.7%	0.0%	
Payables to affiliates	623,096	369,828	355,103	561,006	535,666	-	0.2%	0.1%	0.1%	0.2%	0.2%	0.0%	
Due to managed companies	36,482	281,196	-	-	-	-	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	
Premium deficiency reserves	-	-	1,025,000	-	-	-	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	
Medicare subsidies payable	-	-	-	897,677	-	-	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	
Loss contingency (lawsuit)	-	-	-	4,870,000	4,870,000	4,870,000	0.0%	0.0%	0.0%	1.7%	1.7%	1.4%	
Other current liabilities	3,320,861	1,726,050	7,749,006	2,848,252	3,518,231	8,583,698	1.2%	0.7%	3.0%	1.0%	1.2%	2.4%	
Total Current Liabilities	111,880,353	104,998,198	105,275,359	117,459,199	120,641,355	110,844,630	40.6%	40.3%	40.4%	42.0%	41.0%	31.4%	46.3%
Pension & other retiree obligations													
Defined benefit pension plan	8,258,655	18,588,006	14,863,013	15,624,477	19,385,912	26,100,000	3.0%	7.1%	5.7%	5.6%	6.6%	7.4%	
Non-qualified deferred compensation plans	20,017,151	21,040,215	20,904,151	21,923,842	24,357,541	26,197,304	7.3%	8.1%	8.0%	7.8%	8.3%	7.4%	
Accounts payable - deferred compensation	-	-	-	-	-	659,716	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	
Post retirement - life insurance	18,350	16,002	23,159	18,335	15,307	15,172	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Post Retirement - medical plan	534,679	370,684	410,882	459,399	531,966	547,966	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	
Defined contribution pension plan	117,374	231,882	306,025	297,535	320,059	223,123	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	
Net pension & post retirement liability	28,946,209	40,246,788	36,507,230	38,323,588	44,610,785	53,743,282	10.5%	15.4%	14.0%	13.7%	15.1%	15.2%	
Amounts included in current liabilities	(3,927,869)	(4,318,215)	(3,544,404)	(5,647,698)	(2,000,816)	-	-1.4%	-1.7%	-1.4%	-2.0%	-0.7%	0.0%	
Amounts included in pension and other retiree obligations	25,018,340	35,928,573	32,962,826	32,675,890	42,609,969	53,743,282	9.1%	13.8%	12.6%	11.7%	14.5%	15.2%	
Notes Payable	10,070,214	38,783	-	-	-	-	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	
Impairments	-	1,512,336	1,512,336	1,512,336	1,512,336	20,032,580	0.0%	0.6%	0.6%	0.5%	0.5%	5.7%	
Total Long-Term Liabilities	35,088,554	37,479,692	34,475,162	34,188,226	44,122,305	73,775,862	12.7%	14.4%	13.2%	12.2%	15.0%	20.9%	21.7%
Total Liabilities	146,968,907	142,477,890	139,750,521	151,647,425	164,763,660	184,620,492	53.3%	54.7%	53.6%	54.2%	56.0%	52.2%	
Surplus													
Unassigned Reserves	136,769,923	152,376,082	146,676,043	155,027,285	168,422,114	162,903,580	49.6%	58.5%	56.3%	55.4%	57.2%	46.1%	
Accumulated Other Comprehensive Loss	(8,237,541)	(34,213,050)	(25,768,201)	(26,965,175)	(38,707,934)	(35,305,553)	-3.0%	-13.1%	-9.9%	-9.6%	-13.1%	-10.0%	
Valuation Adjustments	-	-	-	-	-	41,235,697	0.0%	0.0%	0.0%	0.0%	0.0%	11.7%	
Total Surplus	128,532,382	118,163,032	120,907,842	128,062,110	129,714,180	168,833,724	46.7%	45.3%	46.4%	45.8%	44.0%	47.8%	32.0%
Total Liabilities & Surplus	$ 275,501,289	$ 260,640,922	$ 260,658,363	$ 279,709,535	$ 294,477,840	$ 353,454,216	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Industry averages were obtained from RMA Financial Statement studies for NAICS 524114 (Health and Medical Insurance) and from BVR First Research (Health Insurance carriers) Over $50M;

Exhibit 4

Normalized (GAAP Basis) **Income Statements**

	Audit 2007	Audit 2008	Audit 2009	Audit 2010	Audit 2011	TTM 30-Jun-12	Common Sizing 2007	2008	2009	2010	2011	30-Jun-12	Industry Averages
Revenues, net of commissions & assessments	$ 649,569,584	$ 687,710,262	$ 704,558,249	$ 750,185,413	$ 814,875,690	$ 867,242,391	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Claims incurred	(564,187,297)	(608,080,135)	(640,084,909)	(682,899,384)	(744,091,080)	(799,249,625)	-86.9%	-88.4%	-90.8%	-91.0%	-91.3%	-92.2%	
Underwriting gross margin	85,382,287	79,630,127	64,473,340	67,286,029	70,784,610	67,992,766	13.1%	11.6%	9.2%	9.0%	8.7%	7.8%	
Total Operating expenses	82,125,009	80,940,458	81,497,976	81,758,811	74,911,501	77,269,725	12.6%	11.8%	11.6%	10.9%	9.2%	8.9%	
Total Administrative expense reimbursement	(8,914,190)	(10,614,799)	(9,051,423)	(15,429,467)	(9,361,694)	(9,495,799)	-1.4%	-1.5%	-1.3%	-2.1%	-1.1%	-1.1%	
Net operating expenses	73,210,819	70,325,659	72,446,553	66,329,344	65,549,807	67,773,927	11.3%	10.2%	10.3%	8.8%	8.0%	7.8%	
Change in premium deficiency reserves	-	-	1,025,000	(1,025,000)	-	-	0.0%	0.0%	0.1%	-0.1%	0.0%	0.0%	
Cost containment	-	8,152,956	6,651,336	5,598,867	5,816,723	6,860,906	0.0%	1.2%	0.9%	0.7%	0.7%	0.8%	
Total Operating expenses, net	73,210,819	78,478,615	80,122,889	70,903,211	71,366,530	74,634,833	11.3%	11.4%	11.4%	9.5%	8.8%	8.6%	
Net Underwriting Profit / (Loss)	12,171,468	1,151,512	(15,649,549)	(3,617,182)	(581,920)	(6,642,067)	1.9%	0.2%	-2.2%	-0.5%	-0.1%	-0.8%	5.5%
Investment income / (expense)													
Realized loss on sale of securities	1,916,608	(2,134,044)	(260,073)	(101,613)	(402,124)	(2,144,921)	0.3%	-0.3%	0.0%	0.0%	0.0%	-0.2%	
Investment income	6,916,313	6,388,544	4,995,460	5,051,743	5,337,940	5,303,145	1.1%	0.9%	0.7%	0.7%	0.7%	0.6%	
Other investment expense	(879,687)	(1,270,205)	(1,485,040)	(1,456,294)	(1,657,025)	(568,513)	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	
Total investment income / 9expense)	7,953,234	2,984,295	3,250,347	3,493,836	3,278,791	2,589,711	1.2%	0.4%	0.5%	0.5%	0.4%	0.3%	
Investment income / (loss), subsidiaries & affiliates													
Subsidiary operating income	244,353	418,509	491,135	292,572	534,577	356,625	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	
Distribution from joint venture partners	-	-	-	-	-	-							
Other investment loss	-	-	-	-	-	-							
Net investment income, subsidiaries and affiliates	244,353	418,509	491,135	292,572	534,577	356,625	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	
Total investment income, net	8,197,587	3,402,804	3,741,482	3,786,408	3,813,368	2,946,336	1.3%	0.5%	0.5%	0.5%	0.5%	0.3%	
Other income / (expense)	(4,918,892)	(490,505)	624,931	557,878	689,276	-	-0.8%	-0.1%	0.1%	0.1%	0.1%	0.0%	-2.1%
Net Income, before income taxes	$ 15,450,163	$ 4,063,811	$ (11,283,136)	$ 727,104	$ 3,920,724	$ (3,695,731)	2.4%	0.6%	-1.6%	0.1%	0.5%	-0.4%	3.3%

Exhibit 5

Public Company relationships with EBIT and MVIC

COMPANY	TTM EBIT	EBIT 2009	EBIT 2010	EBIT 2011	EBIT 3 yr Average	EBIT CAGR	MVIC	MVIC / EBIT TTM	MVIC / EBIT MEAN
WellPoint, Inc.	4,334,100	7,850,400	4,772,700	4,388,200	5,670,433	-25.2%	31,893,808,000	7.36	5.62
Coventry Health Care, Inc.	1,023,147	589,429	766,952	957,163	771,181	27.4%	7,804,881,030	7.63	10.12
UnitedHealth Group Incorporated	8,687,000	6,359,000	7,864,000	8,464,000	7,562,333	15.4%	73,106,000,000	8.42	9.67
Cigna Corporation	1,936,000	1,898,000	1,870,000	1,968,000	1,912,000	1.8%	21,315,000,000	11.01	11.15
Aetna, Inc.	3,081,300	2,144,600	2,898,800	3,324,700	2,789,367	24.5%	17,218,748,000	5.59	6.17
American Independence Corp.	5,096	4,638	4,073	4,491	4,401	-1.6%	41,361,660	8.12	9.40
AFLAC, Inc.	4,122,000	2,307,000	3,734,000	3,188,000	3,076,333	17.6%	23,725,292,830	5.76	7.71
CNO Financial Group, Inc.	547,300	291,500	406,700	493,300	397,167	30.1%	4,291,505,990	7.84	10.81
Unum Group	342,700	1,417,700	1,473,100	400,500	1,097,100	-46.8%	9,885,541,112	28.85	9.01
Humana, Inc.	2,072,000	1,708,000	1,854,000	2,344,000	1,968,667	17.1%	18,255,396,480	8.81	9.27
Health Net, Inc.	200,689	15,648	365,745	211,146	197,513	267.3%	2,869,237,140	14.30	14.53
Mean						29.8%		10.33	9.41
Median						17.1%		8.12	9.40
Standard Deviation								6.60	2.44
Coefficient of Variation								0.64	0.26

Exhibit 6

Public Company relationships with EBITDA and MVIC

COMPANY	TTM EBITDA	EBITDA 2009	EBITDA 2010	EBITDA 2011	EBITDA 3 yr Ave.	EBITDA CAGR	MVIC	MVIC / EBITDA TTM	MVIC / EBITDA MEAN
WellPoint, Inc.	5,002,600	8,403,900	5,373,500	5,025,400	6,267,600	-22.7%	31,893,808,000	6.38	5.09
Coventry Health Care, Inc.	1,211,370	788,291	948,169	1,134,558	957,006	20.0%	7,804,881,030	6.44	8.16
UnitedHealth Group Incorporated	9,893,000	7,350,000	8,928,000	9,588,000	8,622,000	14.2%	73,106,000,000	7.39	8.48
Cigna Corporation	2,425,000	2,166,000	2,162,000	2,313,000	2,213,667	3.3%	21,315,000,000	8.79	9.63
Aetna, Inc.	3,542,200	2,493,600	3,314,300	3,773,800	3,193,900	23.0%	17,218,748,000	4.86	5.39
American Independence Corp.	5,610	5,480	4,934	5,346	5,253	-1.2%	41,361,660	7.37	7.87
AFLAC, Inc.	4,122,000	2,307,000	3,734,000	3,188,000	3,076,333	17.6%	23,725,292,830	5.76	7.71
CNO Financial Group, Inc.	547,300	291,500	406,700	493,300	397,167	30.1%	4,291,505,990	7.84	10.81
Unum Group	425,300	1,492,200	1,548,500	481,600	1,174,100	-43.2%	9,885,541,112	23.24	8.42
Humana, Inc.	2,384,000	1,958,000	2,117,000	2,647,000	2,240,667	16.3%	18,255,396,480	7.66	8.15
Health Net, Inc.	279,475	68,690	400,545	243,355	237,530	88.2%	2,869,237,140	10.27	12.08
Mean						13.2%		8.73	8.34
Median						16.3%		7.39	8.16
Standard Deviation								5.03	2.04
Coefficient of Variation								0.58	0.24

Exhibit 7

Public Company relationships with DFNI and MVIC

COMPANY	TTM DFNI	DFNI 2009	DFNI 2010	DFNI 2011	DFNI 3 yr. Ave.	CAGR	MVIC	MVIC / DFNI TTM	MVIC / DFNI MEAN
WellPoint, Inc.	2,812,063	5,032,718	3,164,882	2,934,447	3,710,682	-23.6%	31,893,808,000	11.34	8.60
Coventry Health Care, Inc.	703,443	368,379	489,994	605,803	488,058	28.2%	7,804,881,030	11.10	15.99
UnitedHealth Group Incorporated	5,622,259	4,184,590	4,935,904	5,468,261	4,862,918	14.3%	73,106,000,000	13.00	15.03
Cigna Corporation	1,273,000	1,302,000	1,345,000	1,327,000	1,324,667	1.0%	21,315,000,000	16.74	16.09
Aetna, Inc.	1,988,412	1,439,923	1,936,918	2,144,992	1,840,611	22.1%	17,218,748,000	8.66	9.35
American Independence Corp.	3,551	3,166	2,982	3,184	3,111	0.3%	41,361,660	11.65	13.30
AFLAC, Inc.	2,715,932	1,545,226	2,441,421	2,092,658	2,026,435	16.4%	23,725,292,830	8.74	11.71
CNO Financial Group, Inc.	524,212	203,600	397,800	496,600	366,000	56.2%	4,291,505,990	8.19	11.73
Unum Group	355,500	935,333	980,481	378,700	764,838	-36.4%	9,885,541,112	27.81	12.93
Humana, Inc.	1,315,288	1,108,814	1,164,978	1,488,204	1,253,999	15.9%	18,255,396,480	13.88	14.56
Health Net, Inc.	130,542	30,382	225,774	85,073	113,743	67.3%	2,869,237,140	21.98	25.23
						14.7%			
Mean						15.9%		13.92	14.05
Median								11.65	13.30
Standard Deviation								6.11	4.46
Coefficient of Variation								0.44	0.32

Exhibit 8

Public Company relationships with DFCF and MVIC

	TTM	DFCF						MVIC / DFCF	
COMPANY	DFCF	2009	2010	2011	3 yr. Average	CAGR	MVIC	TTM	MEAN
WellPoint, Inc.	3,480,563	5,586,218	3,765,682	3,571,647	4,307,849	-20.0%	31,893,808,000	9.16	7.40
Coventry Health Care, Inc.	891,666	567,241	671,211	783,198	673,883	17.5%	7,804,881,030	8.75	11.58
UnitedHealth Group Incorporated	6,828,259	5,175,590	5,999,904	6,592,261	5,922,585	12.9%	73,106,000,000	10.71	12.34
Cigna Corporation	1,762,000	1,570,000	1,637,000	1,672,000	1,626,333	3.2%	21,315,000,000	12.10	13.11
Aetna, Inc.	2,449,312	1,788,923	2,352,418	2,594,092	2,245,145	20.4%	17,218,748,000	7.03	7.67
American Independence Corp.	4,065	4,008	3,843	4,039	3,963	0.4%	41,361,660	10.18	10.44
AFLAC, Inc.	2,715,932	1,545,226	2,441,421	2,092,658	2,026,435	16.4%	23,725,292,830	8.74	11.71
CNO Financial Group, Inc.	524,212	203,600	397,800	496,600	366,000	56.2%	4,291,505,990	8.19	11.73
Unum Group	438,100	1,009,833	1,055,881	459,800	841,838	-32.5%	9,885,541,112	22.56	11.74
Humana, Inc.	1,627,288	1,358,814	1,427,978	1,791,204	1,525,999	14.8%	18,255,396,480	11.22	11.96
Health Net, Inc.	209,328	83,424	260,574	117,282	153,760	18.6%	2,869,237,140	13.71	18.66
Mean						9.8%		11.12	11.67
Median						14.8%		10.18	11.73
Standard Deviation								4.24	2.95
Coefficient of Variation								0.38	0.25

Exhibit 9

Public Company relationships with Revenue and MVIC

COMPANY	TTM REVENUES	REVENUES 2009	2010	2011	3 yr. Average	CAGR	MVIC	MVIC / REVENUES TTM	MEAN
WellPoint, Inc.	61,538,200	64,939,500	58,698,500	60,710,700	61,449,567	-3.3%	31,893,808,000	0.52	0.52
Coventry Health Care, Inc.	13,314,462	13,903,526	11,587,916	12,186,683	12,559,375	-6.4%	7,804,881,030	0.59	0.62
UnitedHealth Group Incorporated	105,743,000	87,138,000	94,155,000	101,862,000	94,385,000	8.1%	73,106,000,000	0.69	0.77
Cigna Corporation	25,325,000	18,414,000	21,253,000	21,998,000	20,555,000	9.3%	21,315,000,000	0.84	1.04
Aetna, Inc.	34,798,500	34,764,100	34,246,000	33,779,800	34,263,300	-1.4%	17,218,748,000	0.49	0.50
American Independence Corp.	90,055	104,247	89,404	88,038	93,896	-8.1%	41,361,660	0.46	0.44
AFLAC, Inc.	24,109,000	18,254,000	20,732,000	22,171,000	20,385,667	10.2%	23,725,292,830	0.98	1.16
CNO Financial Group, Inc.	4,232,300	4,341,400	4,083,900	4,124,600	4,183,300	-2.5%	4,291,505,990	1.01	1.03
Unum Group	10,379,600	10,091,000	10,193,200	10,278,000	10,187,400	0.9%	9,885,541,112	0.95	0.97
Humana, Inc.	38,275,000	30,743,000	33,596,000	36,832,000	33,723,667	9.5%	18,255,396,480	0.48	0.54
Health Net, Inc.	11,557,252	15,713,241	13,619,852	11,901,036	13,744,710	-13.0%	2,869,237,140	0.25	0.21
Mean						0.3%		0.66	0.71
Median						0.9%		0.69	0.77
Standard Deviation								0.28	0.33
Coefficient of Variation								0.42	0.47

Exhibit 10

Public Company Revenue Performance Ratios

	TTM RETURN ON REVENUES				AVERAGE RETURN ON REVENUES			
COMPANY	EBIT	EBITDA	DFNI	DFCF	EBIT	EBITDA	DFNI	DFCF
WellPoint, Inc.	7.0%	8.1%	4.6%	5.7%	9%	10%	6%	7%
Coventry Health Care, Inc.	7.7%	9.1%	5.3%	6.7%	6%	8%	4%	5%
UnitedHealth Group Incorporated	8.2%	9.4%	5.3%	6.5%	8%	9%	5%	6%
Cigna Corporation	7.6%	9.6%	5.0%	7.0%	9%	11%	6%	8%
Aetna, Inc.	8.9%	10.2%	5.7%	7.0%	8%	9%	5%	7%
American Independence Corp.	5.7%	6.2%	3.9%	4.5%	5%	6%	3%	4%
AFLAC, Inc.	17.1%	17.1%	11.3%	11.3%	15%	15%	10%	10%
CNO Financial Group, Inc.	12.9%	12.9%	12.4%	12.4%	9%	9%	9%	9%
Unum Group	3.3%	4.1%	3.4%	4.2%	11%	12%	8%	8%
Humana, Inc.	5.4%	6.2%	3.4%	4.3%	6%	7%	4%	5%
Health Net, Inc.	1.7%	2.4%	1.1%	1.8%	1%	2%	1%	1%
Mean	7.8%	8.7%	5.6%	6.5%	8.0%	8.8%	5.5%	6.4%
Median	7.6%	9.1%	5.0%	6.5%	8.1%	9.3%	5.4%	6.6%
Standard Deviation	4.3%	4.1%	3.3%	3.1%	3.5%	3.5%	2.6%	2.5%
Coefficient of Variation	0.55	0.47	0.60	0.48	0.44	0.39	0.47	0.39