Fair Market Valuation

In accordance with the Uniform Standards of Professional Appraisal Practice

Health-E-Web, Inc.

2525 Colonial Drive, Suite A, Helena, MT 59601

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

MDS
MEDICAL DEVELOPMENT SPECIALISTS
consulting

24596 Hawthorne Boulevard
Torrance, CA 90505
P: 424 237-2525 F: 424 247-8248
www.mdsconsulting.com

TABLE OF CONTENTS

24596 Hawthorne Boulevard,
Torrance, CA 90505
P: 424.237.2525 ■ F: 424.247.8248
www.mdsconsulting.com

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 tangible and intangible assets of a healthcare transaction clearinghouse.

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 assets of *Health-E-Web, Inc.* ("HeW"), a wholly owned subsidiary of Blue Cross Blue Shield of Montana, Inc., 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 HeW. 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 *Health-E-Web, Inc.* as of June 30, 2012 was defined within the following range:

	Low Range	Reconciliation	High Range
Indications	$ 4,045,359	$ 4,285,972	$ 4,561,144
Rounded	$ 4,050,000	$ 4,290,000	$ 4,560,000

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

Cash and short-term investments	$	810,928	
Receivables		680,202	
Prepaid Expenses		133,043	
Deferred Income Taxes		57,850	
Automobile		12,411	
Telephones & Systems		18,486	
Computer HW / SW		224,070	
Leasehold Improvements		334,526	
Office Furnishings		8,375	
Office Equipment		6,778	
Other Assets		219,412	
Deferred Income Taxes		12,320	
Purchased Goodwill & Other Intangibles		1,147,889	
Assembled Workforce - Staff (cost savings)		239,204	
Assembled Workforce - Management (cost savings)		314,110	Residual Goodwill $ 1,242,598 effective 06/30/12
Clients conrtracts and other inferred intangible value		689,284	
Trade Accounts Payable		(28,630)	
Income Taxes Payable		(359,351)	
Accrued Expenses		(234,935)	
Estimated Net Asset Value	$	4,285,972	
Rounded Estimate of Fair Market Value	$	4,290,000	

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. HeW is a wholly-owned subsidiary of BCBSMT offering distinct but complementary services. Any proposed 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 while 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 (5^{th}) 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:

Weighting for the modified Altman Z - Score Bankruptcy Model is:

Z = 6.56T1 + 3.26T2 + 6.72T3 + 1.054

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 that could result in re-organization or liquidation within the next 24 months. *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 Altman Z 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 resulting modified ‘Z-score” as of the Date of Value for HeW approximates 5.6 which exceeds the *Safe-Zone* parameter further suggesting that a liquidation measurement of HeW is not warranted as of this date of value. It is noteworthy that Industry sources indicate an average Z Score of 4.0 for Closely Held Companies within this Industrial Classification.

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 transaction clearinghouse:

- financial information and other operational data were examined,
- a site visit of the parent organization (BCBSMT) was performed on Tuesday and Wednesday, January 15-16, 2012, and
- key management were interviewed, including:
    - Mark Burzynski, Chairman
    - Michael E. Frank, Vice-Chairman,
    - Bob Janicek, President & CEO,
    - Lynn Etchart, Treasurer,
    - Mary Belcher, Secretary,
    - Other HeW management.

To understand the competitive environment of this healthcare business:

- national and regional trends in Third-Party Administrators & Insurance Claims Adjusting 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 TPA and Revenue Cycle Management practices were analyzed.

Indications of value from the *Income, Cost (Asset-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 HeW;
- Phone conversations and email communications with various management and supervisory personnel of HeW;

Company data

- Audited Financial Statements of Combined Benefits Managements, Inc. ("CBMI") on a GAAP basis of accounting, 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;
- Lease agreements for property located in Helena, MT and Mesa, AZ;
- Asset Register for HeW with run date of August 20, 2012;
- Listing of HeW Salaried (FT and PT) personnel including job classifications, dates of hire and base salaries effective June 30, 2012;
- 2013 HeW Business Plan, adopted December 4, 2012;
- Other financial and operational information.

Public data

- Chase / JP Morgan, Regional Perspectives: Montana Economic Outlook, November 30, 2012;
- IBISWorld Industry Report 52429 – Third-Party Administrators & Insurance Claims Adjuster in the US, September 2012;
- RMA Annual Statement Studies™ 2012-2013, NAICS 524292**;
- 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;
- 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
- Associated Third Party Administrators, "*Industry Overview*", 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 *Health-E-Web, 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 HeW management on Tuesday and Wednesday, January 15-16, 2012.

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 member analysts.

Respectfully,

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

SUMMARY OF VALUES

ASSET BLOCK	SOURCE OF ASSET BLOCK	METHODOLOGY		ESTIMATED FAIR VALUE (rounded)	PRELIMINARY LIFE (to be discussed)
NET TANGIBLE ASSETS	Estimated replacement value	Asset-based (Cost) Approach (Value-In-Use)			
- Cash and short-term investments			$ 810,928		
- Receivables			680,202		
- Prepaid Expenses			133,043		
- Deferred Income Taxes			57,850		
- Automobile			12,411		
- Telephones & Systems			18,486		
- Computer HW / SW			224,070		
- Leasehold Improvements			334,526		
- Office Furnishings			8,375		
- Office Equipment			6,778		
- Other Assets			224,070		
- Deferred Income Taxes			12,320		
- Purchased Goodwill & Other Intangibles			1,147,889		
- Trade Accounts Payable			(28,630)		
- Income Taxes Payable			(359,351)		
- Accrued Expenses			(234,935)		
				$ 3,050,000	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)			
- Professional & Administrative Personnel			$ 239,204		
- Senior Management			314,110		(NCA = ~ 3years)
				$ 550,000	Not Applicable
CLIENT CONTRACTS, COMMUNITY PRESENCE AND OTHER RESIDUAL INTANGIBLE VALUE	An estimate of value associated with client contracts and the general presence in the community as well as other intangible asset value not yet identified as separate through this valuation engagement.	Income Approach (Multiperiod Excess Earnings)		$ 690,000	5 years
Rounded Indications of Tangible and Intangible Asset Value				**$ 4,290,000**	

VALUATION METRICS

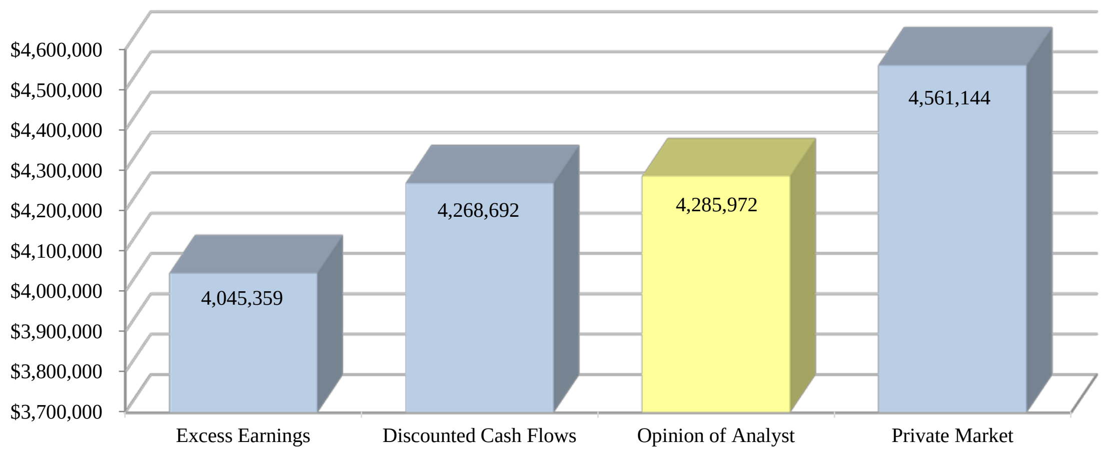
	31-Dec-09	31-Dec-10	31-Dec-11	TTM 30-Jun-12	Weighted Average
Revenues	$ 2,675,725	$ 3,857,422	$ 4,429,417	$ 4,410,544	$ 4,132,100
EBITDA	$ 651,307	$ 774,476	$ 950,337	$ 652,472	$ 766,116

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

	TTM 30-Jun-12	Weighted Average
Revenues, net	0.97	1.04
EBITDA	6.57	5.59

Based on blended financial detail.

INDICATIONS OF FAIR MARKET VALUE



The Range of Fair Market Value is defined within the Indications of Value achieved through each of the valuation methods discussed in this report.

BUSINESS OVERVIEW

Description and History

Health-e-Web provides clearinghouse solutions to support the electronic data interchange needs of healthcare providers, institutions, insurance carriers and employers. The Company began in 1986 in support of their parent organization Blue Cross and Blue Shield of Montana, Inc. and Medicare but HeW has since blossomed into a national competitor, with expanded service offerings to include a full suite of Revenue Cycle Management solutions and clearinghouse connections with over 2,000 Health Insurance Carriers across the country. The HeW strategy is to build long-term business relationships with their clients working together to meet the ever changing environment of the healthcare industry.

To offer increased assurance to their business partners, HeW has successfully completed the EHNAC Healthcare Network Accreditation Program (HNAP). This accreditation indicates that HeW exceeds industry-established standards associated with health data processing and healthcare transactions and thereby complies with HIPAA regulation in areas such as privacy and confidentially measures, level-of-service and escalation proceeds, transaction response times and systems availability.

Services

Healthcare providers use HeW to achieve improved revenue cycle management through payment assurance, claims management, performance analytics and through the arrangement of unique pricing arrangements for healthcare circumstances. HeW also offers clearinghouse advantages to health insurance carriers (payers) through the consolidation of electronic transactions with a single point of receipt and distribution allowing for increased volume efficiency, consistent editing and transaction processing, streamlining processes and reducing administrative costs through the process. In addition to a host of other advantages, HeW also offers client training through their partnerships. HeW currently has connectivity with over 1,400 national payers.

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

	[1] Audit 2007	Audit 2008	Audit 2009	[2] Audit 2010	Audit 2011	[3] TTM 30-Jun-12	Projected 31-Dec-12	[4] 2010-2011	TTM 2010-2012	Projected 2010-2012
Gross Revenues	$ 2,185,392	$ 2,532,820	$ 2,675,725	$ 3,857,422	$ 4,429,417	$ 4,410,544	$ 4,424,000	14.8%	9.3%	7.1%

[1] Detail obtained from annual audited financial statements of Combined Benefits Management, Inc. (parent);

[2] Trailing twelve month and Projected detail were obtained from HeW internal accounting records;

[3] HeW acquired Electronic Translations and Transmittals Corporation ("ETTC"), Mesa, AZ in 2010 accounting for the unusual jump in earnings during 2010;

[4] Compounded rate of growth during varying segments of time since acquisition of ETTC in 2010.

This overview of gross earnings during the most recent five (5) years reflects an increasing trend (regardless of the 2010 acquisition of Electronics Translations and Transmittals Corporations), which augment historical growth patterns by approximately 10.7%. Future compounded growth rates appropriate to activities since the acquisition appear at the far right of the schedule for general comparison with industry averages. IBISWorld writes that annual growth in revenue for TPAs and insurance claims adjusters averaged 3.1% between 2007 and 2012 but future growth through 2017 is expected to jump to an average of 6.1% for industry competitors, which is a closer estimate of the growth rate already being achieved by HeW..

Key impacts of these trends from a valuation perspective affect the probabilities applied in financial projections and in estimating unsystematic risk (scheduled within the CAPM build up) used in the development of discount rates and capitalization

Fixed Asset Investment

HeW has invested approximately $899K in capital assets since 2006. The cost basis for these investments is scheduled below. As discussed within the Financial Analysis section, one of the more obvious normalizing adjustments (appropriate when acquisition is the purpose for the valuation), is to replace tax oriented (accelerated) depreciation with an economic-based allocation of these costs. Regardless of the depreciation applied over the useful lives of these assets, most capital investments retain a value-in-use which in this circumstance is estimated to closely approximate their economic balance.

Cost Basis and Year of Acquisition

ASSET	***COST***	***pre-2008***	***2008***	***2009***	***2010***	***2011***	***2012***
Automobile	$ 16,800	$ -	$ -	$ -	$ -	$ 16,800	$ -
Telephones & Systems	98,162	847	122	50,385	46,340	467	-
Computer HW / SW	386,611	358	525	9,991	170,064	92,149	113,526
Leasehold Improvements	366,659	90,933	-	275,727	-	-	-
Office Furnishings	19,543	13,393	455	4,020	-	1,340	335
Office Equipment	11,568	430	-	-	10,519	619	-
Total Tangible Assets	$ 899,344	$ 105,961	$ 1,102	$ 340,123	$ 226,923	$ 111,375	$ 113,861
		11.8%	0.1%	37.8%	25.2%	12.4%	12.7%

The average investment in capital assets (except leasehold improvements) since 2010 is approximating $150,000 per year.

Facility Leasehold

Health-E-Web, Inc. corporate headquarters is physically located in Suite A of the Class A office building (see below) at 2525 Colonial Drive, Helena, MT 59601. The facility is owned and managed by Colonial Professional Center, LLC.

The original lease is dated May 18, 2007 and includes Suite A at approximately 2,780 rentable square feet representing 15.4% of the total building space. The original lease rate was $11.50 /RSF per year on a triple-net ("NNN") basis. In June 2009 HeW added an additional 1,373 square feet at a reduced rate for a two year period resulting in a consolidated rate of $12.50 /RSF per year with 5% annual increases through May 2012. As of the date of value the annual lease rate was $13.79 /RSF per year for an annual lease expense of $57,546 before proportional costs for real estate taxes, insurance and common area maintenance.

In an effort to consider the appropriateness of the lease rate, The Office Market Trends Report published by Grubb & Ellis for 2012 was examined. Although Helena, MT is not included in their analysis, their Mountain States review specifies rates for Kalispell, MT., Bozeman, MT. and Boise, ID. The average annual asking rent for Class A leaseholds were $12.00 /RSF per year, $14.00 /RSF per year and $16.00 /RSF per year respectively. The Grubb & Ellis reports consider lease rates on a Full-Service-Gross ("FSG") Basis which is expected to include all costs of operations. Hence, the lease rate on a NNN basis is expected to be less. The lease rates paid by HeW are estimated to be at the high end of their market but still sufficiently reasonable to be considered fair.

As mentioned earlier in the report, HeW acquired Electronics Translations and Transmittals Corporation which was located in Mesa, AZ. Accordingly, HeW assumed their leasehold and is responsible for the existing agreement with ETT HIC, LLC for 6,875 rentable square feet represented by Suites 118 and 119 within a local business park as well as additional storage space, all located (see below) at 4838 E. Baseline Road, Mesa, AZ 85206.

Business Park entrance 4838 E. Baseline Road in Mesa, AZ

The copy of the agreement I received is not dated but is assumed to extend from 2010 (the Commencement Date) for a period of five (5) years at the original terms of $20.00 /RSF per year for the 6,035 RSF of the Suites and $10.00 /RSF for the 840 RSF of storage space on a triple net (NNN) basis. In addition to the base rent HeW is responsible for condo association fees, proportional taxes as levied, and reasonable insurance costs.

Similar to the review performed of the Helena, MT location, Grubb &Ellis 2012 Office Trends Report for the Phoenix, AZ area was examined. The report describes various “submarkets” in the area to include “Mesa Downtown” and “Mesa East”. Class A leaseholds are only identified in the Mesa East submarket where Grubb & Ellis reports the average asking rent on a full-service basis is $21.00 /RSF. A review of all submarkets in the Phoenix area indicated that FSG rates extended from $20.07 /RSF to $27.89 /RSF.

Based on this overview, it is estimated that the contracted lease rate for the Mesa, AZ leasehold is at the higher end of the Mesa, AZ submarket but below average for the general community at a FSG level. Hence, as a NNN rate, it seems to be a fair rate as of the Date of Value. No adjustment for lease expense has been included in the normalization adjustments within the Financial Analysis section of this report.

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 below summarizes the existing labor force with aggregated costs in place as of the date of measurement.

Job Classification	Annual Salary	FTE	Count	Primary Benefits
Executive	$ 335,000	2.0	2	$ 134,000
Management	318,507	4.0	4	127,403
Professional	745,524	13.0	13	298,208
Clerical	391,869	10.0	10	156,748
	$ 1,790,900	29.0	29	$ 716,359

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 and for the Mesa, AZ market. The schedule at right provides a general indication of market compensation levels in Montana.

This collective detail has been used following 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.

Occupation code	Occupation title	Employment RSE	Employment per 1000 jobs	Location quotient	Median hourly wage	Mean hourly wage	Annual mean wage	Mean wage RSE
11-1011	Chief Executives	12.8%	1.29	0.62	$ 44.70	$ 60.00	$ 124,800	0.08
11-1021	General and Operations Managers	9.6%	6.98	0.50	$ 34.31	$ 39.47	$ 82,110	0.04
11-2021	Marketing Managers	21.7%	0.50	0.38	$ 41.02	$ 43.04	$ 89,520	0.03
11-2022	Sales Managers	18.9%	0.52	0.20	$ 35.33	$ 37.41	$ 77,810	0.05
11-3011	Administrative Services Managers	27.8%	0.59	0.31	$ 25.89	$ 27.78	$ 57,790	0.04
11-3031	Financial Managers	34.2%	1.10	0.30	$ 40.31	$ 42.83	$ 89,090	0.05
11-9111	Medical and Health Services Managers	10.9%	1.25	0.56	$ 30.03	$ 31.99	$ 66,530	0.04
11-9199	Managers, All Other	21.2%	1.81	0.68	$ 30.58	$ 40.46	$ 84,160	0.19
13-0000	Business and Financial Operations Occupations	5.2%	30.53	0.63	$ 23.86	$ 27.09	$ 56,340	0.03
13-1031	Claims Adjusters, Examiners, and Investigators	14.0%	0.81	0.40	$ 20.25	$ 21.06	$ 43,810	0.09
15-1131	Computer Programmers	28.1%	1.82	0.73	$ 33.95	$ 37.22	$ 77,410	0.11
15-1142	Network and Computer Systems Administrators	9.5%	1.24	0.47	$ 26.08	$ 26.89	$ 55,920	0.03
15-1150	Computer Support Specialists	13.4%	3.57	0.72	$ 17.93	$ 18.96	$ 39,440	0.05
13-1031	Claims Adjusters, Examiners, and Investigators	14.0%	0.81	0.40	$ 20.25	$ 21.06	$ 43,810	0.09
13-1051	Cost Estimators	22.4%	2.13	1.45	$ 22.92	$ 26.04	$ 54,170	0.06
13-1078	Human Resources, Training, and Labor Relations Specialists, All Other	6.0%	3.04	0.89	$ 19.97	$ 22.25	$ 46,280	0.04
13-1111	Management Analysts	19.8%	1.15	0.27	$ 41.74	$ 47.35	$ 98,480	0.13
13-1199	Business Operations Specialists, All Other	15.2%	4.66	0.62	$ 23.42	$ 23.70	$ 49,300	0.05
15-1132	Software Developers, Applications	37.4%	0.80	0.19	$ 40.57	$ 47.21	$ 98,190	0.12
15-1142	Network and Computer Systems Administrators	9.5%	1.24	0.47	$ 26.08	$ 26.89	$ 55,920	0.03
15-1150	Computer Support Specialists	13.4%	3.57	0.72	$ 17.93	$ 18.96	$ 39,440	0.05
15-1179	Information Security Analysts, Web Developers, and Computer Network .	16.8%	1.41	0.66	$ 16.18	$ 20.48	$ 42,590	0.08

- Annual wages have been calculated by multiplying the hourly mean wage by a "year-round, full-time" hours figure of 2,080 hours; for those occupations where there is not an hourly mean wage published, the annual wage has been directly calculated from t
- The relative standard error (RSE) is a measure of the reliability of a survey statistic. The smaller the relative standard error, the more precise the estimate.
- The location quotient is the ratio of the area concentration of occupational employment to the national average concentration. A location quotient greater than one indicates the occupation has a higher share of employment than average, and a location

ECONOMIC OVERVIEW

UCLA Anderson Forecast

This academic projection is one of the most widely watched and often-cited economic outlooks for the nation and was unique in predicting both the seriousness of the early-1990s downturn in the western region of the United States and the strength of the region's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001.

The UCLA Anderson Forecast says that Gross Domestic Product (GDP) growth in the U.S. will remain tepid throughout the balance of 2012. In its third quarterly report of 2012, the Forecast expects to see 1.3% growth for the third quarter of this year and 1.5% growth in the fourth. In 2013, the outlook is for growth above 2%, but 2014 "could very well put the run rate of GDP growth in excess of 3%, as economic activity is buoyed by strength in residential and nonresidential construction and a rebound in export growth."

In California, the current forecast reflects the national forecast with continued, but slightly slower gains in employment through 2012, with faster-paced growth throughout the forecast period, which runs through 2014. This uptick in growth will result in a breakthrough to single-digit unemployment.

The National Forecast

In his September Forecast report, UCLA Anderson 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.

The Montana Forecast

The Montana State Department of Labor and Industry Research Analysis Bureau reported in September 2012 that Healthcare employment in the U.S. and in Montana has been vital in adding jobs to the economy over the last decade and helping to stabilize the Montana economy during the 2007-2010 recession. For example, the recent national September 2012 jobs report shows that 44,000 of the 114,000 jobs created were in healthcare, which amounts to approximately 40%. Since the continuing stability and growth in the healthcare industry is directly related to billing and claims processing as well as other health insurance and TPA services, this economic overview of healthcare in Montana is a good backdrop of future opportunities for HeW.

The healthcare industry plays a positive and integral role in the Montana State economy. Healthcare employment is the second-largest private employer in the state, with more than 59,000 jobs or 17% of private employment as of the end of 2011. Put differently, 1-in-6 jobs in Montana's private sector are in the healthcare industry. Furthermore, healthcare is the largest contributor to private wages in Montana, responsible for 20% of total private wages in 2011. The average wage per job in the healthcare industry is $39,000, about $3,500 more than the state average.

The healthcare industry is broken into four categories in the North American Industry Classification System (NAICS). These sectors include ambulatory health care, hospitals, nursing and residential care, and social assistance. Most healthcare jobs in Montana are in hospitals (20,536 in 2011) and ambulatory health services (14,517), while nursing and residential care facilities and social assistance split the remaining 20,000 jobs.

Healthcare employment has experienced significant and persistent growth throughout the last decade. From 2001-2011, healthcare employment increased by an average of about 1,100 jobs per year or over 30% of private annual average job growth. The coupling of large employment and a high growth rate results in health care adding more than 1,000 jobs to the Montana economy each year on average.

This large job growth in healthcare has been important to both the Montana and U.S. economies during the 2007 recession. Throughout the 2007 recession, healthcare was the only sector of the Montana economy to show continued employment gains, with 4,412 jobs added from 2007 to 2010. This continued growth helped to soften the impact of the recession on the state, while healthcare jobs offered opportunities to many out-of-work Montanans.

There are a number of reasons for this growth in Montana, beginning with the aging population. According to the 2010 Census, Montana was 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. Folks 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. Nationally, 25-35% of all healthcare expenditures are made by the 13% of the population that is 65 and older.

Montana's total population rose by almost 10% from 2000-2010, which also drove growth in healthcare employment. Healthcare is a service that everyone needs throughout their lives, so population growth means that more people will be demanding health care services. In fact, growth in the healthcare industry is more impacted by population growth than other consumer industries that depend on both population growth and income growth for increased demand. The consumption of other consumer goods, like retail goods or leisure services, can be cut back during bad economic times more easily than healthcare. However, when people get sick or injured, there are few replacements for seeking medical care without harming themselves further.

Advancements in technology are another reason for the strong employment growth in the healthcare industry. In most industries, technological advancements and mechanization reduce the need for labor. The opposite has been true in the health care industry, where technology has added to the quality and accuracy of care by allowing for more diagnostic tests, but has actually increased the demand for workers to conduct and analyze these tests. One of the reasons for this trend involves the push towards an electronic medical records system, which requires many trained workers in health informatics, healthcare billing and medical coding. Technology also increases growth because advancements in new diagnostic tests require many more medical laboratory technicians to analyze samples.

In addition to the workers needed to fill new jobs, workers also will be needed to fill positions left open by workers retiring from the healthcare industry. With 24% of the workforce over 55, healthcare ranks 6th out of 18 industries in the percent of their work- force approaching retirement age. There will be 13,945 workers nearing retirement age in the next ten years – the largest total quantity of any sector in the Montana economy. Because there is such a large pool of workers nearing retirement age, there will continue to be additional openings to replace retiring workers in health- care. Existing healthcare workers will also have the opportunity to move up the employment ladder more quickly than other industries, which will create more openings in entry level positions.

Montana has been experiencing shortages in the field of primary care providers and dentists for several years. In 2011, there were 12 Montana counties without a primary care physician, with more than 20,000 people living in a county with no primary care provider. In addition, Montana has experienced a shortage in the field of dentistry. In 2011, there were 521 actively practicing dentists in Montana with a projected demand of over 900 by 2018.

Contributing to these shortages are both Montana's rural nature and the lack of medical training schools within the state for physicians and dentists. While there are cost-effective options supported by the state that pay for students to attend out-of-state medical schools, slots for these programs are limited and other solutions exist.

Shortages in particular fields can also exist even when we are training enough future workers, but they leave the state for other employment opportunities. Efforts to retain those educated and trained in Montana can play a significant role in supplying enough graduates to meet demand. Further efforts to retain those educated in Montana would benefit the future of Montana’s healthcare industry and the economy as a whole. On the other hand, recruiting workers educated out-of- state by aggressively promoting the many unique amenities Montana has to offer could also help supply keep up with demand. To meet future needs, Montana must get more people interested in healthcare fields, expand training opportunities for future workers, and increase retention and recruitment efforts.

In Summary

The healthcare industry is one of Montana’s largest employers and has experienced continued growth over the last decade. This growth played an important role in stabilizing the state’s economy during the recent recession. Healthcare employment growth has been supported by the aging of Montana’s population and other factors. The retirement of the older healthcare workforce will create even more job openings in future years.

These two factors, coupled with technological advances in electronic medical record keeping and more diagnostic testing approaches, en- sure that the healthcare industry will provide robust job growth in Montana for years to come. While health- care has been a dominate growth industry, limitations in supplying enough trained workers exist as a result of some limited medical training facilities, particularly in the fields of primary care physicians and dentistry. Where these shortages exist, retention and recruitment can play a critical role in filling employment gaps.

INDUSTRY OVERVIEW

Overview

The US *Third-Party Administrators and Insurance Claims Adjusters* industry plays a critical role in the insurance and funds sectors by allowing businesses to outsource certain functions, such as claims processing and adjusting, policy and fund administration and risk management and actuarial services. According to *IBISWorld* research indicates that since 2001, industry growth has been driven by a steady increase in outsourcing activities within the insurance and pension fund sectors because operators have looked to cut costs to improve profitability. Additionally, operators have benefited from an increase in demand for risk management and other insurance advisory services.

Industry-operators develop underwriting techniques and models that properly price risk for insurers, while businesses and other organizations seek out industry-operators to mitigate liabilities and lower insurance costs. In the five (5) years leading up to 2012, industry revenue has increased at an average annual rate of 3.1%. By contrast HeW experienced growth approximating 10.7% from 2007 through 2009. Then in 2010 HeW acquired ETT (Mesa, AZ) and combined revenue growth remained strong but adjusted its annual acceleration to approximately 7.1% from 2010 through the date of value.

During the next five (5) years leading up to 2017, industry revenue is expected to increase at an average annual rate of 6.1%. Pension funds and direct insurers will continue to increase outsourcing activities, which will drive this expected growth increase. As the economy recovers, insurance policy volumes will rise particularly within the business sector; an increase in the number of policies leads to a rise in the need for claims adjustment services. Operators will also benefit from an increased demand for risk management services and data analytics because businesses, insurers and individuals use these services to mitigate risks and hedge liabilities.

Third-Party Administrators and Insurance Claims Adjusters rely on insurers and pension funds for business. IBISWorld estimates that during the next five (5) years, increased outsourcing activity by pension funds and direct insurers will continue to drive revenue growth. Industry revenue is projected to increase at an average annual rate of 6.1% by 2017, including a 5.4% jump in 2013. In the five (5) years to 2017, industry margins are expected to rise from about 7.7% in 2012 to 8.2% in 2017 as firms benefit from higher revenue from strong business volumes and lower costs.

As of the date of value HeW was averaging an operating profit margin of between 12% - 13% which is noticeably above the industry average. The unusual jump in 2013 is in association with the regulatory mandated increase in health insurance coverage beginning 2014 and the related rise in outsourcing relationships.

Industry participants are forecast to lower costs on a per-unit basis through increases in productivity and efficiency. Technology investments will drive productivity gains, and efficiencies will improve with economies of scale due to consolidation activity. The industry will also benefit from a rebound in the general economy; insurance policy volumes will rise, particularly with health insurance within the business sector.

Increased volumes (as anticipated in health insurance beginning in 2014) are essential because they generally lead to a rise in the need for claims adjustment services. Advisory and risk management services will also benefit from the bounce in the economy since businesses, insurers and individuals use these services to mitigate risks and hedge liabilities. As a result, the demand for these services is expected to grow at a faster pace than what has been experienced during the recent past.

In the five (5) years to 2017, industry employment is expected to increase at an average annual rate of 3.2%. In comparison, the number of enterprises is forecast to rise at an average annual rate of 7.1%. The majority of the growth in enterprises will be driven by non-employer firms, which will account for about 95.0% of the total by 2017. These figures are somewhat skewed because non-employer firms will only account for about 8.6% of total revenue in 2017. In contrast, employing firms, particularly those that provide third-party administration operations (similar to HeW), insurance advisory and risk management services, are expected to consolidate operations because they benefit from economies of scale. This has recently been demonstrated by HeW with the acquisition of ETT (discussed earlier) in Mesa, AZ during 2010. The expansion brought increased personnel and technological depth as well as an expanded geographic and demographic footprint. IBISWorld reports industry service growth to be concentrated in different geographic regions. The chart below suggests the regional propensity of increased services and includes the primary competitive base of HeW operations following their 2010 expansion. HeW is now expected to compete directly with for approximately 30% of industry consumers.

	Insurance and Pension Fund Services			
Geographic Region	Claims Adjusting	Third-Party Administration	Other Services	Total Industry
New England	6.2%	5.7%	5.9%	5.9%
Mid-Atlantic	15.8%	17.6%	21.6%	17.7%
Great Lakes	11.1%	15.3%	14.5%	13.5%
Plains	8.1%	7.6%	6.8%	7.6%
Southeast	29.9%	22.1%	24.0%	25.7%
Southwest	12.3%	11.6%	10.5%	11.7%
Rocky Mountains	3.5%	3.6%	4.6%	3.7%
West	13.2%	16.5%	12.2%	14.3%
Total	100.0%	100.0%	100.0%	100.0%
HeW Expansion	29.0%	31.7%	27.3%	29.7%

Generally, it is more important for the claims adjusting sector to be dispersed according to population and client trends because claims adjusters, appraisers, examiners and investigators act as the eyes and ears of the insurance company in determining policy claim damages and liability. Similarly, risk managers and consultants are concentrated near large population centers because these operators also benefit from direct client contact. In contrast, third-party administration services do not need to interact with consumers or insurance operators to conduct daily operations.

Revenue Volatility

The industry is expected to have moderate level of revenue volatility (i.e. between 3.0% and 10.0%) over the five years to 2012, with revenue expected to fluctuate by about 2.6% yearly. Unlike the primary insurance market, industry revenue is relatively stable because participants do not rely on investment income. Instead, industry revenue is generated by fees associated with claims adjusting, third-party administration and other insurance related services. As a result, industry revenue often fluctuates with insurance cycles, catastrophes and general economic activity. Although there may be a slight reprieve from these cyclical influences given the huge change in health insurance consumption expected in 2014.

Industry growth is also impacted by the outsourcing activity of insurers since participants provide administrative and operational support for primary insurance companies. This is one of the advantages enjoyed by HeW as a wholly owned subsidiary of Blue Cross Blue Shield of Montana, although currently, the advantage is limited to activity within the State of Montana.

Over the next five years, revenue volatility in the industry is expected to remain moderate because the demand for industry services remains relatively constant. As the industry becomes more saturated, revenue is expected to closely follow fluctuations within the primary insurance market. At the same time, the threat of industry volatility is expected to remain since the majority of services are related to claims adjustment and other administrative services that fluctuate with insured losses.

Health-e-Web, Inc. appears to be well positioned to react to the changing insurance environment while stabilizing expected revenue volatility through its established strategies. HeW is also planning on pursuing four (4) new initiatives beginning in 2013 to include (1) the rollout of their *Next12* provider portal giving new capabilities to internet–based clients; (2) a menu of expanding product and service offerings such as conversions of paper remit to ERA with e-Statements and e-Payments; (3) a joint offering (with Eldorado Systems) of an all-payer *Real-Time Adjudication* (RTA) model which allows healthcare providers using HeW products to receive immediate payment information, and (4) a shift in primary focus to prospective clients in small hospitals, rural clinics, as well as potential partnering capabilities with billing companies and TPAs. These changes underwrite the projected growth in revenues developed by management and included in the valuation analysis discussed later in this report.

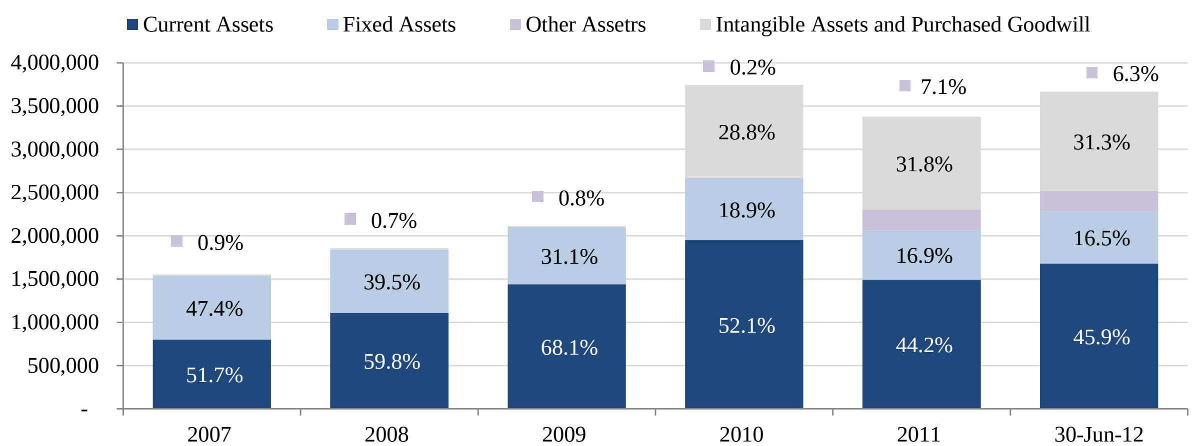
FINANCIAL ANALYSIS

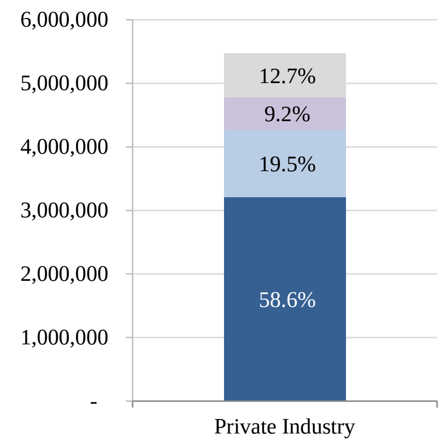
Overview

Health-E-Web, Inc. provided Audited Financial Statements for the annual periods 2007, 2008, 2009, 2010 and 2011 as well as QuickBooks Financial Statements for the trailing twelve months ended June 30, 2012. Financial statement balances are presented side-by-side with common-sizing on a historical basis through Exhibit 1 and Exhibit 2 and then as normalized reports in Exhibit 3 and Exhibit 4.

Balance Sheets

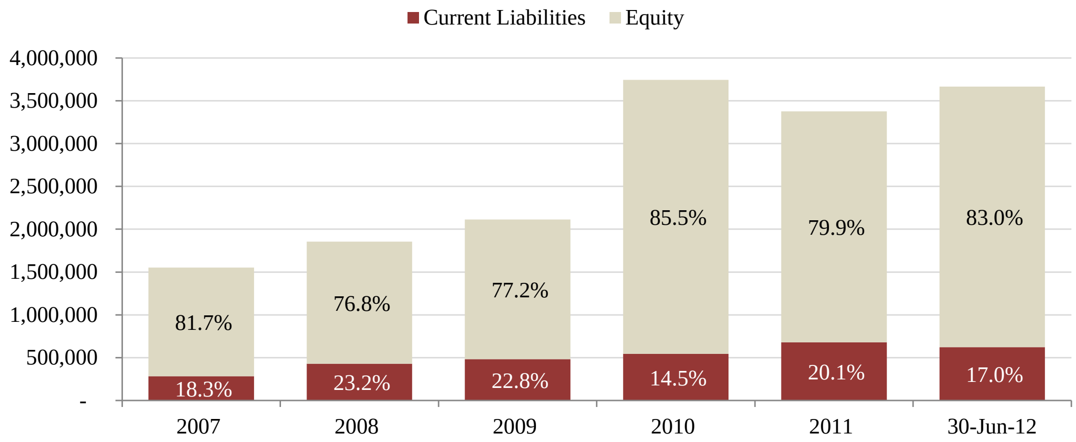
The short-term focus of HeW and private industry operations can be easily demonstrated with an overview of their asset mix. The distinctions between current (most liquid) investments and longer-termed (fixed investments) utilized by the subject and by the industry provide key insights into management strategies and competitive risk. A comparison of the asset mix (as a percentage of total assets) follows:

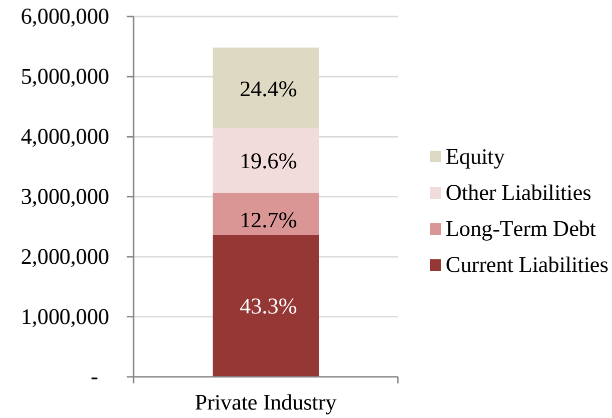




The impact to the asset-mix in 2010 with the acquisition of ETT provides the addition of intangible assets which offer a more balanced comparison with the private industry. Proportionally, there is a close similarity with private industry competitors although the industry is demonstrating heavier investment in current assets which suggests better liquidity, and stronger working capital balances (see financial ratios below).

Similarly, a comparison of the Liability-Equity-Mix across the period of examination and with the private industry follows:





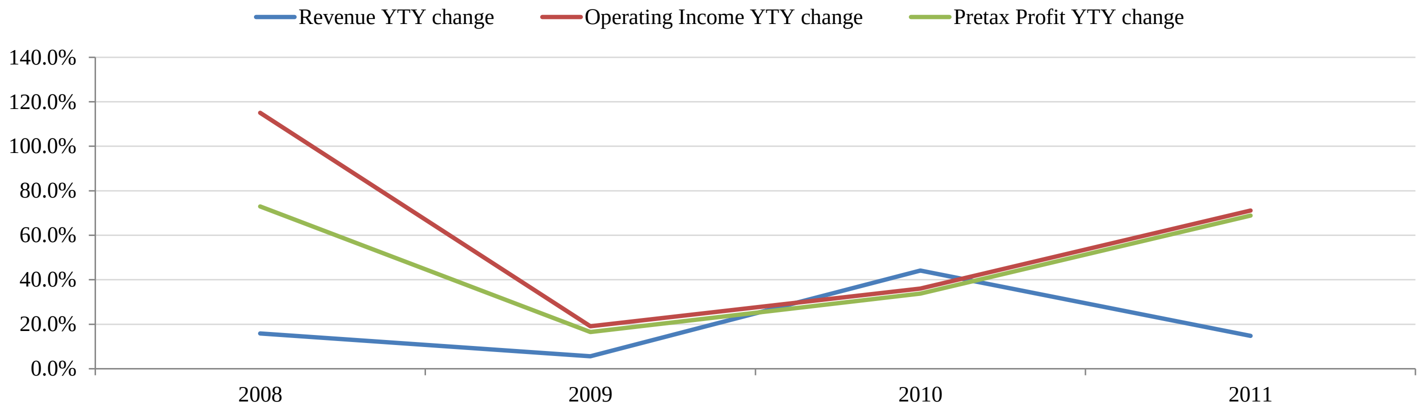
The most obvious distinction is the stronger use of debt financing by industry competitors. This points out one of the key advantages of being wholly-owned which helps to mitigate the need for external borrowing. This advantage also brings the diversification of the parent business and helps to limit some of the unsystematic risk facing a smaller competitor. This current diversification should also be understood by a potential investor when considering the role of a 100% controlling owner.

Other distinctions which are also discussed within the financial ratio section below include the advantageous current ratio (current assets / current liabilities) which provides a comfortable leverage of positive working capital which (again) is stronger than the average competitor in the industry.

The less the encumbrance of debt and specifically, interest-bearing debt, the greater the flexibility of management and the likelihood of responding more quickly and more aggressively to changes. The opportunity to consider and apply more options, more quickly provides a competitive advantage to HeW and suggest a further reduction in dividend risk to an investor. As discussed further in the financial ratios section, the proportional returns on investment exhibited in the industry are also responsive to the variations in asset-liability-equity mix illustrated above. For example the stronger-by-comparison return-on-equity achieved in the private industry (on average) is also responsive to a more burdensome capital structure than HeW which will respond less dramatically to changes in net earnings because of the already large equity position of the subject.

Income Statements

Growth-at-the-margins during the period of examination are illustrated in the graph below and allow for a consideration of the change from year-to-year in the growth rate of different earning levels. Remember that positive growth is occurring whenever the illustrated lines stay above the zero index.

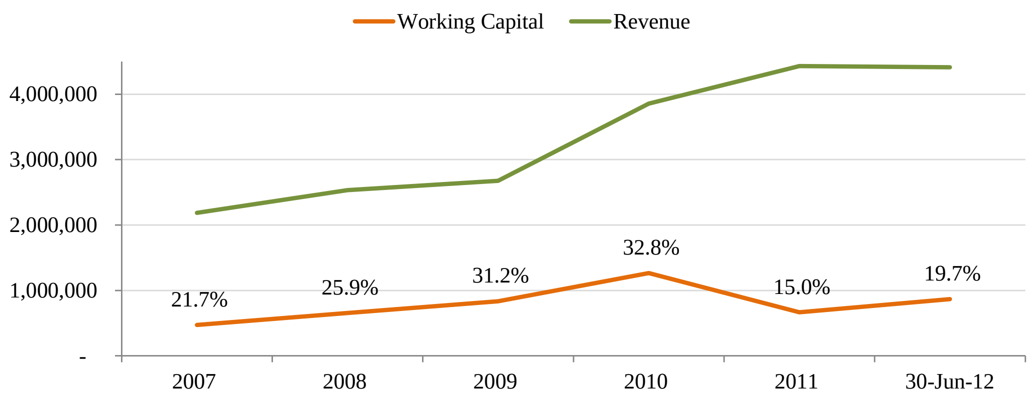


Beginning with the change from 2007 to 2008, the increase in year-to-year growth is demonstrated above. Each level of earnings decelerated with the onslaught of the recession (2008-2009) but then rebounded nicely into 2010 which also is the first year of combined operations with the newly acquired ETT. Thereafter, the year-to-year change in growth again continues an upward trend. The most important aspect of the graphic demonstration is that in each year within the examination period, HeW earnings and profit margins remained positive (above zero). The growth through the trailing twelve months is not included since the balance doubles the effect of the last six months of 2011 to achieve a twelve-month extension and the resulting change for all three revenue streams is near zero at that point suggesting no 'increase in the growth rate' during the first six months of 2012.

As discussed in the Industry Overview section of this report, the Industry demonstrated a flat 3.1% growth during this same period which is noticeably less dynamic than HeW even without the consideration of their 2010 acquisition.

The accelerating profitability suggested above and through Exhibit 3 and 4 must be considered in conjunction with the changing liquidity of the business. It is commonly accepted practice for liquidity to be measured in terms of the working capital.

Over the period of examination, HeW's use working capital as a percentage of revenue has averaged 24.4% while the private industry is reporting average working capital use at 11.6% of sales. The calculated working capital to sales ratios for HeW during the recent past follow:



The historical working capital levels have been excessive and comprised of large proportions of cash and short-term liquid investments. These balances have begun to recede since the acquisition of ETT in 2010 but still represent approximately 20% of total asset investment and exceed the full current debt before consideration of trade receivables. As demonstrated in the valuation analysis, it is estimated that the reinvestment rate required for continuing growth will be less than the year-to-year change in working capital demonstrated historically.

Financial Ratios

Various financial and operating ratios have been prepared for HeW and illustrated in the schedule below. That schedule provides a retrospective of the subject between 2009 and 2011 and then an average of those annual periods weighted by proximity to the present and presented in comparison with the ratios effective the date of measurement. Thereafter, these two HeW indicators are compared with operating ratios obtained from private industry competitors. A general comparison with those industry rates is presented with the caution that the asset-liability-equity mix used in these comparisons should also be part of the examination.

The essential impact of these primary ratio comparisons is that Heath-e-Web, Inc. most closely approximates the upper 55%-60% levels attained by private industry firms.

Key Financial Ratios

						(ttm)	(2009-2011)			
			Private Industry Data			30-Jun-12	3 yr Ave	31-Dec-11	31-Dec-10	31-Dec-09
				$ 18,222,333	**Sales**	$ 4,410,544	$ 3,946,470	$ 4,429,417	$ 3,857,422	$ 2,675,725
				$ 5,479,222	**Assets**	$ 3,666,290	$ 3,289,024	$ 3,376,891	$ 3,744,479	$ 2,114,513
			RMA Quartile Thresholds		*Industry*					
		Upper	*Median*	*Lower*	*Ranking*					
	LIQUIDITY RATIOS									
Current Ratio	Current Assets / Current Liabilities	1.9	1.6	0.8	Upper 90th %	2.7	2.8	2.2	3.6	3.0
	ACTIVITY RATIOS									
Accounts Receivable Turnover	Sales / Accounts Receivable	49.2	12.2	10.4	Lower 10th %	6.5	8.7	8.5	8.6	9.2
Working Capital Turnover	Sales / (Current Assets - Current Liabilities)	8.6	17.8	na	Upper 90th %	4.2	4.1	5.5	2.7	2.8
Fixed Asset Turnover	Sales / Net Fixed Assets	33.8	18.1	13.3	Lower 10th %	7.3	6.4	7.7	5.4	4.1
Total Asset Turnover	Sales / Total Assets	4.6	4.3	1.9	Lower 10th %	1.2	1.2	1.3	1.0	1.3
	COVERAGE & LEVERAGE RATIOS									
Debt-to-Equity Ratio	Total Debt / Total Equity	0.9	4.9	na	Upper 90th %	0.2	0.2	0.3	0.2	0.3
Fixed Asset Leverage	Net Fixed Assets / Total Equity	0.5	0.9	na	Upper 90th %	0.2	0.2	0.2	0.2	0.4
Financial Leverage	Total Assets / Total Equity	1.9	4.1	11.8	Upper 90th %	1.2	1.2	1.3	1.2	1.3
	PROFITABILITY RATIOS									
Return on Sales (Profit Margin)	EBIT / Net Revenue	11.1%	7.8%	2.7%	Upper 80th %	12.0%	15.0%	17.8%	11.9%	12.6%
Return on Equity (ROE)	Net Income (Before Taxes) / Tangible Net Worth	83.5%	36.0%	19.0%	Lower 25th %	18.0%	23.4%	29.7%	14.8%	21.7%
Return on Assets (ROA)	Net Income (Before Taxes) / Assets	44.5%	18.0%	-1.3%	Lower 45th %	14.9%	18.9%	23.7%	12.7%	16.8%

ttm = trailing twelve months

Although there is a tendency to make direct comparisons between specific ratios, the importance of these (and earlier) comparisons is in their ability to offer a sense of proportion with private industry operations. Hence, the rate achieved and the variance with rates of competitors is less important than the overall consistency of operating results.

Liquidity Ratios

The current ratio attempts to measure the ability of HeW to repay its current debt. This measurement is an important consideration because current assets and current liabilities are of comparable duration. Hence, the consideration is not only can short-term debt be met by investments in short-term assets but also will the short-term asset allow for an easy liquidation and thereby provide payment of short term debt in a timely manner?

A portion of the current asset base is comprised of prepaid taxes and deferred tax assets which are expected to reverse themselves in a short time frame and through the normal operations of the business.

Coverage Ratios

The coverage ratio addresses the ease with which PJM is able to meet its interest payments. Hence, it is an indication of the degree of risk associated with the debt policy of the subject and a general sense of the continuing creditworthiness of the company. Debt interest coverage ratios throughout the preceding five-year period have been inconsequential since long-term debt had been extinguished and only a short-term payables and accrued expenses remain as proof of creditworthiness.

Leverage Ratios

Financial leverage enables a firm to have an asset base larger than its earned equity. It is also a measure of the debt policy of company management who must continually consider the desired reliance on debt financing versus equity financing of fixed asset investment and the assumed availability of financing based upon company operations and the volatility of cash flows.

Financial leverage represents the area of strongest affinity between HeW and firms defined within the private industry upper quartile. These comfortable measurements reveal the effect of capital structure and suggest that current debt is not excessive and the equity leverage applied distributes risk to the owners of HeW (an important awareness for potential investors).

Operating Ratios

The return on equity provides an indication of how well managers are employing the funds invested in the company by its shareholders, while the return on assets provides a similar indication of net income achieved through the use of total asset investment. Over the past five years, the returns to company investors have been strong and positive. Even with the downturn in 2009, shareholders have enjoyed strong earnings that averaged very near the median quartile of all private company reports.

Normalization Adjustments

When preparing normalization adjustments the following five (5) areas should be examined:

1 - Material departures from Generally Accepted Accounting Principles ("GAAP"),
2 - Non-operating and excess assets,
3 - Related-party transactions,
4 - Non-recurring transactions, and
5 - Other unique or unusual characteristics of business activities.

The following normalizing entries were applied.

Account	2007	2008	2009	2010	2011	2012	Explanation
Receivables from related parties	$ (35,414)	$ (38,466)	$ (40,103)	$ -	$ -	$ (229,759)	To adjust reverse related party and non-arms length transactions;
Receivable from affiliate - BCBS	-	-	-	(107,690)	(41,667)	(47,000)	To adjust reverse related party and non-arms length transactions;
Automobile	-	-	-	-	16,800	16,800	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Telephones & Systems	970	1,005	47,345	97,695	98,162	98,162	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Computer HW / SW	422,221	422,372	257,249	316,619	273,086	386,611	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Leasehold Improvements	301,864	301,677	366,659	366,659	366,659	366,659	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Office Furnishings	13,393	13,848	17,868	17,868	19,208	19,543	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Office Equipment	430	430	430	430	11,568	11,568	To adjust financial statement allocations to the fixed asset / depreciation schedule;
Accumulated Depreciation	(1,843)	(6,729)	(30,911)	(90,605)	(213,439)	(294,697)	To adjust period depreciation to an economic basis per fixed asset schedule;
Payable to Affiliates	-	-	-	-	-	(225,991)	To adjust reverse related party and non-arms length transactions;
Payable to Affiliate - BCBSMT	(166,259)	(134,564)	(126,914)	(219,313)	(151,167)	(250,691)	To adjust reverse related party and non-arms length transactions;
Other Non-Current Liabilities	-	-	-	-	-	(99,244)	To reverse 'system consolidation error'.
Depreciation & amortization	-	-	-	-	(152,410)	(75,131)	To adjust period depreciation to an economic basis per fixed asset schedule;
	$ 535,362	$ 559,573	$ 491,623	$ 381,664	$ 226,801	$ (323,169)	

These adjustments from the reported balances represent changes discussed with HeW management, and applied to better represent a normal base of operations. Said base of operations can be used in comparisons with the industry as well as a foundation for projection of future operations used in the valuation analysis section of this report.

COST OF CAPITAL

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 practice. 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.
- **Industry Risk Premium** (*RPI*) – systematic risk for the industry in which the subject practices.
- **Practice Specific (Unsystematic) Risk** (*RPu*) – The risk premium for unsystematic risk attributable to the specific practice is designed to account for additional risk factors specific to the medical practice.

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

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

The Cost of Equity Capital (*ke*) is scheduled below.

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	1.00		[3]
Adjusted Equity Risk Premium for Specific Company (HeW)		0.0490	
Industry Risk Premium (Medical insurance related services)		0.0041	[4]
Size Premium in for micro-cap 10b (1.028MM through 128.672MM as adjusted)		0.0978	[5]
Average Market Return at Valuation Date		0.1747	
Specific Company Risk			
HeW developer of proprietary software unique to the clearinghouse industry;		(0.0050)	[6]
Hew dependent on owner/mgmt. of parent and primary customer BCBSMT;		0.0050	[6]
HeW able to market outside state and maintain active presence in Mesa, AZ;		(0.0100)	[6]
Discount Rate for Cash Flow to Equity		0.1647	
Less: Growth Rate (Current Period = 2012)		0.0285	[7]
Net Cash Flow Capitalization Rate for Current Period = 2012		0.1362	
Divided by (1+g)		1.0310	
Net Cash Flow Capitalization Rate for the Future Periods		0.1321	
Less Sustainable Average Growth (Future Periods = 2013-2017)		0.0298	
Net Cash Flow Capitalization Rate for the Future Periods		0.1283	

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, 10b-y decile as extrapolated p: 92*
6. *Appraiser judgment (major factors identified)*
7. *BLS average change in CPI for 2002 - 2012 per index at right*

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 equity, the consideration of excess earnings suggesting the practice's net tangible and intangible asset-base, an examination of similar sales transactions occurring in the private marketplace, and the reconciliation of value through the identification and quantification of intangible assets included in the total accumulation of goodwill.

Identification of Intangible Assets

The following intangible assets were identified as having a finite life and unique value separate from the practice itself:

- Assembled & Trained Workforce (employed staff and contracted and partnered physician providers)
- Customer relationships and leasing arrangements

This selection of intangible assets may not be a complete selection of intangible assets (to be discussed) but these intangible assets are easily identified as separable from the subject business and able to be independently sold or leased. Hence these intangible assets have been used to allocate the Conclusion of Value achieved through the application of financial theory as a means of providing substance to the preliminary determination of goodwill.

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 were obtained from the 2013 HeW Business Plan.

Primary Assumptions

- HeW will continue to expand business through vendor / reseller relationships, client referrals, and direct sales channels. Foreseeable growth in revenue through 2017 follows:

	2012	2013	2014	2015	2016	2017
Revenues	$ 4,424,000	$ 4,505,888	$ 4,724,920	$ 4,961,446	$ 5,209,518	$ 5,469,994
Year-to-year growth		1.9%	4.9%	5.0%	5.0%	5.0%

- Operating expenses are budgeted to increase due to the additional cost associated with new product development. Some account balances reflect the impact of normalization 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 MAS) dating from June 2002 through June 2012. The implied Cost of Equity Capital developed through the CAPM is 16.5%.

Discounted Cash Flow Analysis

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 DCF method consists of the following steps:

1. Determination of the expected annual cash flow available to the partners in the business 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 the discount rate used to determine the present value of the projected annual cash flows and the Terminal Value.

A DCF analysis is presented in Exhibit 6. The Estimate of Fair Market Value achieved is summarized below.

Sum of Present Values - 5 Years Cash Flow to Equity	$ 1,299,641
Add: Terminal Year Present Value	2,969,051
Indication of Market Value of Equity	$ 4,268,692

The rounded Indication of Equity Value based on the Discounting of Projected Future Cash Flows approximates $4,270,000.

COST (ASSET-BASED) APPROACH TO VALUE

Assembled & Trained Workforce

The theory associated with this measurement is that an acquirer of the practice 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 HeW 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 HeW 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.

The Replacement Costs associated with attracting and obtaining a similar selection of personnel are then tax affected and augmented for the tax benefit associated with the amortization of the net of tax costs.

Two Measurements were completed for this engagement. Executive and Management personnel were grouped together because of similar cost break points. In a similar manner Professional and Administrative personnel were grouped together in a distinct measurement to facilitate negotiations with potential investors.

Executive and Management

Cost	Recruiting	Interviews	Total
$ 78,421	$ 228,727	$ 9,000	$ 316,148

Replacement Cost of Senior Management		$ 316,148
Estimated Taxes		(127,888)
Costs Avoided		188,260
Amortization Benefit:		
Discount Rate	17%	
Tax Rate	40%	
Tax Amortization Period	15	
Amortization Benefit		49,711
Estimated Cost Savings		$ 237,972

Professional and Administrative

Cost	Recruiting	Interviews	Total
$ 101,168	$ 298,566	$ 13,125	$ 412,859

Estimated Cost of Professional & Administration		$ 412,859
Estimated Taxes		(164,101)
Costs Avoided		248,758
Amortization Benefit:		
Discount Rate	17%	
Tax Rate	40%	
Tax Amortization Period	15	
Amortization Benefit		63,771
Estimated Cost Savings		$ 312,529

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 practice.

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	$ 680,202	50%	$ 340,101
Fixed Assets	899,344	35%	314,770
Cost basis available for external financing	$ 1,579,546	41%	$ 654,871
Weighted Average Cost of Debt			
Federal and CA State (pass-through)	39.7%		
Required Return on Debt	5.1%	59%	0.018
Market Equity Rate	16.5%	41%	0.068
Rate of Return on Net Tangible Assets			0.086

The scheduled calculation (above) is designed to estimate a rate of return (illustrated as 8.6%) 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 practice. 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 practice, an indication of the total asset value of the practice 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]		$ 352,325
Tangible Assets (generating a return - net of current debt) [2]	$ 3,043,374	
Rate of Return on Net Tangible Assets	0.086	
Less dollar return on tangible assets		262,590
Excess Earnings (from new base of intangible assets)		89,734
Excess Earnings Capitalization Rate [3]		20%
Computed Intangible Value (Increase in existing goodwill) [4]		448,671
Intangible value of Assembled Workforce		553,314
Tangible and booked Intangible Assets (net of current debt)		3,043,374
Indicated Market Value of Equity		$ 4,045,359

Footnotes

1 Cash flows include adjustments for depreciation / recent capital expenditures and reinvested working capital.

2 Net Tangible Assets also reflect the impact of normalization.

3 It is estimated that goodwill of the Company as of 06/30/12 will continue for a minimum of five (5) years.

4 Increase in goodwill includes company goodwill, customer relationships, existing contracts & affiliations.

MARKET APPROACH TO VALUE

The methods applied within this Approach use actual transactions of public and private market merger and acquisition activity as evidence of value. In consideration of HeW, the market is best defined as healthcare transaction clearinghouses with market cap limits defined by geographic boundaries.

Private Market Sales Transaction

The Transaction Method is included under the theory that prices of similar businesses that have sold at a fair market value can provide a reasonable approximation of a FMV for HeW. A comparison of actual operating results with the agreed sales price for healthcare transaction clearinghouses can be used to estimate appropriate pricing multiples. Private transaction pricing multiples have been obtained from a sample (see Exhibit 6) of 14 private market acquisitions of similar medical businesses. The resulting combinations of relationships were obtained:

	MVIC To Sales	MVIC To EBITDA	MVIC To EBIT	MVIC To Book Value Inv Cap	Net Income To Sales	Oper Profit To Sales	Gross Profit To Sales
	5.27				-0.19	-0.22	1.00
	0.27	12.67	13.28	5.10	0.01	0.02	0.04
	0.62	18.84		0.49	0.07	-0.02	1.00
	1.03		3.92	0.84	0.15	0.26	0.39
	0.19	6.72	7.23	3.36	0.02	0.03	1.00
	0.80		9.20		0.05	0.09	0.12
	0.86	4.66	5.95		0.08	0.14	
	0.98	49.05	5234.59	179.77	-0.01	0.00	1.00
	0.62	5.20	7.19	2.50	0.09	0.09	
Mean (Average)	1.18	16.19	754.48	32.01	0.03	0.04	0.65
Median (Sample Center)	0.80	9.70	7.23	2.93	0.05	0.03	1.00
Standard Deviation	1.56	16.99	1975.54	72.41	0.10	0.13	0.45
Variation Coefficient	1.32	1.05	2.62	2.26	3.18	3.02	0.69

Stock Transactions reported by Pratt's Stats have been used in this engagement. These transactions do not require any add-back considerations (as do Asset-Sales) since the full amount of equity is captured in the sales price. Accordingly, the pricing relationships from the sampled acquisition transactions were measured and then tested for dispersion.

The computed coefficients of variation for each set of pricing multiples exceeded 1.0 which suggests a high degree of variation among the component samples. Hence, the median or center-point in the sampled data was selected as the least biased metric for the measurement. A summary of the computed pricing multiples and resulting indications of value are scheduled below.

Market Indications of Fair Market Value

	Pratt's Stats Gross Revenues	Pratt's Stats E.B.I.T.D.A.	Pratt's Stats E.B.I.T.
2010	$ 3,857,422	$ 774,476	$ 459,640
2011	4,429,417	950,337	786,473
2012	4,410,544	652,472	529,638
Weighted by Proximity	$ 4,303,694	$ 736,446	$ 567,006
Sample Weighting	1	1	1
Best Multiples	0.80	9.70	7.23
Preliminary Indications	$ 3,528,435	$ 6,325,711	$ 3,829,285
Indication of FMVof Equity	$ 4,561,144		

The rounded indication of current Equity value based on the Private Market Sales Transactions is $4,561,000.

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.

			Reliability of Balances		Weighted
Indications of Market Value of Equity Capital	Current	Projected	Actual	Estimates	Indications
Income Approach = 50% of value					
DISCOUNTED FUTURE CASH FLOWS		$ 4,268,692		50%	$ 2,134,346
Asset Approach = 25% of Value					
CAPITALIZATION OF EXCESS EARNINGS	$ 4,045,359		25%		$ 1,011,340
Market Approach = 25% of Value					
PUBLIC MARKET SALES - Historical Operations	$ 4,561,144		25%		$ 1,140,286
Weighted indications of Total Equity:			50.0%	50.0%	$ 4,285,972
Rounded Indication of Equity Value:					$ 4,290,000

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

- The key consideration when achieving a *fair market value* is *return on investment* and the associated payback period. Projected cash flows were created by management and only minor normalization was applied to extend the historical expense common-sizing to create the most reliable indication of present value. The reliability of the Income Approach to Value accounts for 50% of the conclusion of value achieved.
- The Asset Approach to Value is not as reliable since this method requires various assumptions and the input of indications of intangible value computed independently. Further, some accruals are used to estimate future debt financing without a close examination of the local market and the reasonableness of achieving industry–wide rates of return. This indication represents only 25% of the total value achieved.
- Private market indications of value have been obtained from a single survey which allowed for comparisons among numerous sample transactions before reconciling. However, some of the measured metrics were too extreme to be relied upon and other metrics were sporadic and given to large coefficients of variation. This approach was judge moderately reliable and represents 25% of total value.

INFERRED INTANGIBLE VALUE

Intangible Asset Value

The rounded estimate of value for the net assets of HeW is $4,285,972.

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 $1,242,598 is scheduled at right.

NET TANGIBLE ASSETS		VALUE	
Cash and short-term investments	$	810,928	
Receivables		680,202	
Prepaid Expenses		133,043	
Deferred Income Taxes		57,850	
Automobile		12,411	
Telephones & Systems		18,486	
Computer HW / SW		224,070	
Leasehold Improvements		334,526	
Office Furnishings		8,375	
Office Equipment		6,778	
Other Assets		219,412	
Deferred Income Taxes		12,320	
Purchased Goodwill & Other Intangibles		1,147,889	
Trade Accounts Payable		(28,630)	
Income Taxes Payable		(359,351)	
Accrued Expenses		(234,935)	
Total Net Tangible Assets & Purchased Goodwill	$	3,043,374	
UNIDENTIFIED GOODWILL	$	1,242,598	[1]
ESTIMATED VALUE OF NET ASSETS	$	4,285,972	
ROUNDED ESTIMATE OF VALUE	$	4,290,000	

[1] *PROOF OF GOODWILL*		Estimated Value	Life
Assembled Workforce - Staff (cost savings)		314,110	NA
Assembled Workforce - Management (cost savings)		239,204	NA
Clients contracts and other inferred intangible value		689,284	5 years
IDENTIFIED GOODWILL	$	1,242,598	

CONCLUSION OF VALUE

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

FOUR MILLION, TWO HUNDRED NINETY THOUSAND DOLLARS

$ 4,290,000

Allocation of the Conclusion of Value

Current Assets	
Cash and short-term investments	$ 810,928
Receivables	680,202
Prepaid Expenses	133,043
Deferred Income Taxes	57,850
Fixed Assets	
Automobile	12,411
Telephones & Systems	18,486
Computer HW / SW	224,070
Leasehold Improvements	334,526
Office Furnishings	8,375
Office Equipment	6,778
Other Assets	
Other Assets	219,412
Deferred Income Taxes	12,320
Purchased Goodwill & Other Intangibles	1,147,889
Computed and Inferred Goodwill (063012)	1,242,598
Current Liabilities	
Trade Accounts Payable	(28,630)
Income Taxes Payable	(359,351)
Accrued Expenses	(234,935)
Estimated Net Asset Value	$ 4,285,972
Rounded Net Asset Value	$ 4,290,000

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 $300M.

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 Fixed Depreciable Assets
- Exhibit 6 Discounted Cash Flow Analysis
- Exhibit 7 Private Market Asset Sales – Selected Sample from Pratt's Stats

Exhibit 1
Historical Balance Sheets

	Audit	Audit	Audit	Audit	Audit	TTM	Common Sizing						Industry
Assets	2007	2008	2009	2010	2011	30-Jun-12	2008	2009	2009	2010	2011	30-Jun-12	Average
Current Assets													
Cash and short-term investments	$ 532,968	$ 845,176	$ 1,024,807	$ 1,361,248	$ 824,602	$ 810,928	33.5%	44.6%	47.5%	35.3%	24.3%	20.9%	19.0%
Trade accounts receivable, net	224,496	239,419	292,304	448,407	519,631	680,202	14.1%	12.6%	13.6%	11.6%	15.3%	17.5%	22.1%
Receivables from related parties	35,414	38,466	40,103	-	-	229,759	2.2%	2.0%	1.9%	0.0%	0.0%	5.9%	
Receivable from affiliate - BCBSMT			-	107,690	41,667	47,000	0.0%	0.0%	0.0%	2.8%	1.2%	1.2%	
Prepaid Expenses	66,720	46,376	115,744	91,208	90,904	133,043	4.2%	2.4%	5.4%	2.4%	2.7%	3.4%	
Deferred Income Taxes	(21,500)	(22,750)	7,940	48,230	57,000	57,850	-1.4%	-1.2%	0.4%	1.3%	1.7%	1.5%	
Total Current Assets	838,098	1,146,687	1,480,898	2,056,783	1,533,804	1,958,781	52.8%	60.6%	68.7%	53.4%	45.2%	50.4%	58.6%
Net Fixed Assets	737,035	732,603	660,036	710,062	546,449	548,915	46.4%	38.7%	30.6%	18.4%	16.1%	14.1%	19.5%
Other Non-Current Assets													
Other Assets	-	-	-	-	222,691	219,412	0.0%	0.0%	0.0%	0.0%	6.6%	5.6%	
Start-up Costs				-	2,862		0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	
Deferred Income Taxes	-	-	1,440	8,830	12,130	12,320	0.0%	0.0%	0.1%	0.2%	0.4%	0.3%	
Total Other Non-Current Assets	-	-	1,440	8,830	237,683	231,732	0.0%	0.0%	0.1%	0.2%	7.0%	6.0%	9.2%
Purchased Goodwill & Other Intangibles	13,638	13,638	13,638	1,077,889	1,075,027	1,147,889	0.9%	0.7%	0.6%	28.0%	31.7%	29.5%	12.7%
Total Assets	$ 1,588,771	$ 1,892,928	$ 2,156,012	$ 3,853,564	$ 3,392,962	$ 3,887,316	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities & Capital													
Current													
Trade Accounts Payable	$ 136	$ 6,194	$ 2,147	$ 29,106	$ 112,967	$ 28,630	0.0%	0.3%	0.1%	0.8%	3.3%	0.7%	7.1%
Payable to Affiliates						225,991	0.0%	0.0%	0.0%	0.0%	0.0%	5.8%	
Payable to Affiliate - BCBSMT	166,259	134,564	126,914	219,313	151,167	250,691	10.5%	7.1%	5.9%	5.7%	4.5%	6.4%	
Income Taxes Payable	57,200	113,350	171,000	224,197	277,581	359,351	3.6%	6.0%	7.9%	5.8%	8.2%	9.2%	1.0%
Accrued Expenses	226,911	310,076	308,814	291,242	289,319	234,935	14.3%	16.4%	14.3%	7.6%	8.5%	6.0%	
Total Current Liabilities	450,506	564,184	608,875	763,857	831,033	1,099,598	28.4%	29.8%	28.2%	19.8%	24.5%	28.3%	43.2%
Long-Term Liabilities		-											12.7%
Other Non-Current Liabilities	-	-	-	-	-	99,244	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	19.7%
Total Long-Term Liabilities	-	-	-	-	-	99,244	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	32.4%
Total Liabilities	450,506	564,184	608,875	763,857	831,033	1,198,842	28.4%	29.8%	28.2%	19.8%	24.5%	30.8%	43.2%
Equity													
Capital Stock	25,000	25,000	25,000	25,000	25,000	25,000	1.6%	1.3%	1.2%	0.6%	0.7%	0.6%	
Additional Paid-In Capital	625,000	625,000	625,000	1,875,000	1,875,000	1,875,000	39.3%	33.0%	29.0%	48.7%	55.3%	48.2%	
Retained Earnings	488,265	678,744	897,137	1,189,707	661,929	788,475	30.7%	35.9%	41.6%	30.9%	19.5%	20.3%	
Valuation Adjustment	-	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total Surplus	1,138,265	1,328,744	1,547,137	3,089,707	2,561,929	2,688,475	71.6%	70.2%	71.8%	80.2%	75.5%	69.2%	24.4%
Total Liabilities & Surplus	$ 1,588,771	$ 1,892,928	$ 2,156,012	$ 3,853,564	$ 3,392,962	$ 3,887,316	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Exhibit 2

Historical 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	$ 2,185,392	$ 2,532,820	$ 2,675,725	$ 3,857,422	$ 4,429,417	$ 4,410,544	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses													
Commissions					$ 75,948	$ 73,832	0.0%	0.0%	0.0%	0.0%	1.7%	1.7%	
Salaries & related expenses	$ 1,361,039	$ 1,545,071	$ 1,534,971	$ 2,161,280	$ 2,333,746	$ 2,540,519	62.3%	61.0%	57.4%	56.0%	52.7%	57.6%	
Contracted services	$ 267,230	$ 117,933	$ 50,200	$ 50,200	$ 51,606	$ 76,122	12.2%	4.7%	1.9%	1.3%	1.2%	1.7%	
Management service fees	$ 53,000	$ 53,000	$ 53,000	$ 53,000	$ 32,000	$ 32,000	2.4%	2.1%	2.0%	1.4%	0.7%	0.7%	
Professional services	$ 21,566	$ 46,138	$ 61,166	$ 205,923	$ 369,329	$ 323,250	1.0%	1.8%	2.3%	5.3%	8.3%	7.3%	
Depreciation & amortization	$ 185,955	$ 246,624	$ 313,386	$ 314,836	$ 275,243	$ 223,273	8.5%	9.7%	11.7%	8.2%	6.2%	5.1%	
Printing & supplies	$ 9,466	$ 12,088	$ 9,023	$ 18,778	$ 25,033	$ 24,954	0.4%	0.5%	0.3%	0.5%	0.6%	0.6%	
Postage & shipping	$ 53,408	$ 48,481	$ 42,947	$ 51,696	$ 45,352	$ 38,385	2.4%	1.9%	1.6%	1.3%	1.0%	0.9%	
Rent & lease expense	$ 13,980	$ 43,439	$ 45,664	$ 181,650	$ 198,748	$ 199,285	0.6%	1.7%	1.7%	4.7%	4.5%	4.5%	
Data processing expense					$ 56,683	$ 65,777					1.3%		
Lodging and transportation	$ 10,936	$ 8,105	$ 16,458	$ 23,164	$ 24,604	$ 24,964	0.5%	0.3%	0.6%	0.6%	0.6%	0.6%	
Meals	$ 3,119	$ 1,932	$ 5,971	$ 5,481	$ 6,996	$ 7,819	0.1%	0.1%	0.2%	0.1%	0.2%	0.2%	
Insurance	$ 1,951	$ 2,876	$ 3,474	$ 3,565	$ 13,102	$ 8,187	0.1%	0.1%	0.1%	0.1%	0.3%	0.2%	
Other operating expenses	$ 71,753	$ 123,353	$ 201,544	$ 328,209	$ 286,964	$ 317,668	3.3%	4.9%	7.5%	8.5%	6.5%	7.2%	
Total operating expenses	$ 2,053,403	$ 2,249,040	$ 2,337,804	$ 3,397,782	$ 3,795,355	$ 3,956,036	94.0%	88.8%	87.4%	88.1%	85.7%	89.7%	92.2%
Operating income / (loss)	$ 131,989	$ 283,780	$ 337,921	$ 459,640	$ 634,062	$ 454,508	6.0%	11.2%	12.6%	11.9%	14.3%	10.3%	7.8%
Other income / (expense)													
Interest & dividend income	$ 44,112	$ 11,615	$ 5,900	$ 4,251	$ 3,939	$ 4,395	2.0%	0.5%	0.2%	0.1%	0.1%	0.1%	
Other income / (expense)	$ -	$ 9,099	$ 10,943	$ 10,695	$ 10,893	$ 13,346	0.0%	0.4%	0.4%	0.3%	0.2%	0.3%	
Total other income / (expense)	$ 44,112	$ 20,714	$ 16,843	$ 14,946	$ 14,833	$ 17,742	2.0%	0.8%	0.6%	0.4%	0.3%	0.4%	-5.9%
Pretax profits	$ 176,101	$ 304,494	$ 354,764	$ 474,586	$ 648,895	$ 472,249	8.1%	12.0%	13.3%	12.3%	14.6%	10.7%	1.9%
Total income taxes	$ (68,252)	$ (114,015)	$ (136,371)	$ (182,014)	$ (266,728)	$ (190,755)	-3.1%	-4.5%	-5.1%	-4.7%	-6.0%	-4.3%	
Net income	$ 107,849	$ 190,479	$ 218,393	$ 292,572	$ 382,167	$ 281,494	4.9%	7.5%	8.2%	7.6%	8.6%	6.4%	

Exhibit 3

Normalized Balance Sheets

	Audit	Audit	Audit	Audit	Audit	TTM	Common Sizing						Industry
Assets	2007	2008	2009	2010	2011	30-Jun-12	2008	2009	2009	2010	2011	30-Jun-12	Average
Current Assets													
Cash and short-term investments	$ 532,968	$ 845,176	$ 1,024,807	$ 1,361,248	$ 824,602	$ 810,928	34.3%	45.6%	48.5%	36.4%	24.4%	22.1%	19.0%
Trade accounts receivable, net	224,496	239,419	292,304	448,407	519,631	680,202	14.5%	12.9%	13.8%	12.0%	15.4%	18.6%	22.1%
Prepaid Expenses	66,720	46,376	115,744	91,208	90,904	133,043	4.3%	2.5%	5.5%	2.4%	2.7%	3.6%	
Deferred Income Taxes	(21,500)	(22,750)	7,940	48,230	57,000	57,850	-1.4%	-1.2%	0.4%	1.3%	1.7%	1.6%	
Total Current Assets	802,684	1,108,221	1,440,795	1,949,093	1,492,137	1,682,023	51.7%	59.8%	68.1%	52.1%	44.2%	45.9%	58.6%
Fixed Assets													
Automobile	-	-	-	-	16,800	16,800	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%	
Telephones & Systems	970	1,005	47,345	97,695	98,162	98,162	0.1%	0.1%	2.2%	2.6%	2.9%	2.7%	
Computer HW / SW	422,221	422,372	257,249	316,619	273,086	386,611	27.2%	22.8%	12.2%	8.5%	8.1%	10.5%	
Leasehold Improvements	301,864	301,677	366,659	366,659	366,659	366,659	19.4%	16.3%	17.3%	9.8%	10.9%	10.0%	
Office Furnishings	13,393	13,848	17,868	17,868	19,208	19,543	0.9%	0.7%	0.8%	0.5%	0.6%	0.5%	
Office Equipment	430	430	430	430	11,568	11,568	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	
Total Fixed Assets	738,879	739,332	689,551	799,272	785,483	899,344	47.6%	39.9%	32.6%	21.3%	23.3%	24.5%	
Accumulated Depreciation	(1,843)	(6,729)	(30,911)	(90,605)	(213,439)	(294,697)	-0.1%	-0.4%	-1.5%	-2.4%	-6.3%	-8.0%	
Net Fixed Assets	737,035	732,603	658,640	708,666	572,045	604,647	47.4%	39.5%	31.1%	18.9%	16.9%	16.5%	19.5%
Other Assets	-	-	-	-	222,691	219,412	0.0%	0.0%	0.0%	0.0%	6.6%	6.0%	
Start-up Costs	-	-	-	-	2,862	-	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	
Deferred Income Taxes	-	-	1,440	8,830	12,130	12,320	0.0%	0.0%	0.1%	0.2%	0.4%	0.3%	
Total Other Non-Current Assets	-	-	1,440	8,830	237,683	231,732	0.0%	0.0%	0.1%	0.2%	7.0%	6.3%	9.2%
Purchased Goodwill & Other Intangibles	13,638	13,638	13,638	1,077,889	1,075,027	1,147,889	0.9%	0.7%	0.6%	28.8%	31.8%	31.3%	12.7%
Total Assets	$ 1,553,357	$ 1,854,462	$ 2,114,513	$ 3,744,479	$ 3,376,891	$ 3,666,290	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities & Capital													
Current													
Trade Accounts Payable	$ 136	$ 6,194	$ 2,147	$ 29,106	$ 112,967	$ 28,630	0.0%	0.3%	0.1%	0.8%	3.3%	0.8%	7.1%
Income Taxes Payable	57,200	113,350	171,000	224,197	277,581	359,351	3.7%	6.1%	8.1%	6.0%	8.2%	9.8%	1.0%
Accrued Expenses	226,911	310,076	308,814	291,242	289,319	234,935	14.6%	16.7%	14.6%	7.8%	8.6%	6.4%	
Total Current Liabilities	284,247	429,620	481,961	544,545	679,866	622,916	18.3%	23.2%	22.8%	14.5%	20.1%	17.0%	43.2%
Total Long-Term Liabilities	-	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	32.4%
Total Liabilities	284,247	429,620	481,961	544,545	679,866	622,916	18.3%	23.2%	22.8%	14.5%	20.1%	17.0%	75.6%
Equity													
Capital Stock	25,000	25,000	25,000	25,000	25,000	25,000	1.6%	1.3%	1.2%	0.7%	0.7%	0.7%	
Additional Paid-In Capital	625,000	625,000	625,000	1,875,000	1,875,000	1,875,000	40.2%	33.7%	29.6%	50.1%	55.5%	51.1%	
Retained Earnings	488,265	678,744	897,137	1,189,707	661,929	788,475	31.4%	36.6%	42.4%	31.8%	19.6%	21.5%	
Valuation Adjustment	130,845	96,098	85,415	110,227	135,096	354,899	8.4%	5.2%	4.0%	2.9%	4.0%	9.7%	
Total Surplus	1,269,110	1,424,842	1,632,552	3,199,934	2,697,025	3,043,374	81.7%	76.8%	77.2%	85.5%	79.9%	83.0%	24.4%
Total Liabilities & Surplus	$ 1,553,357	$ 1,854,462	$ 2,114,513	$ 3,744,479	$ 3,376,891	$ 3,666,290	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Exhibit 4

Normalized 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	$ 2,185,392	$ 2,532,820	$ 2,675,725	$ 3,857,422	$ 4,429,417	$ 4,410,544	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses													
Commissions	$ -	$ -	$ -	$ -	$ 75,948	$ 73,832	0.0%	0.0%	0.0%	0.0%	1.7%	1.7%	
Salaries & related expenses	$ 1,361,039	$ 1,545,071	$ 1,534,971	$ 2,161,280	$ 2,333,746	$ 2,540,519	62.3%	61.0%	57.4%	56.0%	52.7%	57.6%	
Contracted services	$ 267,230	$ 117,933	$ 50,200	$ 50,200	$ 51,606	$ 76,122	12.2%	4.7%	1.9%	1.3%	1.2%	1.7%	
Management service fees	$ 53,000	$ 53,000	$ 53,000	$ 53,000	$ 32,000	$ 32,000	2.4%	2.1%	2.0%	1.4%	0.7%	0.7%	
Professional services	$ 21,566	$ 46,138	$ 61,166	$ 205,923	$ 369,329	$ 323,250	1.0%	1.8%	2.3%	5.3%	8.3%	7.3%	
Depreciation & amortization	$ 185,955	$ 246,624	$ 313,386	$ 314,836	$ 122,833	$ 148,143	8.5%	9.7%	11.7%	8.2%	2.8%	3.4%	
Printing & supplies	$ 9,466	$ 12,088	$ 9,023	$ 18,778	$ 25,033	$ 24,954	0.4%	0.5%	0.3%	0.5%	0.6%	0.6%	
Postage & shipping	$ 53,408	$ 48,481	$ 42,947	$ 51,696	$ 45,352	$ 38,385	2.4%	1.9%	1.6%	1.3%	1.0%	0.9%	
Rent & lease expense	$ 13,980	$ 43,439	$ 45,664	$ 181,650	$ 198,748	$ 199,285	0.6%	1.7%	1.7%	4.7%	4.5%	4.5%	
Data processing expense	$ -	$ -	$ -	$ -	$ 56,683	$ 65,777	0.0%	0.0%	0.0%	0.0%	1.3%	1.5%	
Lodging and transportation	$ 10,936	$ 8,105	$ 16,458	$ 23,164	$ 24,604	$ 24,964	0.5%	0.3%	0.6%	0.6%	0.6%	0.6%	
Meals	$ 3,119	$ 1,932	$ 5,971	$ 5,481	$ 6,996	$ 7,819	0.1%	0.1%	0.2%	0.1%	0.2%	0.2%	
Insurance	$ 1,951	$ 2,876	$ 3,474	$ 3,565	$ 13,102	$ 8,187	0.1%	0.1%	0.1%	0.1%	0.3%	0.2%	
Other operating expenses	$ 71,753	$ 123,353	$ 201,544	$ 328,209	$ 286,964	$ 317,668	3.3%	4.9%	7.5%	8.5%	6.5%	7.2%	
Total operating expenses	$ 2,053,403	$ 2,249,040	$ 2,337,804	$ 3,397,782	$ 3,642,945	$ 3,880,905	94.0%	88.8%	87.4%	88.1%	82.2%	88.0%	92.2%
Operating income / (loss)	$ 131,989	$ 283,780	$ 337,921	$ 459,640	$ 786,473	$ 529,638	6.0%	11.2%	12.6%	11.9%	17.8%	12.0%	7.8%
Other income / (expense)													
Interest & dividend income	$ 44,112	$ 11,615	$ 5,900	$ 4,251	$ 3,939	$ 4,395	2.0%	0.5%	0.2%	0.1%	0.1%	0.1%	
Other income / (expense)	$ -	$ 9,099	$ 10,943	$ 10,695	$ 10,893	$ 13,346	0.0%	0.4%	0.4%	0.3%	0.2%	0.3%	
Total other income / (expense)	$ 44,112	$ 20,714	$ 16,843	$ 14,946	$ 14,833	$ 17,742	2.0%	0.8%	0.6%	0.4%	0.3%	0.4%	-5.9%
Pretax profits	$ 176,101	$ 304,494	$ 354,764	$ 474,586	$ 801,305	$ 547,380	8.1%	12.0%	13.3%	12.3%	18.1%	12.4%	1.9%
Total income taxes	$ (68,252)	$ (114,015)	$ (136,371)	$ (182,014)	$ (266,728)	$ (190,755)	-3.1%	-4.5%	-5.1%	-4.7%	-6.0%	-4.3%	
Net income	$ 244,353	$ 418,509	$ 491,135	$ 292,572	$ 534,577	$ 356,625	11.2%	16.5%	18.4%	7.6%	12.1%	8.1%	

Exhibit 5

Fixed Depreciable Assets

Asset	Cost	years	Date In Service
Automobile			
2010 Toyota Corolla	16,800	5	03/11/11
	-		
Automobile	$ 16,800		
Telephones & Systems			
Cell Phone	525	3	06/10/06
Cell Phone	122	3	07/18/07
Cell Phone	200	3	08/09/07
Cell Phone	122	3	09/01/07
Cell Phone	35	3	07/14/08
Telephone	46,340	3	01/01/09
Telephone	50,350	3	08/01/10
Cell Phone	467	3	02/01/11
Telephones & Systems	$ 98,162		
Leasehold Improvements			
Leasehold Improvements	90,933	39	09/01/07
Leasehold Improvements	95,512	39	01/01/09
Leasehold Improvements	180,215	39	11/01/09
Leasehold Improvements	$ 366,659		
Office Furnishings			
Office Furnishings	7,773	7	09/19/07
Office Furnishings	1,260	7	09/19/07
Office Furnishings	685	7	09/19/07
Office Furnishings	665	7	09/19/07
Office Furnishings	540	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	230	7	09/19/07
Office Furnishings	170	7	09/19/07
Office Furnishings	60	7	05/30/08
Office Furnishings	60	7	05/30/08
Office Furnishings	335	7	12/08/08
Office Furnishings	335	7	10/05/09
Office Furnishings	3,685	7	11/01/09
Office Furnishings	335	7	02/01/11
Office Furnishings	335	7	05/03/11
Office Furnishings	335	7	05/03/11
Office Furnishings	335	7	06/30/11
Office Furnishings	335	7	02/02/12
Office Furnishings	$ 19,543		

Asset	Cost	years	Date In Service
Office Equipment			
Office Equipment	375	5	10/10/06
Office Equipment	55	5	12/01/06
Office Equipment	10,519	5	07/01/10
Office Equipment	619	5	04/01/11
Office Equipment	$ 11,568		
Computer HW / SW			
Computer HW/SW	280	3	01/01/07
Computer HW/SW	39	3	10/31/07
Computer HW/SW	39	3	11/28/07
Computer HW/SW	267	3	04/27/08
Computer HW/SW	258	3	10/01/08
Computer HW/SW	90	3	08/31/09
Computer HW/SW	254	3	09/01/09
Computer HW/SW	2,362	3	11/01/09
Computer HW/SW	2,362	3	11/01/09
Computer HW/SW	1,279	3	11/01/09
Computer HW/SW	1,279	3	11/01/09
Computer HW/SW	1,182	3	11/01/09
Computer HW/SW	1,182	3	11/01/09
Computer HW/SW	797	3	02/18/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	100	3	03/17/10
Computer HW/SW	1,182	3	03/23/10
Computer HW/SW	1,182	3	03/23/10
Computer HW/SW	1,708	3	04/08/10
Computer HW/SW	1,182	3	04/08/10
Computer HW/SW	1,182	3	04/08/10
Computer HW/SW	1,708	3	04/21/10
Computer HW/SW	2,390	3	05/11/10
Computer HW/SW	2,390	3	05/11/10
Computer HW/SW	2,280	3	06/09/10
Computer HW/SW	99,870	3	09/01/10
Computer HW/SW	6,319	3	09/01/10
Computer HW/SW	5,234	3	09/01/10
Computer HW/SW	3,732	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	2,323	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW / SW - continued at right			

Asset	Cost	years	Date In Service
Computer HW / SW (continued)			
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	1,947	3	09/01/10
Computer HW/SW	769	3	09/01/10
Computer HW/SW	220	3	10/15/10
Computer HW/SW	1,303	3	10/29/10
Computer HW/SW	1,303	3	10/29/10
Computer HW/SW	1,303	3	10/29/10
Computer HW/SW	6,148	3	02/01/11
Computer HW/SW	5,233	3	02/01/11
Computer HW/SW	1,312	3	02/01/11
Computer HW/SW	963	3	04/27/11
Computer HW/SW	2,368	3	05/03/11
Computer HW/SW	2,656	3	05/20/11
Computer HW/SW	2,479	3	07/26/11
Computer HW/SW	1,495	3	08/01/11
Computer HW/SW	46,999	3	09/01/11
Computer HW/SW	20,751	3	09/01/11
Computer HW/SW	434	3	09/01/11
Computer HW/SW	204	3	09/01/11
Computer HW/SW	204	3	09/01/11
Computer HW/SW	204	3	09/01/11
Computer HW/SW	204	3	09/01/11
Computer HW/SW	495	3	10/01/11
Computer HW/SW	100,767	3	01/01/12
Computer HW/SW	4,445	3	01/01/12
Computer HW/SW	4,445	3	01/01/12
Computer HW/SW	2,982	3	01/01/12
Computer HW/SW	888	3	04/01/12
Computer HW/SW	19,973	3	08/01/12
Computer HW/SW	2,482	3	08/01/12
Computer HW/SW	2,111	3	08/01/12
Computer HW / SW	$ 411,177		

Total Fixed Assets	
Automobile	$ 16,800
Telephones & Systems	$ 98,162
Leasehold Improvements	$ 366,659
Office Furnishings	$ 19,543
Office Equipment	$ 11,568
Computer HW / SW	$ 411,177
	$ 923,910
Less: Computers put into service after date of value	(24,566)
Adjusted Total Assets	$ 899,344

Exhibit 6

Discounted Cash Flow Analysis

		2013	2014	2015	2016	2017	Terminal Year
Operating Revenue (per presentation projections)		$ 4,505,888	$ 4,724,920	$ 4,961,446	$ 5,209,518	$ 5,469,994	
Less: Operating Expenses		(4,142,420)	(4,177,733)	(4,253,730)	(4,340,108)	(4,443,868)	
Add: Depreciation and other non-cash expenses		227,023	213,442	198,991	215,038	238,861	
Add: Other Income		18,800	19,402	20,042	20,723	21,449	
EBITDA = Earnings Before Interest, Taxes, Depreciation /Amortization		609,291	780,031	926,749	1,105,172	1,286,436	
Less: Depreciation and other non-cash expenses	[1]	(227,023)	(213,442)	(198,991)	(215,038)	(238,861)	
EBIT = Earnings Before Interest and Taxes		382,268	566,588	727,758	890,133	1,047,575	
Effective Income Taxes	[2]	(155,774)	(154,358)	(202,552)	(251,106)	(298,184)	
EAT = Earnings After Taxes = Net Income		226,494	412,230	525,206	639,028	749,391	
Add: Depreciation and other non-cash expenses (include add-in)		227,023	213,442	198,991	215,038	238,861	
GCF = Gross Cash Flow		453,517	625,672	724,197	854,066	988,252	
Less: Working capital needed to support operations	[3]	(49,147)	(64,762)	(69,079)	(76,818)	(84,107)	
NOCF = Net Operating Cash Flow		404,369	560,910	655,118	777,248	904,145	
Fixed asset purchases / replacements		(432,766)	(231,669)	(231,669)	(125,000)	(125,000)	
Changes in debt-financing		na	na	na	na	na	
CFE = Cash Flow to Equity Capital (requires CAPM)		(28,396)	329,241	423,449	652,248	779,145	$ 779,145
Terminal Year Exit Multiple							7.568
Present Value into Perpetuity at Terminal Year							5,896,876
Present Value Factor		0.9266	0.7955	0.6830	0.5864	0.5035	0.5035
Present Value - Cash Flow to Equity Capital and Terminal Value		$ (26,312)	$ 261,927	$ 289,230	$ 382,500	$ 392,296	$ 2,969,051

[1] *Depreciation includes impact of planned capital expenditures per HeW 2013 Business Plan.*

[2] *Federal (tiered) and Montana (flat) State Income Tax estimate.*

[3] *Reinvestment rate defined as anticipated growth divided by return on capital.*

Exhibit 7

Pratt's Stats – Private Market Sales

Transaction ID	29074	9812	11366	2809	229	18006	15191	10834	7917	5445	13585	1110	2100	2518
SIC	6411	6371	6411	6411	6411	6411	6411	6411	6411	6411	6371	6411	6411	6399
NAICS	524292	524292	524291	524291	524292	524292	524292	524292	524291	524292	524292	524292	524291	524292
Buyer Type	Private	Public	Private	Private	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Transaction Type	Asset	Asset	Asset	Asset	Asset	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock	Stock
Company Type	S Corporation	S Corporation	S Corporation	C Corporation	LLP	C Corporation	C Corporation	S Corporation	C Corporation	C Corporation	C Corporation	C Corporation	S Corporation	C Corporation
MVIC Price	$400,000	$105,248,000	$245,000	$2,800,000	$6,500,000	$485,000,000	$4,675,000,000	$150,000,000	$16,000,000	$21,000,000	$65,000,000	$13,500,000	$9,000,000	$6,000,000
Business Description	Online National Workers Compensation Insurance Provider	Provides Cost Avoidance, Insurance Verification, Recovery Audit and Related Services	Insurance Investigations	Consulting Insurance	Social Security Disability Benefits Advocacy for Corporations (Loss Control)	Pharmacy Benefit Management Business	Pharmacy Benefit Management Business	Claim Administration, Medical Management, and Integrated Absence Management Services	Third-Party Claims and Risk Management Services	Provider of Pharmacy Benefit Management Services	Designs and Administers Pharmacy Benefit Programs for Health Plan Members	Provider of Claims Administration Services to the Property and Casualty Insurance Industry	Insurance Claims Investigation Agency	
Net Sales	$258,633	$48,414,222	$77,745	$1,425,743	$8,184,840	$91,984,000	$17,178,097,000	$241,976,000	$15,530,629	$109,334,094	$80,988,185	$13,829,989	$14,476,273	$6,956,476
COGS	$0	$0	$0	$0		$0	$16,408,091,000	$0	$9,475,704	$0	$71,472,651			
Gross Profit	$258,633	$48,414,222	$77,745	$1,425,743		$91,984,000	$770,006,000	$241,976,000	$6,054,925	$109,334,094	$9,515,534	$13,829,989		
Rent		$1,324,333		$40,320	$193,957	$217,000	$3,073,000			$90,000			$309,909	$333,280
Noncash Charges	$1,967	$420,971	$80	$44,437	$51,616	$10,658,000	$16,689,000	$12,699,000		$218,827		$272,644	$478,540	$279,509
Total Oper Exp	$205,484	$43,101,138	$10,236	$1,321,273	$5,802,811	$112,209,000	$417,842,000	$246,712,000	$1,978,183	$106,428,740	$2,451,940	$13,827,410	$13,224,223	$5,948,424
Oper Profit	$53,149	$5,313,084	$67,509	$104,470	$2,382,029	($20,225,000)	$352,164,000	($4,736,000)	$4,076,742	$2,905,354	$7,063,594	$2,579	$1,252,049	$1,008,052
Interest Exp	$1,311	$0	$0	$3,618	$0	$0	$0	$696,000	$0	$0	$0	$109,558	$19,816	$27,955
EBT	$51,838	$5,313,084	$67,509	$100,852	$2,424,366	($17,802,000)	$352,164,000	$16,876,000	$4,076,742	$3,000,311	$7,063,594	($98,768)	$1,232,233	$940,825
Taxes	$0	$0	$0		$2,288	$0	$124,891,000	$113,000	$1,725,874	$1,165,165	$3,007,336	$0	$0	$357,500
Net Income	$51,838	$5,313,084	$67,509		$2,422,078	($17,695,000)	$227,273,000	$16,763,000	$2,350,868	$1,835,146	$4,056,258	($98,768)	$1,232,233	$583,325
Cash Equiv		$26,525			$783,441	$0	$2,380,000	$12,110,000	$10,315,539	$4,107,107	$0	$61,157	$558,315	$352,913
Trade Rec		$20,697,690		$0	$2,237,852	$58,979,000	$776,590,000	$17,864,000	$2,076,474	$14,744,969	$37,836,936	$1,177,856	$2,405,538	$3,254,842
Other Curr Assets		$12,077,287			$49,563	$46,631,000	$720,900,000	$273,209,000	$0	$91,830	$0	$38,965	$384,000	$738,079
Total Curr Assets		$32,801,502			$3,070,856	$105,610,000	$1,561,267,000	$303,183,000	$12,392,013	$18,943,906	$37,836,936	$1,277,978	$3,347,853	$4,345,834
Fixed Assets		$1,199,053	$200	$282,184	$142,634	$46,272,000	$56,703,000	$5,303,000	$0	$108,780	$0	$756,576	$1,168,969	$1,104,628
Intangibles	$400,000	$0	$244,500			$0	$288,700,000	$12,402,000	$16,250,357	$249,985	$0			
Other Noncurr Assets		$324,212	$300	$4,000	$20,000	$87,000	$417,000	$90,860,000	$1,447,805	$59,722	$0	$13,953	$66,887	$703
Total Assets		$34,324,767		$286,184	$3,233,490	$151,969,000	$1,907,087,000	$411,748,000	$30,090,175	$19,362,393	$37,836,936	$2,048,507	$4,583,709	$5,451,165
Long Term Liabilities		$431,139			$0	$2,355,000	$58,339,000	$136,840,000	$0	$0	$0	$28,000	$25,669	$99,834
Total Liabilities		$18,457,005			$289,874	$277,322,000	$1,047,861,000	$240,274,000	$11,123,546	$13,107,454	$45,893,879	$2,001,411	$1,004,147	$5,924,429
Stockholders Equity		$15,867,762			$2,943,616	($125,353,000)	$859,226,000	$171,474,000	$18,966,629	$6,254,939	($8,056,943)	$47,096	$3,579,562	($473,264)
ROA		0.15			0.75	-0.12	0.12	0.04	0.08	0.09	0.11	-0.05	0.27	0.11
ROE		0.33			0.82		0.26	0.10	0.12	0.29		-2.10	0.34	
Current Ratio		1.82			10.59	0.38	1.58	2.93	1.11	1.45	0.82	0.65	3.42	0.75
EBIT To Int Exp	40.54			28.88								0.02	63.18	36.06
Sales To Total Assets		1.41		4.98	2.53	0.61	9.01	0.59	0.52	5.65	2.14	6.75	3.16	1.28
Sales To Fixed Assets		40.38	388.73	5.05	57.38	1.99	302.95	45.63		1005.09		18.28	12.38	6.30
Gross CF	$53,805	$5,734,055	$67,589		$2,473,694	($7,037,000)	$243,962,000	$29,462,000		$2,053,973		$173,876	$1,710,773	$862,834
Equity Book Value		$15,867,762			$2,943,616	($125,353,000)	$859,226,000	$171,474,000	$18,966,629	$6,254,939	($8,056,943)	$47,096	$3,579,562	($473,264)
EBITDA	$55,116	$5,734,055	$67,589	$148,907	$2,433,645	($9,567,000)	$368,853,000	$7,963,000		$3,124,181		$275,223	$1,730,589	$1,287,561
EBIT	$53,149	$5,313,084	$67,509	$104,470	$2,382,029	($20,225,000)	$352,164,000	($4,736,000)	$4,076,742	$2,905,354	$7,063,594	$2,579	$1,252,049	$1,008,052
Book Value Inv Cap		$16,298,901			$2,943,616	($122,998,000)	$917,565,000	$308,314,000	$18,966,629	$6,254,939	($8,056,943)	$75,096	$3,605,231	($373,430)