

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**NOVEMBER 24, 2008**

A meeting of the Board of Directors of BCBSD, Inc. was held on November 24, 2008, at 11:30 a.m. in the corporate offices. The following members, who constitute the entire Board of Directors, were present and thereby waived notice of the meeting:

Max S. Bell, Jr., Chairman  
Ben Corballis, M.D., Vice Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider (via phone)  
David P. Roselle, Ph.D.  
Frances M. West, Esq.  
William H. Willis, Jr.

Also attending were the following members of staff: Timothy J. Constantine, President & Chief Executive Officer; William E. Kirk, III, Vice President, General Counsel & Corporate Secretary; and Ellen M. Johnson, Assistant to the President & CEO. Outside legal counsel attending: Grover C. Brown, Esq., of Gordon, Fournaris & Mammarella (representing the BCBSD Board); and David S. Swayze, Esq. and Michael W. Teichman, Esq. of Parkowski, Guerke & Swayze, P.A. (representing BCBSD, Inc.). Consultants attending: Robert C. Cole, Jr. (via phone) and Louis Pavia, Jr., President of CareCompanion.

**I. National Health Care Reform Proposals**

<b>EXHIBIT</b>
<b>JOINT-101.1</b>

## II. Deloitte Strategic Partner Capability Review

Mr. Constantine presented an overview of the assessment performed by Deloitte of [REDACTED] and [REDACTED] which was requested by the Board as part of its search for a potential strategic partner. In the spring of 2008, BCBSD engaged Deloitte to update its assessment of BCBSD's capabilities for meeting current and future market needs. The study found that BCBSD lagged behind the market in many key areas. Deloitte's proposed strategies for remedying BCBSD's capability "gaps" included BCBSD investing in these capability improvements on its own or securing an affiliation with another Blue organization that could provide those capabilities. BCBSD engaged Deloitte in October 2008 to provide an assessment of [REDACTED] and [REDACTED] to determine their ability to assist BCBSD in addressing BCBSD's capability gaps. In advance of today's meeting, the Board received a copy of the summary report of Deloitte's strategic partner capability review.

Mr. Constantine summarized the results of Deloitte's findings, as follows:

- Both [REDACTED] and [REDACTED] possess operating capabilities that are vastly more robust than BCBSD and can provide essentially all of the capabilities required by BCBSD.
- Many of these capabilities are in place or in the process of being implemented.
- This assessment was based on information reported by [REDACTED] and [REDACTED] in response to Deloitte's queries. Deloitte's own experience in working with these companies was also used to validate responses to the extent possible.
- There are differences in each company's status and approach.
- Deloitte also provided a series of follow-up questions to clarify the status of items that may be of importance to BCBSD.

As for the next steps, BCBSD's senior management team reviewed the Deloitte report and will follow-up with Deloitte to clarify various items, as needed. Management will also compile a list of items to discuss with [REDACTED] and [REDACTED], as required, to gain a better understanding of the critical points. This information will be valuable to BCBSD when negotiating the terms of a definitive agreement with respect to the timing and commitment of the potential partner for delivering capabilities to the Delaware constituents.

Chairman Bell asked if management would obtain an opinion from Deloitte regarding the most suitable partner for BCBSD. Management replied that providing such an opinion was not part of the scope of Deloitte's engagement; however, management would discuss the matter further with Deloitte in the course of developing management's recommendation to the Board.

## III. Strategic Partnership Considerations – Impact Assessment

Mr. Pavia presented an overview of the impact assessment conducted of the finalist candidates for strategic partnerships under consideration by the Board. The assessment included:

- The implications of BCBSD entering into a strategic partnership with a for-profit plan versus a non-profit plan with regard to scope of products, quality of care, member satisfaction, access, health care expenditures, premiums, employer-sponsored insurance and uninsured rate.

- A comparison of [REDACTED] and [REDACTED] relative to the perceptions and experiences of their respective stakeholder groups.
- A comparison of [REDACTED] and [REDACTED] with regard to key organizational and strategic considerations.
- A comparison of [REDACTED] and [REDACTED] based on regulatory review criteria set forth in the Delaware Department of Insurance's review in 1999 of the transaction between CareFirst, Inc. and BCBSD, Inc.

#### **IV. Public Benefit Proceeds**

Mr. Kirk provided an overview of the potential public benefit issues under Delaware's conversion statute if a strategic transaction involved a for-profit arrangement. His presentation included the key steps involved in determining the amount of any public benefit asset and the process for disposition of funds determined to be public benefit assets. Mr. Kirk noted that the amount of such assets would be determined by the Delaware Attorney General and Court of Chancery.

#### **V. Regulatory Approval Issues / Criteria**

Messrs. McBride, Swayze and Teichman discussed the regulatory review and political process involving a potential partnership with [REDACTED] or [REDACTED]. The regulatory review process would require the involvement of both the Delaware Attorney General's Office and the Department of Insurance. A transaction with [REDACTED] would be subject to the conversion statute, since it is a for-profit entity. There are some uncertainties regarding the [REDACTED] transaction as it relates to the conversion statute, which could result in challenges from a timing standpoint.

Mr. Kirk advised the Board that the Insurance Commissioner-elect (Karen Weldin Stewart) will visit the BCBSD offices on December 1, 2008, to discuss various health care-related topics. During that time, Messrs. Constantine and Kirk will discuss BCBSD's need to affiliate with a larger Blue organization. The Board suggested various topics to include in the discussion.

#### **VI. Next Steps**

With regard to the next steps in the process, the Board agreed to the following:

- Messrs. Constantine and Cole would arrange separate meetings with the leadership of [REDACTED] and [REDACTED] to conduct further due diligence. Management will continue its efforts to schedule meetings with key Delaware political and legislative leaders to present the company's case for the need to affiliate with a larger entity.
- For the Board's consideration, the Affiliation Work Group would prepare a recommendation with justifications as to which of the strategic partners would best fulfill the long-term needs of BCBSD, Inc. and its stakeholders.
- Outside legal counsel would identify the procedures required to effectuate each of the transactions under consideration (for-profit and mutual conversion) from a legal and regulatory standpoint.
- The Work Group's recommendation of a preferred potential partner would be presented to the Board in December 2008 or January 2009.

**VII. Request from CareFirst, Inc.**

The Board discussed the letter addressed to Chairman Bell from Chester Burrell, CEO of CareFirst, Inc., dated November 19, 2008. In his letter, Mr. Burrell requested a meeting between representatives of the board and top management of both companies to explore the possibility of a new relationship and the appropriate next steps. The Board discussed Mr. Burrell's request and agreed that Chairman Bell's reply would convey that the BCBSD Board took no definitive action at today's board meeting and would continue its affiliation deliberations at its December meeting.

**VIII. Adjournment**

There being no further business, the meeting adjourned at 2:30 p.m.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**EXECUTIVE SESSION**  
**MARCH 25, 2009**

An executive session of the Board of Directors of BCBSD, Inc. was held on March 25, 2009 at 2:35 p.m., immediately following the regular session. The following members were present:

Ben Corballis, M.D., Acting Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider (via phone)  
David P. Roselle, Ph.D.  
Frances M. West, Esq.  
William H. Willis, Jr.

Members of staff attending: Timothy J. Constantine, President & CEO; William E. Kirk, III, Vice President, Corporate Secretary & General Counsel; and Ellen M. Johnson, Executive Assistant to the President & CEO. Outside legal counsel attending: Grover C. Brown, Esq., Gordon, Fournaris & Mammarella (representing the BCBSD Board of Directors).

**I. Long-Range Strategic Planning Update**

Mr. Constantine reported the following:

- Pursuant to previous authorization by the Board, management has executed an expanded Confidentiality Agreement with ██████████ which expires on April 30, 2009. Mr. Constantine described the major points of the agreement. A discussion ensued and management addressed several questions posed by the Board.
- BCBSD engaged Ellin & Tucker (E&T) to conduct an independent valuation of BCBSD, which will be presented to the Board when completed. E&T has a strong valuation practice and previous experience with BCBSD.
- A draft definitive agreement was received from ██████████, which is being reviewed by BCBSD's Affiliation Work Group. On March 16, 2009, legal and regulatory consultant teams representing both companies met to discuss the terms and conditions. The Work Group is formulating a response to ██████████ reflecting BCBSD's comments, feedback and changes.
- A meeting between Mr. Constantine and the CEO of ██████████ was held on March 10, 2009, to discuss the transaction process and timing considerations.
- ██████████ has resumed its due diligence activities with BCBSD and staff is working on submission of the requested documents.
- ██████████ initial view regarding purchase price has not changed; however, it could be revised after ██████████ additional due diligence.

Mr. Kirk discussed regulatory and political considerations of a transaction between BCBSD and ██████████. He also identified the members of the regulatory and legal teams representing BCBSD and ██████████ and described the various activities underway.

Mr. Constantine identified the next steps of the process as follows:

- Complete the valuation engagement by Ellin & Tucker and present its findings to the Board.
- Make decisions regarding various benefit plans of BCBSD relative to the definitive agreement.
- Finalize the definitive agreement with ██████████
- Reach a mutually agreeable resolution regarding how proceeds from the sale would be handled, particularly the funds that are not considered public benefit assets. Ensure that the Board is fully versed regarding its duties from a fiduciary standpoint.
- Address BCBSD executive compensation matters through the preparation of exhibits and arrange for an independent review of Mr. Constantine's employment agreement.

**EXHIBIT**  
**JOINT-102.1**

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Mr. Constantine reported on a recent conversation he had with Chet Burrell, President & CEO of CareFirst, Inc. (CFI).

After discussion, the Board unanimously agreed with management's strategy, timeframe, and next steps.

Mr. Brown discussed potential public benefit assets related to the conversion statute resulting from a potential transaction with [REDACTED]. He also described possible scenarios that the Board could consider regarding any proceeds of the sale that would not be considered as public benefit assets and the regulatory process involved. Mr. Brown will provide guidance to the Board regarding its fiduciary duties and the steps that would be required to fulfill those duties in order to effectuate a transaction in the best interests of BCBSD and its stakeholders. Mr. Kirk added that the Affiliation Work Group has also been addressing these issues.

Mr. Kirk was excused from the meeting at 3:05 p.m.

## II. Report of Personnel Committee

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**III. Adjournment**

There being no further business, the meeting adjourned at 3:15 p.m.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO

May 7, 2009

PERSONAL AND CONFIDENTIAL

Timothy J. Constantine, President  
BCBSD, Inc. and Subsidiaries  
800 Delaware Avenue  
Wilmington, DE 19801-1322

Dear Mr. Constantine:

At your request, we have performed a valuation engagement to determine the fair market value of a 100 percent equity interest, on a controlling, marketable basis (FMV Interest) and the investment value of a 100 percent equity interest (Strategic Interest) in BCBSD, Inc. and Subsidiaries (BCBSD or the Company), as of April 1, 2009 (the Valuation Date).

The objective of a valuation is to express an unambiguous opinion as to the value of the business, business ownership interest, or security, which is supported by all procedures that the valuator deems to be relevant to the valuation.

A valuation has the following qualities:

1. Its conclusion of value is expressed as either a single dollar amount or a range.
2. It considers all relevant information as of the valuation date available to the valuator at the time of the performance of the valuation.
3. The valuator conducts appropriate procedures to collect and analyze all information expected to be relevant to the valuation.
4. The valuation is based upon consideration of all conceptual approaches deemed to be relevant by the valuator.

This valuation engagement, as that term is defined in the Statement of Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants, has been performed for the purpose of assisting you with corporate/business planning.

**EXHIBIT**  
**JOINT-103**

Mr. Timothy J. Constantine  
BCBSD, Inc.  
May 7, 2009  
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This resulting estimate of value should not be used for any other purposes or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

As agreed upon in our engagement letter, the scope of our valuation engagement was restricted to the use of the discounted cash flow method under the income approach.

The standards of value used in our valuation of the Company are fair market value and investment value.

Fair Market Value is defined as the price at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

We have defined Investment Value to be the value to potential strategic buyers based on individual investment requirements and expectations. It may incorporate synergies, economies of scale and/or value achieved through the combination of the entities.

For our valuation, we considered standard valuation approaches and methodologies. The financial information in this valuation, including the accompanying exhibits, is presented solely to assist in the development of our conclusion of value, and it should not be used for any other purpose. Because of the limited purpose of this information, it may contain departures from generally accepted accounting principles. The conclusion of value given is based on information provided in part by the management of the Company.

This report is only to be used in its entirety and is restricted for use by you and your advisors for corporate/business planning purposes only. No other third parties should rely on the information contained in this report without the advice of their attorney, accountant, or other advisors, and without confirming for themselves, the information contained herein. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Based on our analysis as described in this valuation report, it is our estimate that the Fair Market Value of a 100 percent equity interest in BCBSD, Inc. and Subsidiaries on a controlling, marketable basis, as of April 1, 2009, is \$122,000,000 to \$136,000,000 – Exhibit 1.

Mr. Timothy J. Constantine  
BCBSD, Inc.  
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Further, based on our analysis as described in this valuation report, it is our estimate that the Investment Value of a 100 percent equity interest in BCBSD, Inc. and Subsidiaries, as of April 1, 2009, is \$193,000,000 to \$220,000,000 – Exhibit 8.

This estimate of value is subject to the Statement of Valuation Assumptions and Limiting Conditions included in the report on pages 30 through 33. Neither Ellin & Tucker, Chartered nor the individuals involved in preparing this valuation has any present or contemplated future interest in the Company, or any other interests that might tend to prevent making a fair and unbiased valuation. The details of the valuation and the basis for conclusions are described in the information accompanying this report. This report is to be used solely by you for the purposes listed above and should not be used for any other purpose. If you have any questions, please contact R. Christopher Rosenthal, the preparer of this report.



ELLIN & TUCKER, CHARTERED  
Certified Public Accountants



R. Christopher Rosenthal, CPA/ABV, ASA, CFF, AEP  
Report Preparer

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**MAY 20, 2009**

A meeting of the Board of Directors of BCBSD, Inc. was held, pursuant to notice, on May 20, 2009 at 11:30 a.m. in the corporate offices. The following Directors were present:

Max S. Bell, Jr., Chairman  
Ben Corballis, M.D., Vice Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider  
David P. Roselle, Ph.D.  
Frances M. West, Esq.  
William H. Willis, Jr.

**I. Presentation by the Blue Cross and Blue Shield Association (BCBSA)**

**EXHIBIT**

**JOINT-104.1**

BCBSD004512  
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At 1:25 p.m., the following individuals joined the meeting: Grover C. Brown, Esq. of Gordon, Fournaris & Mammarella (representing the BCBSD Board); David C. McBride, Esq. of Young, Conaway, Stargatt & Taylor; Louis J. Pavia, Jr., President of CareCompanion; and representing Ellin & Tucker, Chartered: R. Christopher Rosenthal, Director; and Sean P. Dooley, Analyst.

The Board then proceeded with the next order of business.

## II. Review of Valuation of BCBSD, Inc.

In advance of today's meeting, each of the members of the Board received a complete report of the results of the valuation of BCBSD, Inc. and its subsidiaries, as of April 1, 2009, performed by Ellin & Tucker, Chartered (E&T).

BCBSD engaged E&T to perform a valuation engagement that would determine the following:

- The Fair Market Value of a 100% equity interest on a controlling, marketable basis (FMV Interest) in BCBSD, Inc. and its subsidiaries as of April 1, 2009; and
- The Investment Value of a 100% equity interest (Strategic Interest) in BCBSD and its subsidiaries as of April 1, 2009.

Mr. Rosenthal of E&T presented an executive overview. He stated that E&T performed this valuation engagement to assist BCBSD and its advisors for corporate and business planning purposes and that it was conducted in accordance with the Statement of Standards for Valuation Services (SVSS) of the American Institute of Certified Public Accountants. He described the process used by E&T during the valuation and the analyses performed. As outlined in the engagement letter, E&T and BCBSD agreed that the scope of the valuation engagement would be restricted to the use of the discounted cash flow method under the income approach. This method was based on the premise that the value of a business, business ownership interest, or security interest was estimated by the present value of the future benefits of ownership. Mr. Rothenberg discussed E&T's income approach as applied to both the Fair Market Value (FMV) Interest and the Strategic Interest, along with the assumptions and parameters used for each approach.

E&T's analyses resulted in the following as described in its valuation report:

- The estimated Fair Market Value of a 100% equity interest in BCBSD, Inc. and its subsidiaries on a controlling, marketable basis, as of April 1, 2009, was within a range of \$122,000,000 to \$136,000,000.
- The estimated Investment Value of a 100% equity interest in BCBSD, Inc. and its subsidiaries, as of April 1, 2009, was within a range of \$193,000,000 to \$220,000,000.

These results reinforce the opinion of the Board and management that BCBSD would derive more value as part of a larger entity than as an independent entity.

Ms. O'Brien explained that the goal of the engagement was not to arrive at any specific number, rather a range, which is a common industry practice. E&T was meticulous about employing reasonable assumptions to ensure accuracy. E&T did not include comparable multiples in its valuation, since this type of valuation was previously completed by Mr. Pavia.

Mr. McBride stated that in most valuations performed for transactions, several methodologies are used to arrive at a value. He identified several methodologies that could be employed by various experts during the regulatory review process (including possible proceedings in the Court of Chancery).

At the Board's request, management will develop a market comparable estimate for the Board's review before a purchase amount for BCBSD was agreed upon by the Board.

Mr. Brown's opinion, as the Board's special counsel, was that the Board had thus far fulfilled its fiduciary duty in obtaining a reasonable valuation of BCBSD and its subsidiaries, and management had supplied all of the relevant information.

After discussion, the Board accepted Ellin & Tucker's report. At 12:10 p.m., Messrs. Rosenthal and Dooley, and Ms. O'Brien departed the meeting, with the Board's appreciation.

### III. Report of Strategic Transaction Committee

- **Report of Meeting** – Dr. Corballis, Committee Chairman, reported that the Strategic Transaction Committee met on May 14, 2009. During the meeting, Messrs. Constantine and Pavia presented a status report of the major activities relative to the negotiations between BCBSD and [REDACTED]. The Committee agreed with management's recommendation to extend the Exclusivity Agreement between BCBSD and [REDACTED] to June 30, 2009, contingent upon the approval of the full Board. Mr. Constantine reported on his meetings with [REDACTED] (Chief Executive Officer of [REDACTED]) on May 6<sup>th</sup>, and [REDACTED] (Chief Operating Officer [REDACTED]) on May 7<sup>th</sup>.
- **Update of Major Activities** – Mr. Constantine provided an update on the major activities of the proposed strategic transaction between BCBSD and [REDACTED], which was presented to the Strategic Transaction Committee on May 14, 2009. His presentation included an overview of the negotiating process, description of key terms of the proposed Definitive Agreement and post-closing protections, and key revised terms as requested by BCBSD. Messrs. Constantine and McBride discussed the remaining major issues of the proposed Definitive Agreement that are still under negotiation. Mr. Constantine listed the proposed next steps of the process, which are to extend the Exclusivity Agreement before its termination date of May 31, 2009; finalize the Merger Agreement and supporting schedules; present management's recommendation to the Board; obtain the approval of the Members and Board of Directors of the Merger Agreement; execute the Merger Agreement; initiate government and public communications; file the Form A; and initiate the conversion.
- **Extension of Exclusivity Agreement**  
Mr. Constantine reminded the Board that on April 29, 2009, the Board authorized management to negotiate an extension of the Exclusivity Agreement between BCBSD, Inc. and [REDACTED] through May 31, 2009, which was completed. Since further negotiations were required with regard to the Merger Agreement, the Strategic Transaction Committee agreed with management's recommendation to negotiate for an extension of the term through June 30, 2009.

After discussion, and upon motion made and seconded, the Board of Directors of BCBSD, Inc. unanimously authorized management to negotiate with [REDACTED] for an extension of the Exclusivity Agreement through June 30, 2009, as recommended by the Strategic Transaction Committee.

- **Transaction Proceeds**  
There was a discussion regarding the possible uses of any transaction proceeds in excess of the public benefit asset amount. BCBSD will need to be in a position to proactively identify potential programs for these funds and garner strategic support from key stakeholders in Delaware.

▪ **Recommendations for Future Special Meetings of the Board**

As discussed at the Strategic Transaction Committee meeting on May 14, management outlined special meetings of the Board that would be required to accomplish specific actions relative to the proposed transaction over the next two months, as follows:

- An offsite meeting of the Board to be scheduled in June 2009 so that the Directors can review the draft Merger Agreement and offer suggestions and voice concerns. A portion of the meeting could be devoted to the discussion of the regulatory process issues and identification of possible ideas for any non-public benefit assets that could result from the transaction.
- A meeting of each of the Members and the Board to be scheduled in July 2009 in order to approve the Merger Agreement and take all other appropriate actions relative to the transaction.

After discussion, the Board agreed with management's proposals.

Messrs. Daney and Cole departed the meeting at 2:50 p.m.

**IV. Adjournment**

There being no further business, the meeting adjourned at 2:55 p.m. Chairman Bell excused everyone, except the members of the Board, Messrs. Brown and Constantine, and Ms. Johnson, who remained for executive session.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**JUNE 25, 2009**

A special meeting of the Board of Directors of BCBSD, Inc. was held pursuant to notice on June 25, 2009, 10:00 a.m. at the Chase Center on the Riverfront in the Harlan & Hollingsworth Room, Wilmington, Delaware. The following members were present:

Max S. Bell, Jr., Chairman  
Ben Corballis, M.D., Vice Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider  
David P. Roselle, Ph.D.  
Frances M. West, Esq.

Also attending were the following members of staff: Timothy J. Constantine, President & Chief Executive Officer; William E. Kirk, III, Vice President, Corporate Secretary & General Counsel; Ellen M. Johnson, Executive Assistant to the President & CEO. Outside legal counsel: Grover C. Brown, Esq., of Gordon, Fournaris & Mammarella (Special Counsel to the BCBSD Board of Directors); David C. McBride, Esq., of Young, Conaway, Stargatt & Taylor; and David S. Swayze, Esq., and Michael W. Teichman, Esq., of Parkowski, Guerke & Swayze, P.A. Consultants: Robert C. Cole, Jr., and Louis Pavia, Jr., President of CareCompanion.

Chairman Bell opened the meeting and requested that Mr. Constantine provide an update on the negotiation process between Blue Cross Blue Shield of Delaware and [REDACTED]

**I. Status of Negotiations**

- **Preliminary Offer** – Mr. Constantine reported that BCBSD’s Affiliation Work Group met prior to today’s meeting to discuss the latest offer from [REDACTED] for the purchase of BCBSD, Inc. (“BCBSD” or the “Company”). On June 22, 2009, Mr. Pavia of CareCompanion spoke to a representative of [REDACTED] Mergers and Acquisitions Division, who conveyed to him that [REDACTED] leadership approved an offer amount for BCBSD in the range of \$70 - \$75 million. This range was significantly lower than the previous offer and represented one-half of BCBSD’s current book value. The recent offer was also significantly lower than the Ellin & Tucker estimate of BCBSD’s valuation range.

At the request of Mr. Constantine, Mr. Pavia provided further details regarding [REDACTED] most recent offer and described the financial model used by [REDACTED] to arrive at the offer, which was based on BCBSD’s 2009 financial projections and projected performance as an [REDACTED] subsidiary through 2013. The reasons cited for the lower offer amount include the significant reduction in BCBSD’s risk-based capital since September 2008, the increase in long-term employee benefit obligations, and the deterioration in financial results.

- **Comparison of Offer to Valuations** – Mr. Pavia reviewed the findings and conclusions of the valuation analyses of BCBSD that have been completed. He first summarized the various approaches used in valuing a business for sale, which included the Income Approach (which is typically based on the present value of projected future earnings) and the Market Approach (which focuses on the market value of benchmark public companies and recent comparable acquisitions). He noted that each methodology involves various assumptions and could yield significantly different results. Ultimately, the fair market value represents the dollar amount that a willing buyer

**EXHIBIT**  
**JOINT-105.1**

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and willing seller are able to agree upon. Similar to the Ellin & Tucker (“E&T”) Discounted Cash Flow (DCF) analysis presented to the BCBSD Board on May 20, 2009, CareCompanion prepared projections based on a less sophisticated model, resulting in an estimated value of \$152.5 million (assuming a relatively weak economic and insurance business recovery) and \$185.2 million (assuming a return to historic business levels). These results were comparable to the E&T strategic buyer range of \$193 - \$220 million. Mr. Pavia noted that there has been a major change in the economy and the business over the past year as evidenced by the decrease in the DCF values prepared by CareCompanion in 2008 of \$207 - \$259 million and the significant declines in the market value of publicly traded health insurance companies.

With regard to the Market Approach, Mr. Pavia delineated the fair market value based on the valuation ratios of [REDACTED], which included the Enterprise Value (defined as market capitalization, less debt, plus cash) to Revenue, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Adjusted Members (defined as Risk Members plus 20% of ASO, Federal Employee Program and Blue Card members). Applying the [REDACTED] ratios found in the current SmithBarney Research Reports for the first quarter 2009 to BCBSD’s actual performance for the first quarter 2009 yielded values of \$236 million based on Revenue, \$77 million based on EBITDA, and \$249 million based on adjusted members for an average comparable multiple valuation of \$187 million. These results were similar when using 2008 results and 2009 projected results.

Mr. Pavia also discussed the amount paid by [REDACTED] to purchase [REDACTED], which was the most recent Blue acquisition transaction completed by [REDACTED]. The same three market multiples were examined. Using the price actually paid by [REDACTED], the change in market multiples of [REDACTED] since the time of the acquisition, and applying those multiples to BCBSD’s actual performance for the first quarter 2009, a comparable value was computed. The comparable price for BCBSD ranged from \$167 million (based on the revenue multiple) to \$87 million (based on the EBITDA multiple), averaging \$128 million for the three multiples. Other non-Blue Cross Blue Shield insurance acquisitions were examined, but not deemed comparable since these companies were not eligible to purchase BCBSD.

Therefore, based upon the various analyses performed, Mr. Pavia concluded that the fair market value estimate for BCBSD ranged from \$128 million to \$220 million, and converged at approximately \$190 million. Furthermore, Mr. Pavia was of the opinion that [REDACTED] financial model did not factor in the level of synergies to the same extent as compared to BCBSD and E&T.

- **Overview of Draft Merger Agreement Issues** – In light of [REDACTED] recent offer, Mr. McBride did not present a detailed overview of the structure of the proposed Merger Agreement (the “Agreement”) between [REDACTED] and BCBSD as originally planned. Instead, he outlined his perspective of the negotiation process, which he described as challenging. He noted that when evaluating a merger agreement, there are a number of fundamental questions to be addressed, which he identified. In one manner or another, all of the most important provisions of a merger agreement impact the answer to one or more of those fundamental questions. Also, when evaluating a merger agreement, the reliability of the merger partner and that partner’s motivation to close the transaction are material considerations for the Board and management to consider in addition to the actual legal terms of the agreement.

Mr. McBride provided an analysis of the major unresolved terms of the proposed Agreement. BCBSD and [REDACTED] have engaged in numerous discussions and exchanged several drafts through

their respective attorneys, staffs, and consultants. There were differences in the views of BCBSD and [REDACTED] with regard to what was considered as significant importance to each organization in the context of this transaction. While obtaining a fair price from a sale of BCBSD is a very important consideration to its Board of Directors, there is also a significant amount of importance placed on the business, operational and financial condition of the potential partner. Mr. Cole offered his perspective and expressed agreement with Mr. McBride's assessment of the negotiation process.

In summary, Mr. McBride stated that he was neither satisfied with the current structural terms of the proposed Agreement nor with the amount of the latest offer from [REDACTED]

- **Potential Regulatory Issues** – Mr. Swayze outlined a number of regulatory challenges that BCBSD would encounter if the Board approved [REDACTED] current offer. He specifically addressed the Delaware Attorney General's review of public benefit assets and the Insurance Commissioner's review of the change of control standards. He emphasized the importance of the Board and management possessing a complete understanding of all of the assumptions used by any potential partner to arrive at a proposed purchase price in order to be in a position to provide a comprehensive explanation of the analyses examined during a regulatory review process. Mr. Swayze also discussed the State's conversion statute. Mr. Teichman added that even if BCBSD received and approved an offer from a potential partner in the acceptable fair market value range for BCBSD, there would likely be a lengthy and comprehensive regulatory process conducted under close scrutiny.

In summary, Mr. Swayze's opinion was that if the Board approved [REDACTED] latest offer, BCBSD would face difficulty in obtaining approvals of the proposed transaction from the various regulatory bodies.

Following the presentations, a thorough discussion ensued, which included several questions posed by the Board and advisors. The following factors were noted:

- [REDACTED] latest proposed purchase price for BCBSD in the range of \$70 – \$75 million would be approximately one-half of the Company's current book value and nearly one-third of the lower range of the Strategic Interest Value of the Company as estimated by Ellin & Tucker in its valuation of BCBSD, Inc. dated April 1, 2009. It would also represent less than one-third of the \$240 million value suggested by [REDACTED] in its Letter of Intent of September 2008.
- [REDACTED] insistence upon retaining certain provisions within the latest draft of the Merger Agreement being negotiated by counsel is a cause for concern, since those terms are unacceptable to the BCBSD Board based upon the advice of its representatives and advisors.
- There is no reason to believe that the sale of the Company to [REDACTED] at a price within the \$70 - \$75 million range on the terms and conditions being advocated by [REDACTED] in the draft Merger Agreement would be approved by the Delaware regulators. Furthermore, the Board could not, in the exercise of its fiduciary duties, submit such a proposal to the regulators for approval.
- There is insufficient assurance on the part of the BCBSD Board regarding the manner in which [REDACTED] latest offer in the value range of \$70 - \$75 million (conveyed to Mr. Pavia during a telephone conversation with a [REDACTED] representative on June 22, 2009) actually constituted a formal offer by [REDACTED] to purchase the Company within that specific range.

Whereupon, as a result of the foregoing discussion and a consensus reached with regard to the factors outlined above, and upon the recommendation of management, the following motion was made, seconded and carried unanimously:

**RESOLVED** that the Board of Directors, in accordance with its fiduciary duties under Delaware law, does not intend to accept an offer for the purchase of BCBSD, Inc. (the "Company") for less than the fair market value of the Company; and

**IT IS FURTHER RESOLVED** that management is authorized and directed to seek clarification from [REDACTED] as to whether or not its communication of the \$70 – \$75 million valuation range to Louis Pavia, Jr., constitutes a bona fide offer to purchase the Company for a price within that range. If management determines that the proposed range of \$70 – \$75 million does constitute an offer from [REDACTED], Timothy J. Constantine, as Chief Executive Officer of the Company, is directed to contact the Chief Executive Officer of [REDACTED] to ascertain if [REDACTED] still intends to pursue a transaction with BCBSD, Inc. and to convey to the CEO that the Board of Directors of BCBSD, Inc. will not accept [REDACTED] offer since it falls significantly below the fair market value of the Company; and,

**IT IS FURTHER RESOLVED** that the Company will not engage in continued exclusive negotiations with [REDACTED], if [REDACTED] does not intend to make an offer for BCBSD, Inc. at a reasonable price that could be deemed acceptable by the BCBSD Board; and

**IT IS FURTHER RESOLVED** that, under the circumstances, the Board of Directors of BCBSD, Inc. does not, and will not, approve an extension of the terms of the Exclusivity Agreement between BCBSD, Inc. and [REDACTED] and that [REDACTED] management is to be so advised.

## II. Health Care Reform Update

[REDACTED]

[REDACTED]

[REDACTED]

## III. Potential Partner Alternatives

As a result of concerns over the latest [REDACTED] offer, terms of the proposed Merger Agreement, and the possible outcome of the resulting regulatory process, Mr. Constantine asked Mr. Pavia to present updated information regarding each of the potential strategic partners, other than [REDACTED], that were considered during the initial evaluation process. Given the anticipated challenges that BCBSD will encounter over the next several years, Mr. Constantine's opinion is that the Company will need to accomplish some form of strategic partnership with another Blue Plan to ensure its long-term viability. Mr. Pavia's overview included an evaluation of each potential partner's 2008 operating and financial results (updated from 2007); leadership changes; and the advantages, benefits, disadvantages, and risks to BCBSD of each partnership. Mr. Constantine also offered his perspective on each potential partner.

After discussion and obtaining clarification on various points, the Board took the following actions:

- Upon the recommendation of management, the Board authorized management, when deemed appropriate, to initiate discussions with [REDACTED], and Highmark, Inc. to determine each Plan's desire to pursue a potential strategic partnership with BCBSD. The Board agreed that management would not pursue negotiations at this time with [REDACTED] and [REDACTED]
- Management would engage in the appropriate due diligence process with each of the proposed strategic partners that express an interest in pursuing a strategic partnership with BCBSD and report the results to the Board of Directors in the next 60 – 90 days.

#### IV. Next Steps.

Mr. Constantine outlined the next steps of the strategic transaction process, as authorized by the Board, as follows:

- Management would contact [REDACTED] officials and verify/clarify the terms of the latest offer as communicated to Mr. Pavia;
- If [REDACTED] does not submit an acceptable formal offer to purchase BCBSD, which reflects the fair market value of the Company, management will convey to [REDACTED] officials, on behalf of the Board of Directors, that BCBSD would not continue exclusive negotiations with [REDACTED]; and
- Management would begin to initiate discussions with the potential strategic partners authorized today by the Board and provide a progress report to the Board in the next 60 – 90 days.

The Board also agreed that, based upon the new developments, the special meeting of the Board of Directors of BCBSD scheduled for July 8, 2009, would be considered tentative pending clarification of [REDACTED] latest offer.

#### V. Adjournment

There being no further business, the meeting adjourned at 12:05 p.m.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**EXECUTIVE SESSION**  
**AUGUST 26, 2009**

An executive session of the Board of Directors of BCBSD, Inc. was held on August 26, 2009 at 1:27 p.m., immediately following the regular session. The following members of the Board were present:

Max S. Bell, Jr., Chairman  
Ben Corballis, M.D., Vice Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider  
David P. Roselle, Ph.D.  
Frances M. West, Esq.  
William H. Willis, Jr.

Members of staff attending: Timothy J. Constantine, President & Chief Executive Officer; and Ellen M. Johnson, Executive Assistant to the President & CEO. Also attending was Grover C. Brown, Esq., of Gordon, Fournaris & Mammarella (Special Counsel to the BCBSD Board).

**I. Long-Range Strategic Planning Update**

Mr. Constantine summarized activities with regard to the company's long-range strategic planning process since the last meeting of the BCBSD Board of Directors on July 22, 2009. He reported that during a conversation with [REDACTED], Chief Executive Officer of [REDACTED] indicated that [REDACTED] was still very interested in a partnership with BCBSD. [REDACTED] also indicated that [REDACTED] believes that the value of health insurance plans has fundamentally changed due to the economy and the potential for major health care reform.

Mr. Constantine reported that he and [REDACTED] discussed the following options for the Board's consideration:

- BCBSD and [REDACTED] jointly engage an independent investment banker to perform a valuation of BCBSD.
- [REDACTED] enter into a management services agreement with BCBSD. The agreement would be based upon the premise that the two parties would eventually enter into a full merger agreement.

Mr. Constantine also reported he has been in contact with officials from [REDACTED] Highmark, Inc. and [REDACTED]. Both [REDACTED] and Highmark expressed strong interest in a potential partnership and a Request for Proposal (RFP) has been sent to each company. BCBSD is waiting to hear from [REDACTED]. During the initial conversation, the CEO of [REDACTED] indicated that the company is focused on preserving capital to address the potential implications of health care reform and would contact BCBSD at a later time. After the RFPs are received and evaluated by BCBSD and its advisors, a meeting will be scheduled with the leadership of each Plan.

Mr. Constantine provided an update regarding each potential partner from an operational and regulatory standpoint.

With regard to the current interim service agreement between BCBSD and [REDACTED], Mr. Constantine noted that BCBSD still relies upon [REDACTED] for certain services, primarily information technology, pharmacy and medical management (BCBSD will resume full administration of the Human Resources function effective January 1, 2010). Thus far, [REDACTED] pricing for those services has been reasonable. Management recently evaluated each service provided by [REDACTED] comparing [REDACTED] service cost with BCBSD's potential cost to bring the service in-house or contract with an outside vendor. BCBSD and [REDACTED] officials will meet to renegotiate the scope of the services required by BCBSD and associated costs.

**EXHIBIT**  
**JOINT-106.1**

BCBSD003461  
Confidential

There was a discussion regarding the impact of potential health care reform outcomes on BCBSD's long-range strategic planning.

Following a discussion, the Board unanimously agreed to the following:

- The Board of Directors would meet some time after the Letters of Intent, which are due October 15, 2009, are received from the potential partners.
- The Board would continue to maintain confidentiality relative to the potential partners and associated activities.
- The Board authorized management to explore the possibility of moving forward with [REDACTED] recommendation that [REDACTED] and BCBSD jointly engage an independent investment banking firm to perform a valuation of BCBSD, Inc., if management and its advisors are of the opinion that such an engagement is warranted after BCBSD reviews the Letters of Intent from the other potential partners.
- If an independent firm does perform a valuation of BCBSD, Inc. through a joint arrangement with [REDACTED] and BCBSD, BCBSD should consider approaching the Delaware Department of Insurance (DOI) and Attorney General to discuss the possibility of utilizing and relying upon the valuation during the regulatory review phase. Mr. Brown agreed with this approach. Mr. Constantine will discuss the Board's recommendation with Mr. Kirk, BCBSD's General Counsel.

## II. Executive Compensation

## II. Adjournment

There being no further business, the meeting adjourned at 1:55 p.m.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO

**BCBSD, INC.**  
**BOARD OF DIRECTORS MEETING**  
**EXECUTIVE SESSION**  
**OCTOBER 7, 2009**

An executive session of the Board of Directors of BCBSD, Inc. was held immediately following the regular session on October 7, 2009, at 1:10 p.m. The following members were present:

Max S. Bell, Jr., Chairman  
Ben Corballis, M.D., Vice Chairman  
Thomas E. Archie  
Bernard J. Daney  
Robert F. Rider  
David P. Roselle, Ph.D.  
Frances M. West, Esq.  
William H. Willis, Jr. (via phone)

Also attending were the following members of staff: Timothy J. Constantine, President & Chief Executive Officer; William E. Kirk, III, Vice President, Corporate Secretary & General Counsel; and Ellen M. Johnson, Executive Assistant to the President & CEO. Outside legal counsel: Grover C. Brown, Esq., of Gordon, Fournaris & Mammarella (Special Counsel to the BCBSD Board of Directors).

**I. Long-Range Strategic Planning Update**

Mr. Constantine reported that [REDACTED] and Highmark Inc. each continue to exhibit a strong interest in pursuing a strategic partnership with BCBSD. Due diligence activities are currently underway with both companies. Highmark's response to BCBSD's request for a proposal is due on October 15, and [REDACTED] response is due on October 16, 2009. Representatives from each of [REDACTED] and Highmark will present their proposal and capabilities to BCBSD management and advisors in late October or early November 2009. The opinion of management and advisors is that both companies would be in a position to offer a wide range of capabilities and support to BCBSD. Mr. Constantine provided an update regarding each company from an operations and regulatory standpoint.

Mr. Constantine noted that [REDACTED] continues to be interested in a potential partnership with BCBSD and understands the concerns of the Board and management regarding the proposed purchase price. [REDACTED] will continue to defer further partnership negotiations pending the outcome of health care reform.

A special meeting of the BCBSD Board of Directors will be held in late November or early December to give the Board an opportunity to review the proposals of [REDACTED] and Highmark and consider recommendations by management.

**II. Chief Financial Officer's Position**

**EXHIBIT**  
**JOINT-107.1**

**III. Adjournment**

There being no further business, the meeting adjourned at 1:25 p.m.

Respectfully submitted:

Ellen M. Johnson  
Executive Assistant to the President & CEO



Kenneth R. Melani, M.D.  
President and  
Chief Executive Officer

October 15, 2009

Timothy J. Constantine  
President and CEO  
Blue Cross Blue Shield of Delaware  
800 Delaware Avenue, Suite 900  
Wilmington, DE 19801-1368

Dear Tim:

Thank you for extending the opportunity for Highmark Inc. (Highmark) to provide a proposal for establishing a strategic relationship with Blue Cross Blue Shield of Delaware (BCBSD). We believe that Highmark is uniquely positioned to help you define, design and implement a solution that will drive value to your customers, providers, employees and community.

Similar to our successful relationship with Mountain State Blue Cross Blue Shield, we believe an affiliation structure best addresses the objectives outlined in your August 25, 2009 letter and the accompanying Partnership Memorandum. An affiliation with Highmark provides BCBSD the capabilities needed to meet today's business requirements while positioning BCBSD for long-term success in today's rapidly evolving marketplace. The result will be a more competitive and financially secure BCBSD that can continue to fulfill its mission and vision for years to come.

The enclosed presentation describes our recommended solution in detail, including how an affiliation with Highmark will result in several important benefits for BCBSD:

- Access to state of the art technology and systems
- Comprehensive and innovative products and services
- Access to industry leading capabilities and resources
- Maximum value to stakeholders
- Efficient transition and integration

Our intent with this proposal is to leverage the full extent and depth of Highmark's offerings and capabilities to deliver the appropriate solution for BCBSD. We will be drawing upon our experience in similar relationships with other Blue Plans, as well as our common culture as a strong not-for-profit plan with an active commitment to our communities, to create a mutually beneficial relationship between our organizations.

We are excited about the opportunity to present this response and understand the significance of this initiative. We also hope you will recognize our strong interest in working with BCBSD and our intention to be responsive, creative and committed.

Should you have any questions or comments, please feel free to contact Kenneth R. Melani at (412) 544-7245 or via e-mail at [Kenneth.Melani@Highmark.com](mailto:Kenneth.Melani@Highmark.com).

Sincerely,



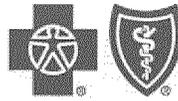
Kenneth R. Melani, M.D.

cc: William E. Kirk, III, Blue Cross Blue Shield of Delaware  
Louis Pavia, Jr. Care Companion

Fifth Avenue Place • 120 Fifth Avenue • Suite 3111 • Pittsburgh PA 15222-3099 • Telephone: (412) 544-7245 • Fax: (412) 544-8240

**EXHIBIT**  
**JOINT-108**

BCBSD005757  
Confidential



**BlueCross BlueShield  
of Delaware**

**October 23, 2009**

**9:30 a.m.**

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**Attendees**

**Representing Highmark Inc.**

Kenneth R. Melani, M.D.  
President and Chief Executive Officer

Nannette P. DeTurk  
Executive Vice President, Chief Administrative and Financial Officer, and Treasurer

Deborah L. Rice  
Executive Vice President, Health Services

Darran P. Macioce  
Senior Vice President, Health Plan Operations

Brett C. Moraski  
Senior Vice President, Corporate Strategy and Development

Gregory K. Smith  
Chairman of the Board, Mountain State Blue Cross Blue Shield  
Retired, President and Chief Executive Officer, Mountain State Blue Cross Blue Shield

**Representing BCBSD, Inc.**

Timothy J. Constantine  
President and Chief Executive Officer

Christine L. Alrich  
Vice President, Corporate Marketing

P. Scott Fad  
Vice President, Client Services and Business Development

William E. Kirk, III  
Vice President, General Counsel and Corporate Secretary

Robert C. Cole, Jr.  
Consultant  
Retired, President and Chief Executive Officer, BCBSD, Inc.

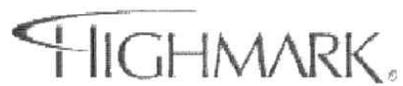
Grover C. Brown, Esq.  
Gordon, Fournaris & Mammarella  
Special Counsel to the Board of BCBSD, Inc.

Louis Pavia, Jr.  
President, Care Companion

Blue Cross Blue Shield of Delaware is an independent licensee of the Blue Cross and Blue Shield Association.

**EXHIBIT**  
**JOINT-110**

BCBSD022026



BlueCross BlueShield  
of Delaware

## BCBSD Affiliation Program Primer

August 29, 2011



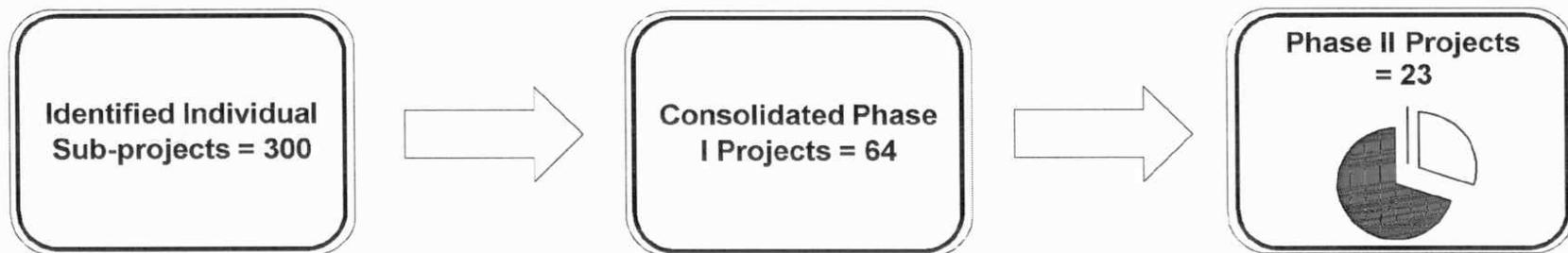
**EXHIBIT**  
**JOINT-111.1**

CONFIDENTIAL & PROPRIETARY

## Background and Context

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- BCBSD and Highmark are seeking to affiliate to provide access to market leading capabilities and compliance with health care reform mandates in the Delaware market
- Phase I of the project that was conducted from December 2010 through May 2011 included development of team charters and blueprints. Individual project teams completed their blueprints to outline how they will approach and execute the affiliation
- Eleven project teams identified 300 individual sub-projects at the end of the blueprinting process. These were then consolidated into 64 projects
- The teams were tasked with developing planning artifacts including project charters, project plans and cost sheets
- Twenty-three of the 64 projects were prioritized to start in 2011 pre-close (Phase II)
- During Phase I, 423 people were actively involved with the process



## BCBSD Affiliation Guiding Principles

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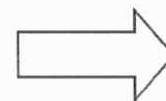
- Preserve market-facing functions in the Delaware market
- Utilize policies & procedures across the organization to minimize/eliminate compliance & control issues
- Address business & systems migrations concurrently
- Achieve efficiencies from enhanced productivity & reduced duplicative functions
- Minimize the impact on local employment levels as much as possible
  - Flexibility on timing & nature of any required impacts
  - May be able to offset impacts by identifying additional employment growth opportunities (e.g. DE business growth, Highmark enterprise positions, new business ventures)

### *Affiliation Planning Process (People, Process & Technology)*

**Affiliation  
Planning**



**Post Close  
Organization**



**End State  
Organization**

## BCBSD Profile

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- BCBSD celebrated its 75th anniversary in November. The company was founded in Wilmington, DE in November 1935
- 2009 Total Revenue = \$530 million
- Members = ~300,000
- Associates = ~630
- Headquarters = 800 Delaware Avenue, Wilmington, DE
- Products Administered = health (including medigap), indemnity dental, reinsurance, FSA, HRA, HSA
- Products branded BCBSD, but administered through external TPA's = DHMO, DPPO, vision, wellness
- External TPA non-branded products sold through agency = life, AD&D, voluntary, disability
- BCBSD neither has nor markets the following:
  - Medicaid
  - Medicare
  - Medicare Advantage
  - Medicare Part D

## Strategic Goals of the Affiliation

### Business Imperatives

Improve Growth

Reduce Cost & Duplicative Capabilities

Prepare for Federal Health Reform

Gain Access to Leading Capabilities

Continue Regulatory Compliance

### Business Areas

Go-to-Market includes Marketing & Product Development (M&PD), Sales, Corporate Communications & Strategic Planning (CC&SP) and Informatics

Go-to-Market

Middle Office

Middle Office includes Medical Management and Provider

Back Office includes Information Technology (Infrastructure and Applications) and Health Operations

Back Office

Corporate

Corporate includes the areas of Finance, Human Resources, and Legal, Audit, Compliance, External Affairs and Admin Oversight (LACEA)























































