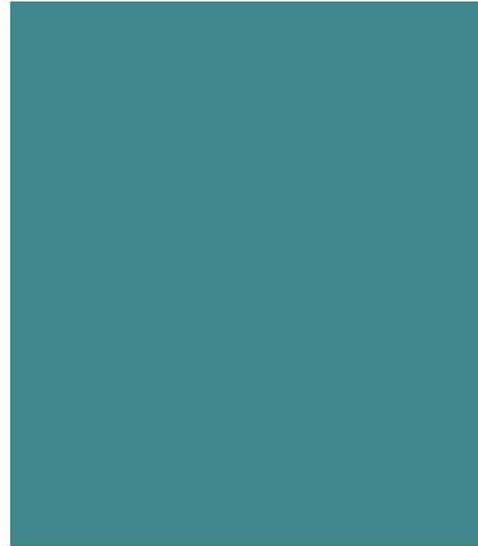




**BlueCross BlueShield
of Delaware**



Competitive Compensation Assessment of BCBSD's CEO Position

Donald Gallo
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donald.gallo@watsonwyatt.com

Daniel Everett
303-575-9724

daniel.everett@watsonwyatt.com



EXHIBIT
JOINT-39.1

July 9, 2009

Overview

- **Objective:** Conduct a competitive market assessment of the compensation provided to BCBSD Inc.'s Chief Executive Officer

- **Scope:**
 - Documentation of BCBSD's executive compensation comparison framework
 - Valuation of all significant components of pay for BCBSD's CEO
 - Detailed market assessment using valid third-party data
 - Documentation of the assessment
 - Confirmation of findings with the Chairmen of the Board and Personnel Committee, the CEO and outside counsel

Executive Summary

- At the request of BCBSD's Board, Watson Wyatt assessed the competitiveness of the **core compensation and benefits** for BCBSD's Chief Executive Officer using a market comparison framework approved by the Personnel Committee
 - Compensation:
 - Salary
 - Annual Incentive
 - Long-Term Incentive
 - Total Direct Compensation
 - Benefits:
 - Supplemental retirement benefits (non-qualified deferred compensation)
 - Automobile allowance
- Most of the compensation and benefit values for BCBSD's CEO are below median values in the defined market
- Details of our assessment are provided in this report

- **Executive Compensation Comparison Framework**
- Compensation Assessment
- Nonqualified Benefits & Perquisites
- Appendix

Peer Comparison Philosophy¹

- BCBSD benchmarks its executive compensation levels against those of comparison organizations in **two industry sectors**:
 - **Non-Public BCBS Companies**
 - **Health Insurance & Managed Care Companies**
 - Private
 - For-profit
 - Mutual
 - Publicly traded
 - Not-for-profit
- BCBSD defines the geographic market for executive compensation as **national**
- Compensation data are selected or adjusted to reflect peer organizations **comparable in size** to BCBSD
 - **2008 gross healthcare revenue² of \$1,180M**
 - **2008 total assets of \$310M**
- BCBSD uses data from reliable, published **compensation surveys**
- Data from the two industry sectors are **examined separately**, rather than weighted and combined
- Each pay element is **compared to median values** in the comparison organizations

¹ Validated by BCBSD's Personnel Committee

² Includes both underwritten premiums and Amounts Attributable to Self-Funded Arrangements to permit comparability to competitive survey data

BCBSD Peer Comparison Framework

Pay Element	Weight <i>Percent of total market comprised by each sector</i>		Positioning <i>Targeted percentile rank</i>	
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Salary	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Annual Incentive	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Long-Term Incentive	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Validated by BCBSD's Personnel Committee

Executive Compensation Elements

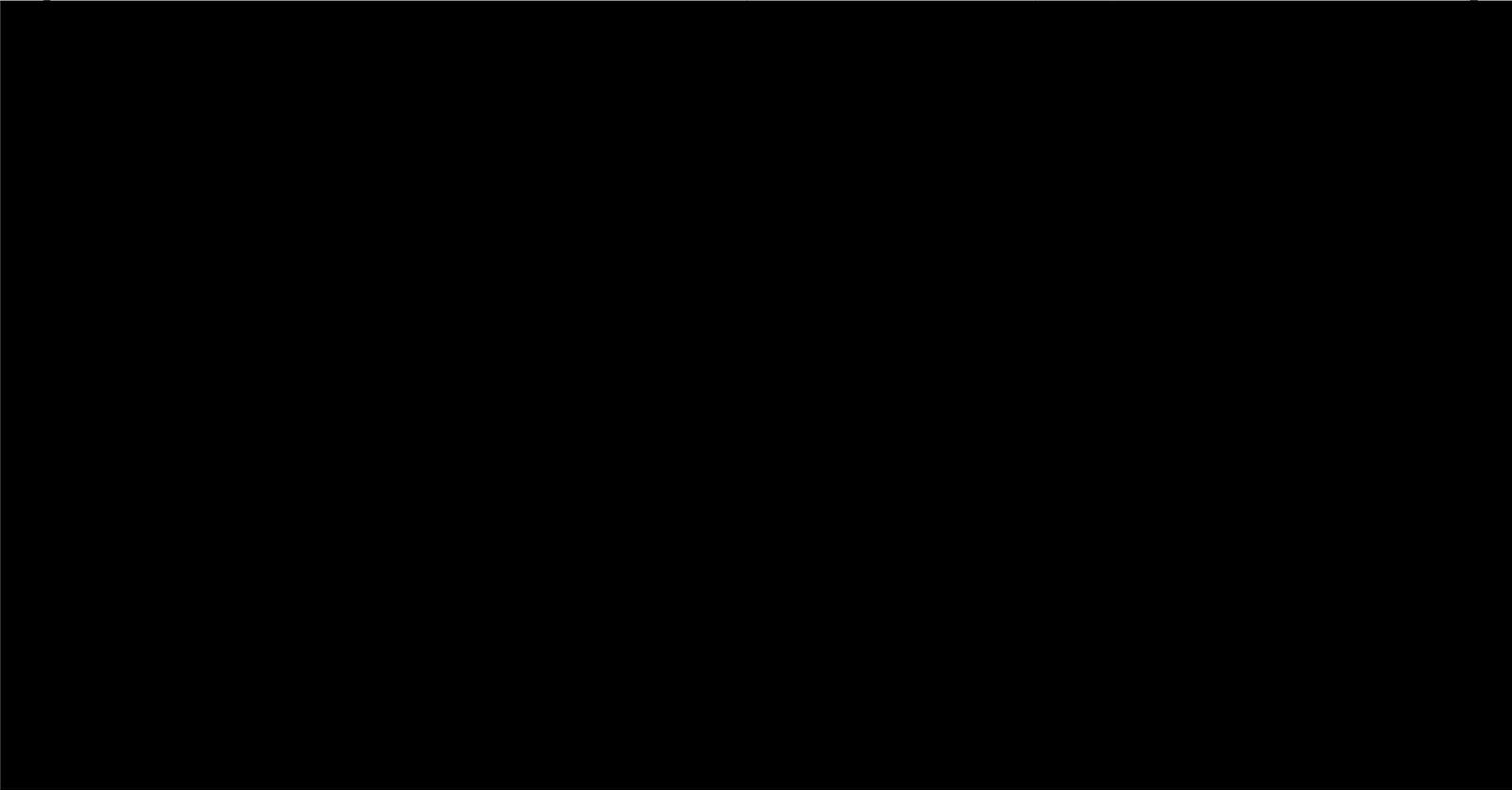
ELEMENTS INCLUDED IN ASSESSMENT

- **Cash Compensation**
 - Base salary
 - Short-term incentive compensation
 - Long-term incentive compensation
- **Nonqualified Executive Benefits & Perquisites**
 - Retirement (e.g. Non Qualified Deferred Compensation)
 - Perquisites (e.g. Car)

Validated by BCBSD's Personnel Committee

Compensation Surveys and Comparable Organization Size¹

PUBLISHED SURVEY DATA

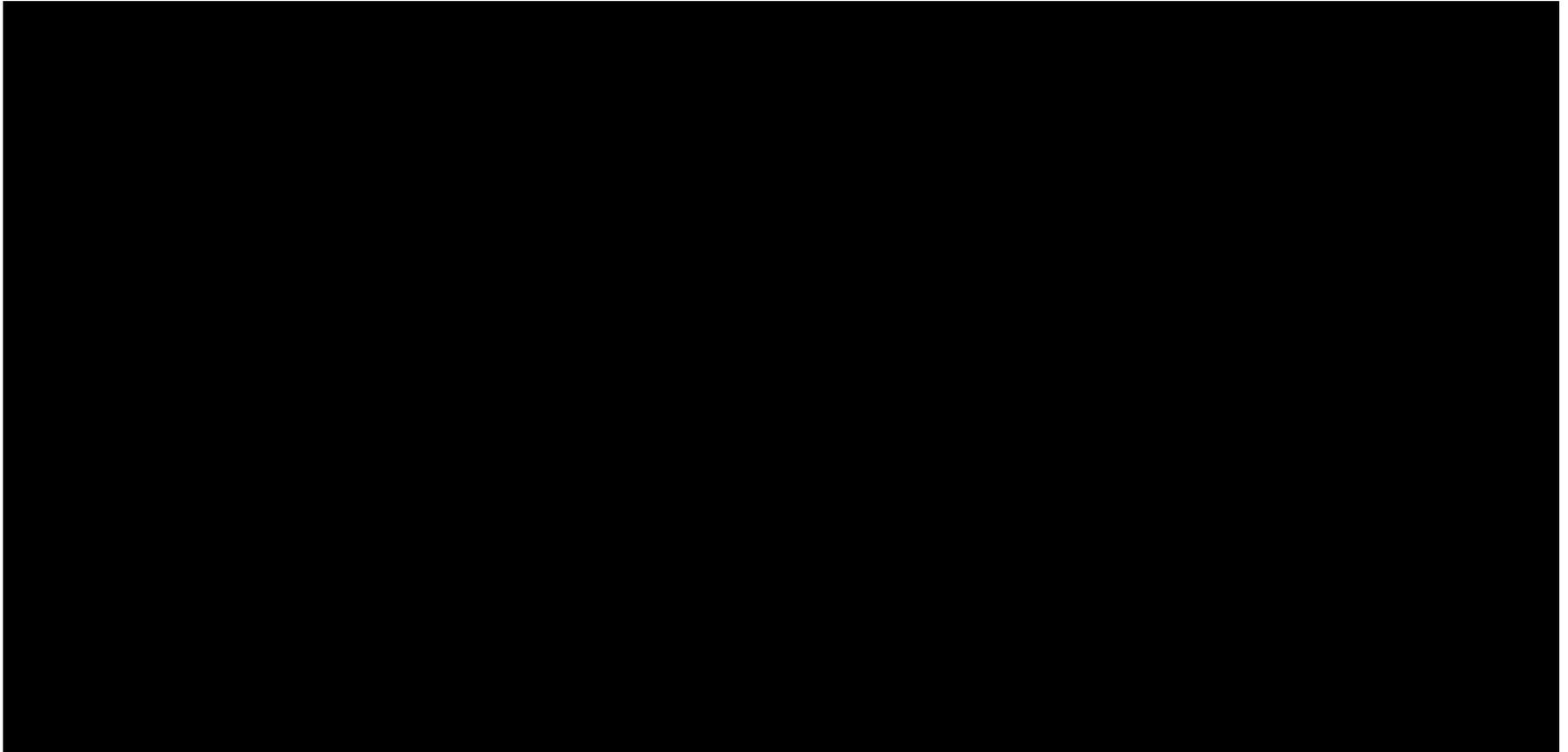


¹ Validated by BCBSD's Personnel Committee



BCBS Companies in WWDS Database

Watson Wyatt Data Services (WWDS) 2008/2009 Health Insurance Executive Compensation Survey Participants



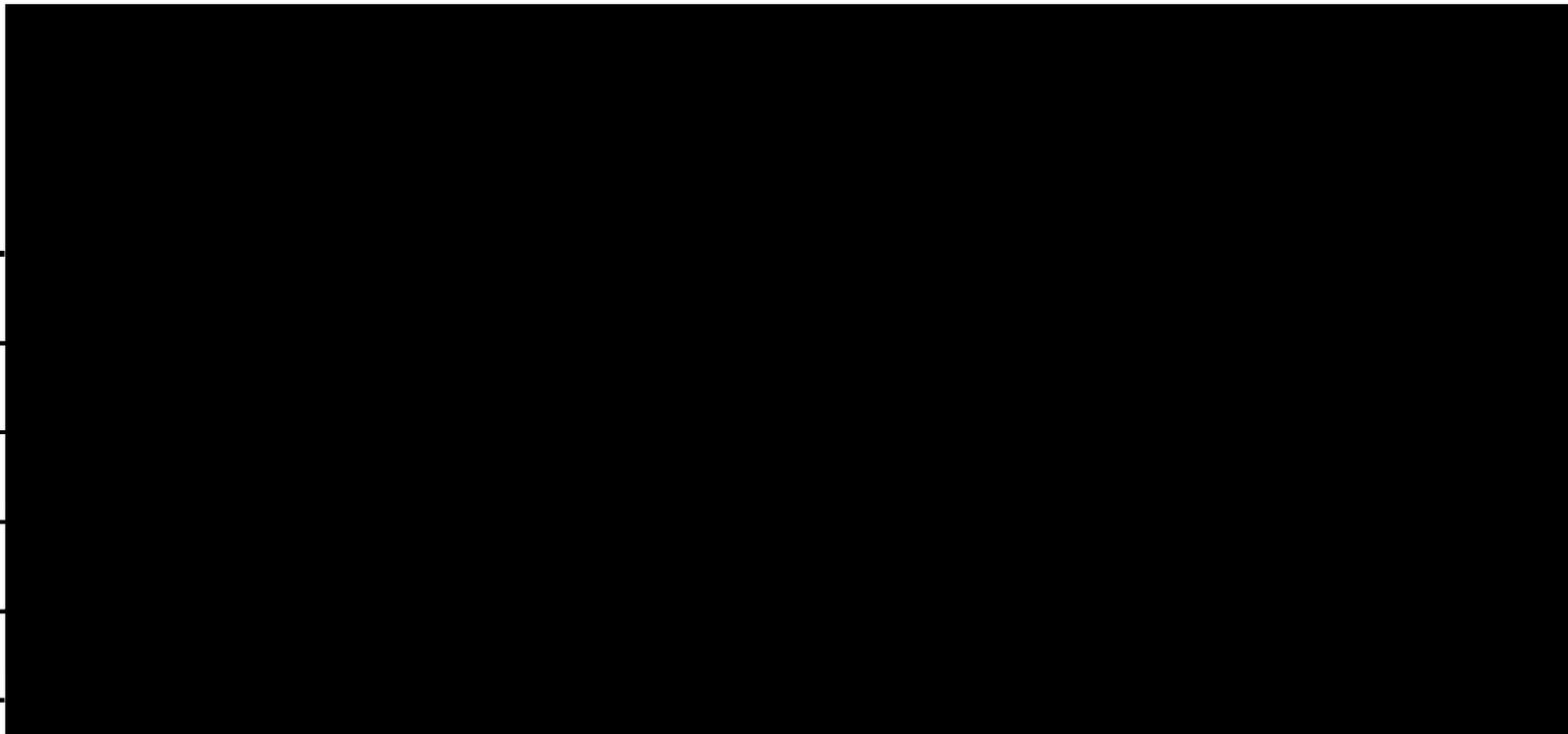
Note: All companies were included and compensation data were adjusted for organizational size (gross revenue) using statistical regression.

- Executive Compensation Comparison Framework
- **Compensation Assessment**
- Nonqualified Benefits & Perquisites
- Appendix

Compensation Assessment

SUMMARY OF SECTOR DATA (\$000)

Base Salary
Short-term Incentive
Total Cash Compensation
Long-term Incentive
Total Direct Compensation



Source File: BCBSD Survey Analysis v5



Compensation Assessment *continued*

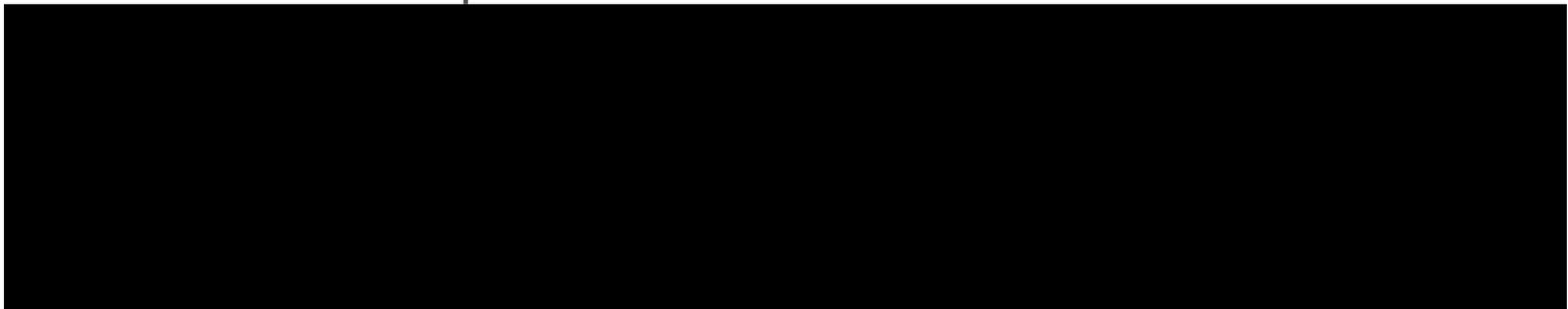
DETAILED SECTOR DATA (\$000)

Detailed methodology and assumptions are provided in the Appendix

- Executive Compensation Comparison Framework
- Compensation Assessment
- **Nonqualified Benefits & Perquisites**
- Appendix

Non Qualified Deferred Compensation (NQDC)

- BCBSD's Benefit Value assumptions:
 - Maximum benefit of [REDACTED] of Final Pay after [REDACTED] of service
 - Benefit is fully vested (assumed for purposes of this assessment)
 - Gross value is used in calculations; actual value is offset by ERP and PEP
- BCBSD Current Total Cash Compensation is [REDACTED] (annual incentive at target)
 - Market Competitive Total Cash Compensation is [REDACTED] (non-public BCBS median)
- Competitive retirement benefit for Peer Group is based on Non-Public BCBS Companies



NQDC Assessment: Findings

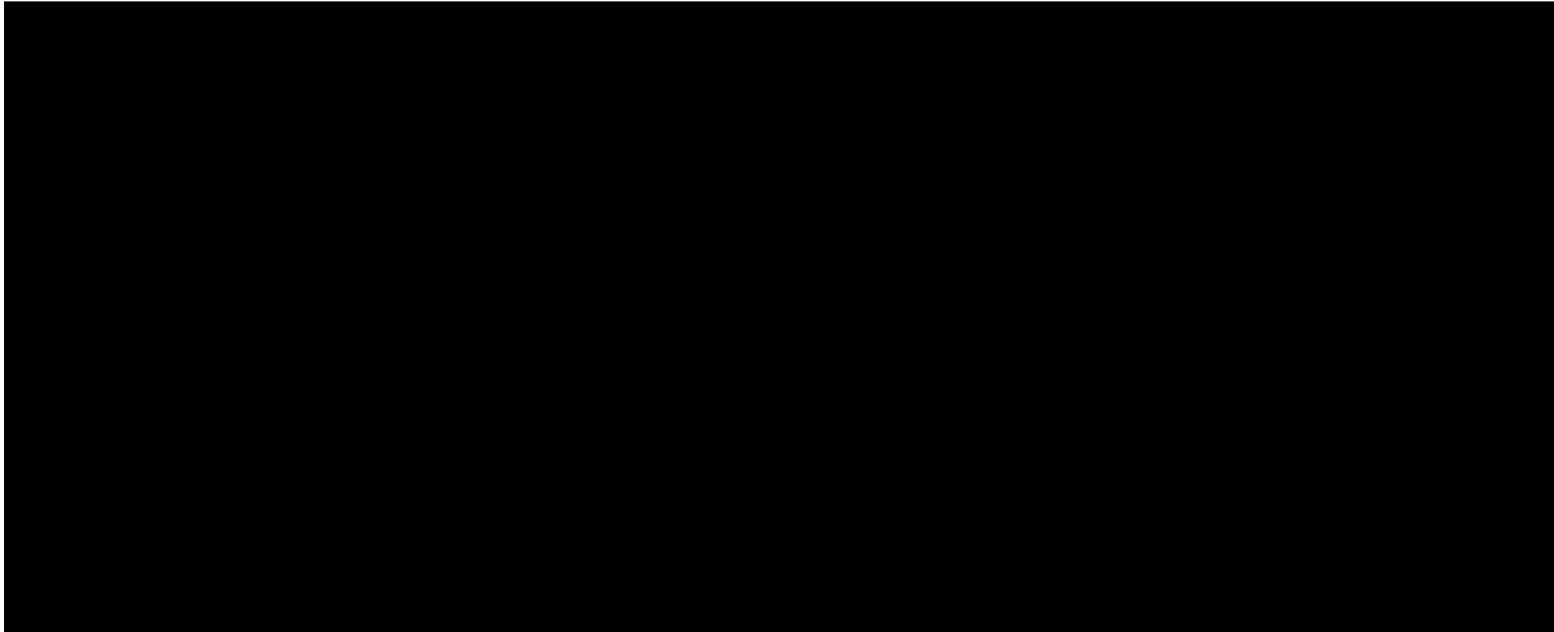
- Assuming a 4% interest rate, BCBSD's benefit is:
 - At 15 years of service:
 - **Above** competitive at BCBSD's actual compensation level
 - **Below** competitive compensation and benefit levels
 - At 30 years of service:
 - **Below** competitive at BCBSD's actual compensation level
 - **Less than half** the competitive compensation and benefit levels
- Assuming a 6% interest rate, BCBSD's benefit is:
 - At 15 years of service:
 - **Above** competitive at BCBSD's actual compensation level
 - **Close** to competitive compensation and benefit levels
 - At 30 years of service:
 - **Close** to competitive at BCBSD's actual compensation level
 - **Less than half** the competitive compensation and benefit levels

DETAILED CALCULATIONS FOLLOW

NQDC Assessment: Detail

Perquisites Assessment

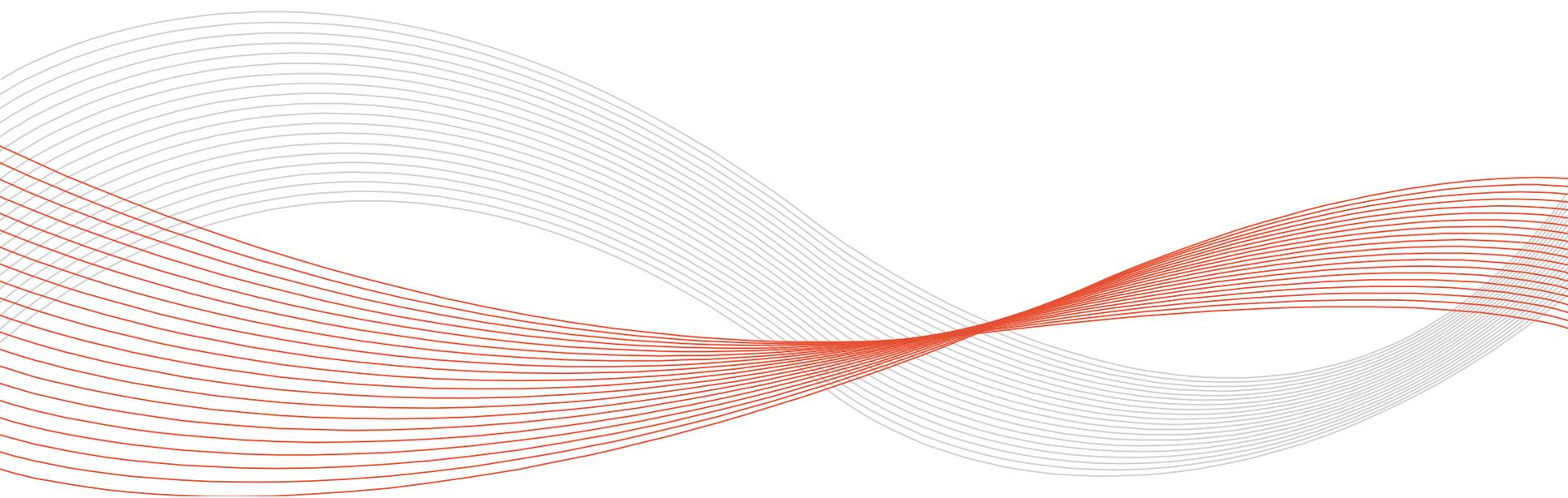
CEO AUTO PERQUISITE



- ¹ *Prevalence values reflect companies providing company owned or leased cars or allowance in lieu of car*
- ² *2008/2009 WWDS Survey Report on Non Qualified Benefits and Perquisites Practices - Healthcare Cut*
- ³ *2008 Integrated Healthcare Strategies Executive Compensation Survey*
- ⁴ *2008 Sullivan, Cotter & Associates, Inc. Survey of Manager and Executive Compensation in Hospitals and Health Systems*

- Executive Compensation Comparison Framework
- Compensation Assessment
- Nonqualified Benefits & Perquisites
- **Appendix**

Appendix: Compensation Assessment Methodology



Competitive Compensation Assessment

BCBSD Vice President Positions - Updated

A presentation to BCBSD Inc.
by Donald Gallo and Drew Smith

February 25, 2011

EXHIBIT

JOINT-40.1

TOWERS WATSON 

Overview

- **Objective:** Conduct a competitive market assessment of the cash compensation provided to BCBSD Inc.'s Vice Presidents
- **Scope:**
 - Documentation of BCBSD's executive compensation comparison framework
 - Valuation of cash compensation for BCBSD's six vice presidents
 - Detailed market assessment using valid third-party data
 - Documentation of the assessment
 - Confirmation of findings with the Chairmen of the Board and Personnel Committee, the CEO and outside counsel

Executive Summary

- At the request of BCBSD's Board, Towers Watson assessed the competitiveness of the compensation for BCBSD's Vice Presidents using a market comparison framework approved by the Personnel Committee in 2009
 - Salary
 - Target Annual Incentive
 - Target Annual Cash
 - Target Long-Term Incentive*
 - Total Direct Compensation
- In general, BCBSD compensation is below competitive median levels
 - On average, BCBSD base salaries are in line with the 50th percentile market data of the Non-Public BCBS industry sector and between the 25th and 50th percentiles of the Health Insurance and Managed Care industry sector data
 - BCBSD Target Annual Cash is between the 25th and 50th percentiles Non-Public BCBS industry sector data and slightly below the 25th percentile for Health Insurance and Managed Care industry sector data
 - BCBSD Total Direct Cash is below the 25th percentile of both industry sectors
- Details of our assessment are provided in this report

* BCBSD does not provide long-term incentives, but these market data are included in this analysis for reference, as they are prevalent practice in comparison organizations

- **Executive Compensation Comparison Framework**
- Compensation Assessment
- Appendix

Peer Comparison Philosophy¹

- BCBSD benchmarks its executive compensation levels against those of comparison organizations in **two industry sectors**:
 - **Non-Public Blue Cross Blue Shield (BCBS) Companies**
 - **Health Insurance & Managed Care Companies**
 - Private
 - For-profit
 - Mutual
 - Publicly traded
 - Not-for-profit
- BCBSD defines the geographic market for executive compensation as **national**
- Compensation data are selected or adjusted to reflect peer organizations **comparable in size** to BCBSD
 - **2010 gross healthcare revenue² of \$1,250M**
 - **2010 total assets of \$350M**
- BCBSD uses data from reliable, published **compensation surveys**
- Data from the two industry sectors are **examined separately**, rather than weighted and combined
- Each pay element is **compared to median values** in the comparison organizations

¹ Validated by BCBSD's Personnel Committee in 2009

² Includes both underwritten premiums and Amounts Attributable to Self-Funded Arrangements to permit comparability to competitive survey data

BCBSD Peer Comparison Framework

Pay Element	Weight <i>Percent of total market comprised by each sector</i>		Positioning <i>Targeted percentile rank</i>	
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Salary	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Annual Incentive	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Long-Term Incentive	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Towers Watson Data Services

Validated by BCBSD's Personnel Committee in 2009

- Executive Compensation Comparison Framework
- **Compensation Assessment**
- Appendix

Definitions

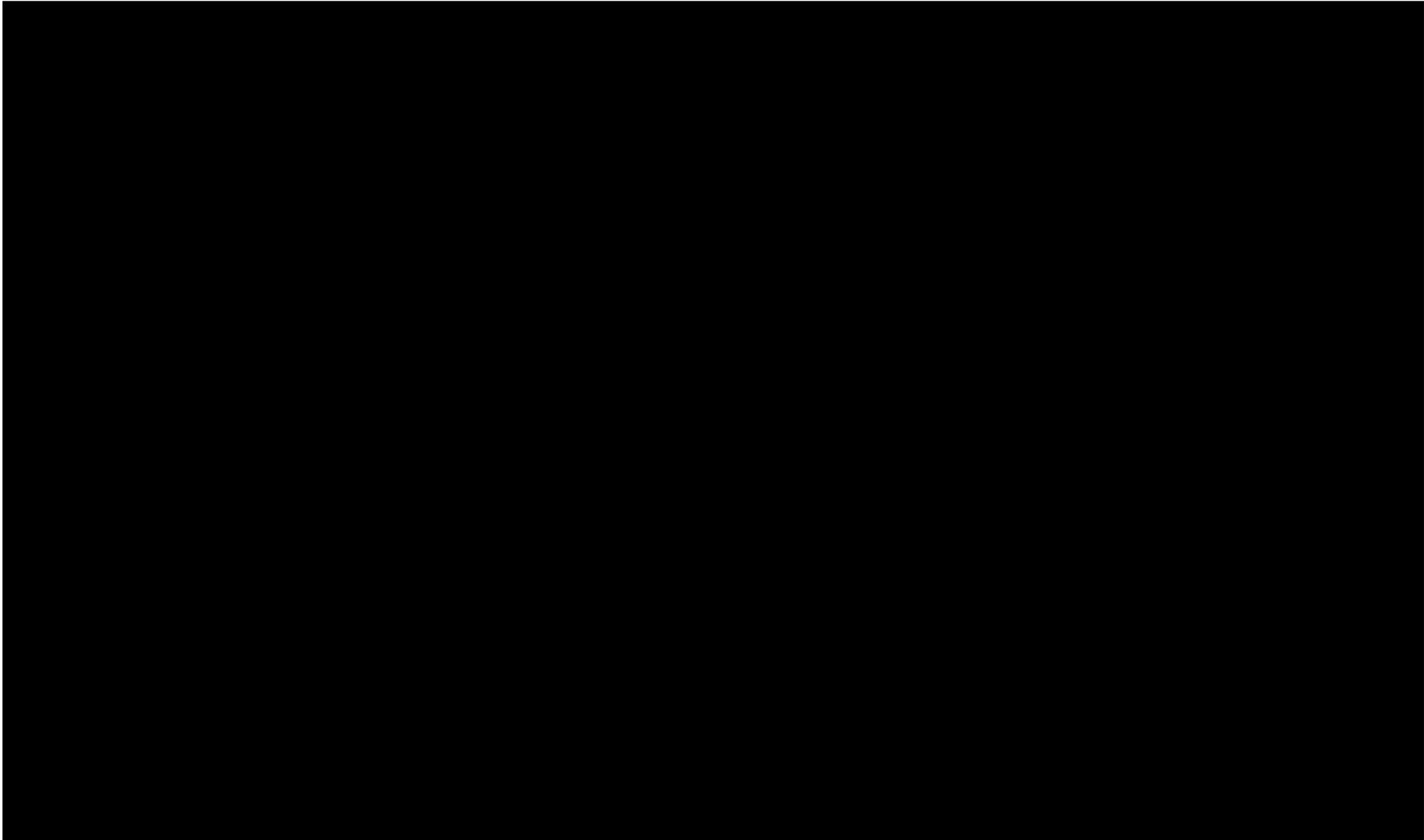
- **Salary** Annual Base Salary
- **TAI** Target Annual Incentive (\$)
- **TAC** Target Annual Cash = Salary + TAI
- **LTI** Target Long-Term Incentive (\$)
- **TDC** Total Direct Compensation = TAC + LTI

Compensation Assessment

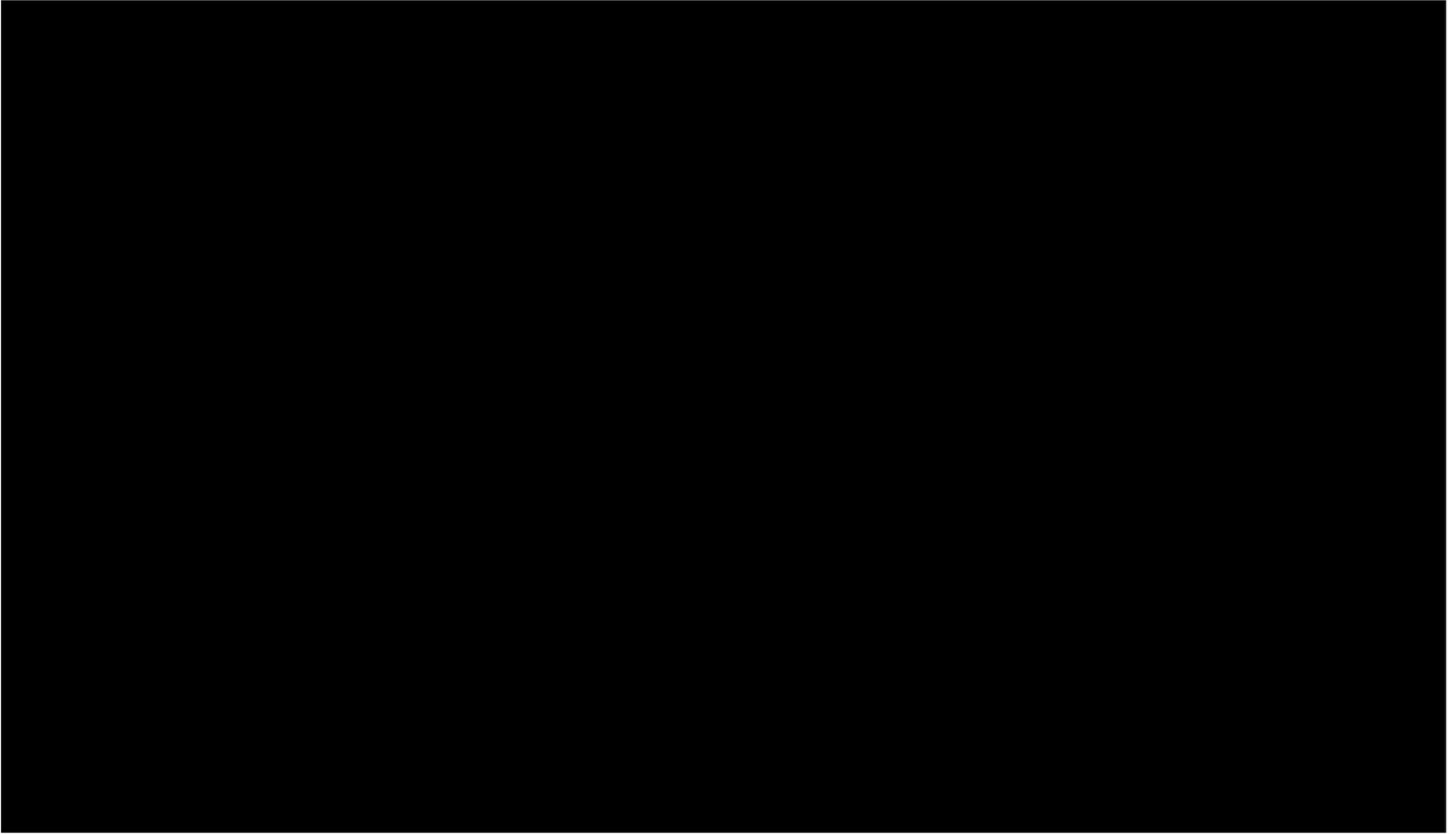


- Executive Compensation Comparison Framework
- Compensation Assessment
- **Appendix**

Appendix: Compensation Assessment Methodology

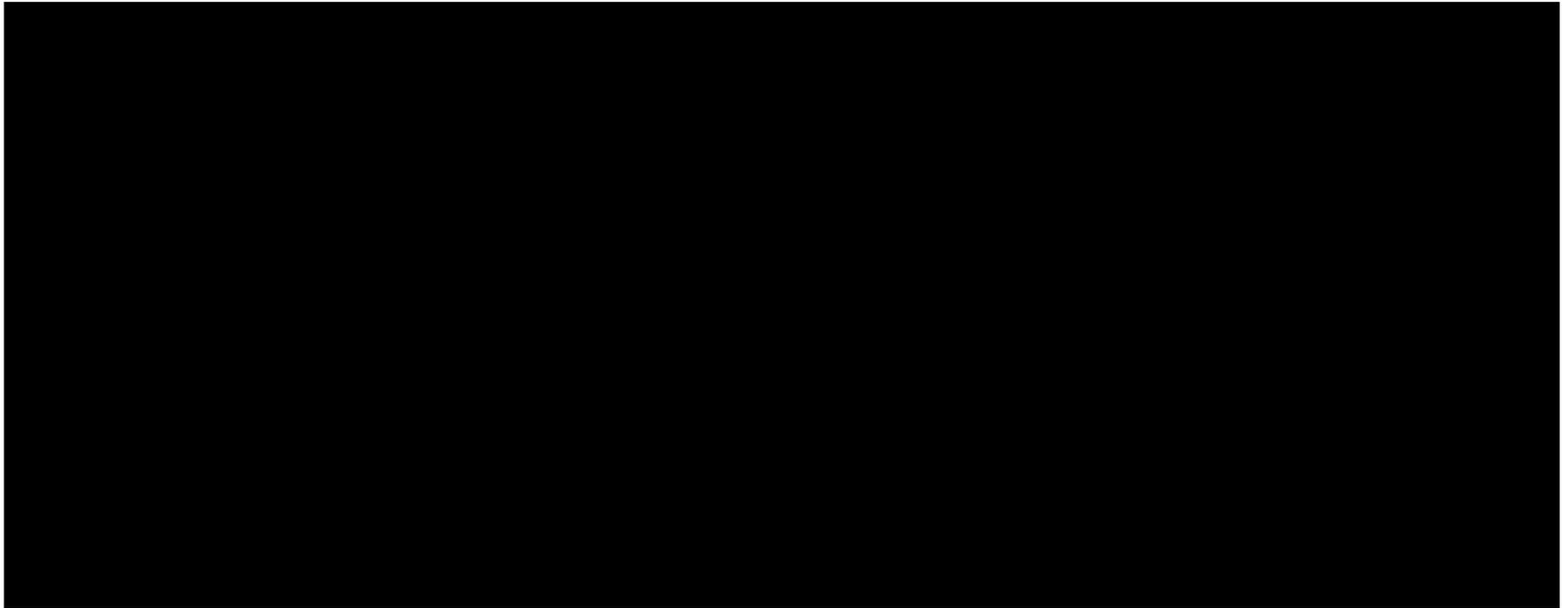


Survey Details



BCBS Companies in TWDS Database

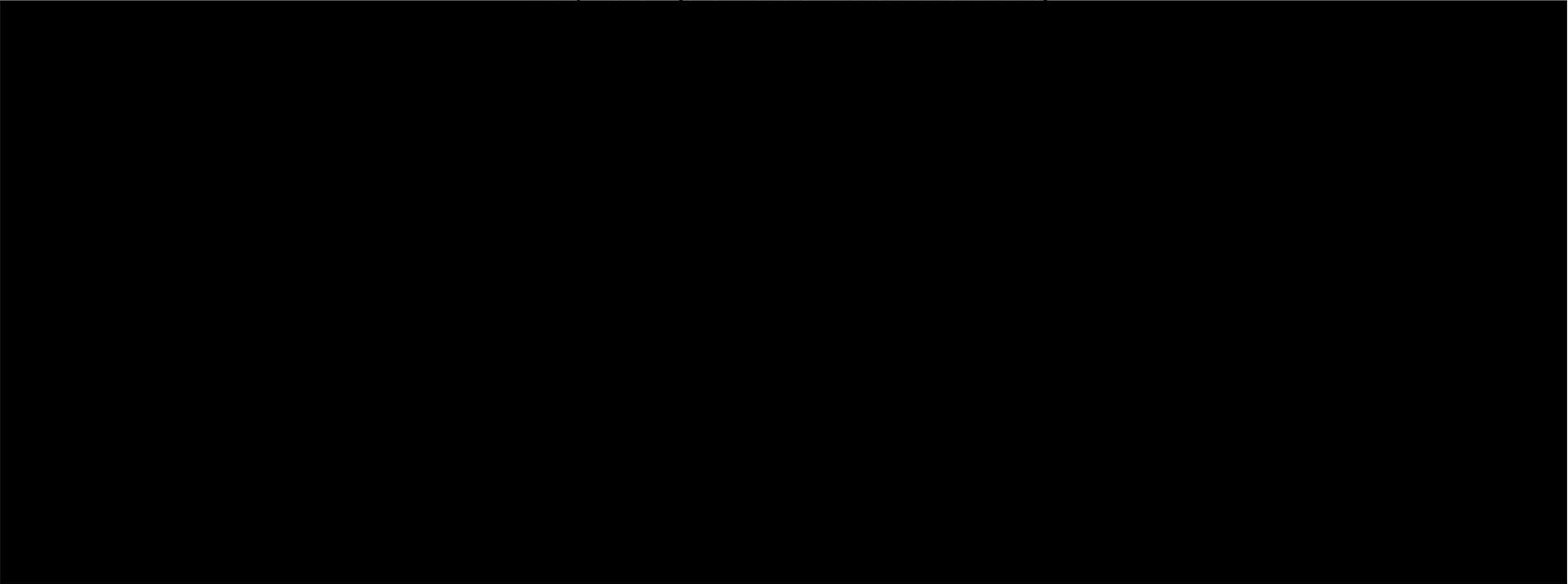
Towers Watson Data Services (TWDS) 2010/2011 Health Insurance Executive Compensation Survey Participants



Note: All companies were included and compensation data were adjusted for organizational size (gross revenue) using statistical regression.

Matching Detail

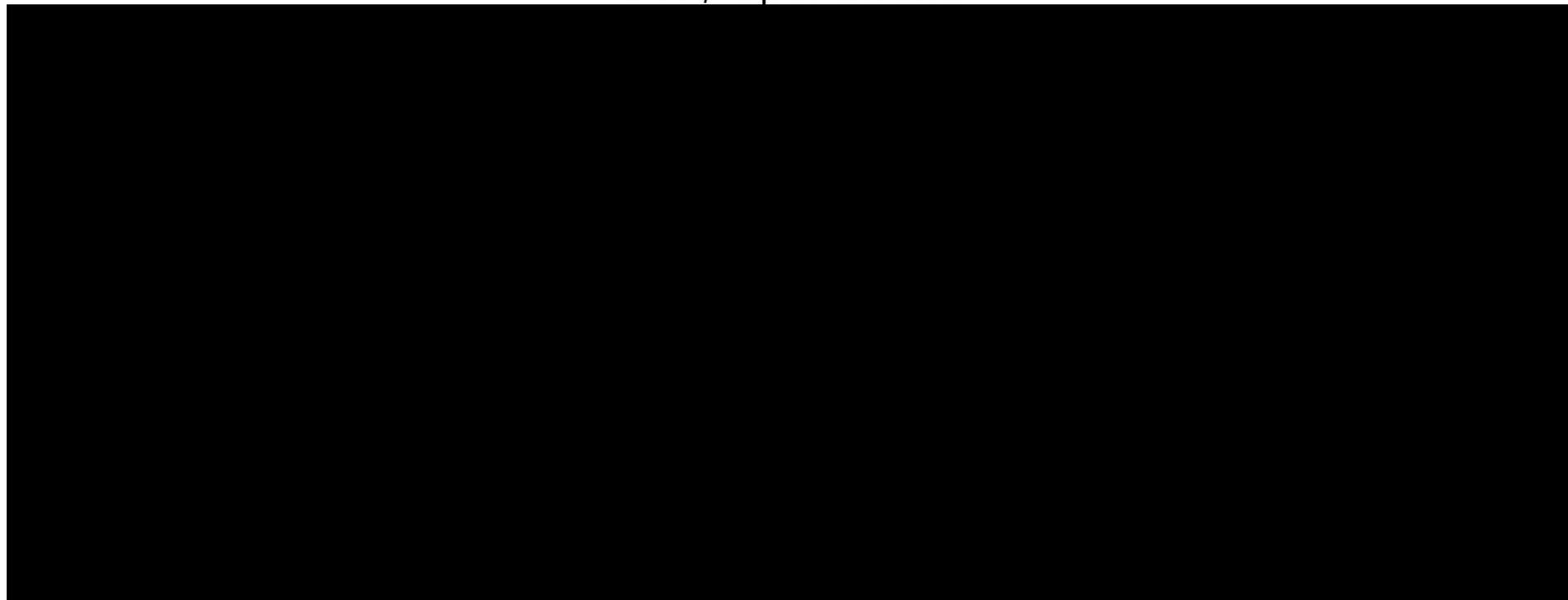
DETAILED SECTOR DATA (\$000)
VP, Corporate Marketing



Detailed methodology and assumptions are provided in the Appendix

Matching Detail *continued*

DETAILED SECTOR DATA (\$000) SVP, Operations



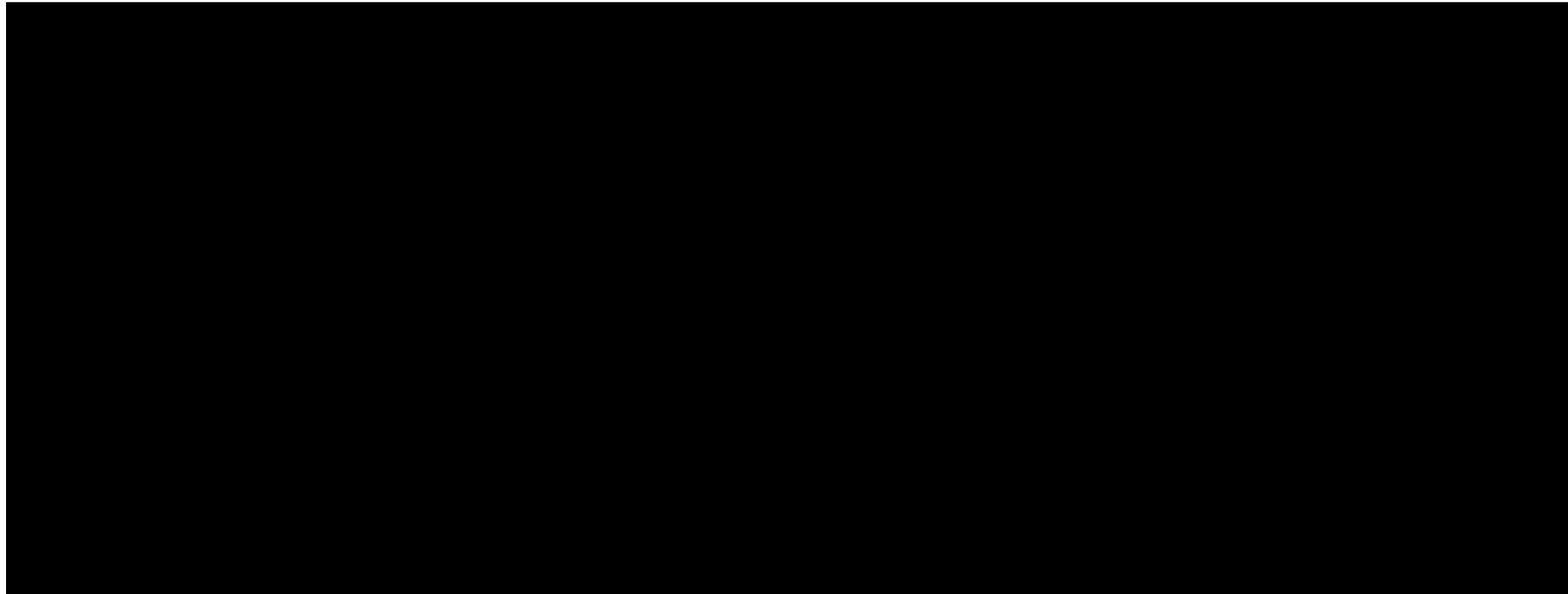
Matching Detail *continued*

DETAILED SECTOR DATA (\$000) Chief Financial Officer

ND = No Data

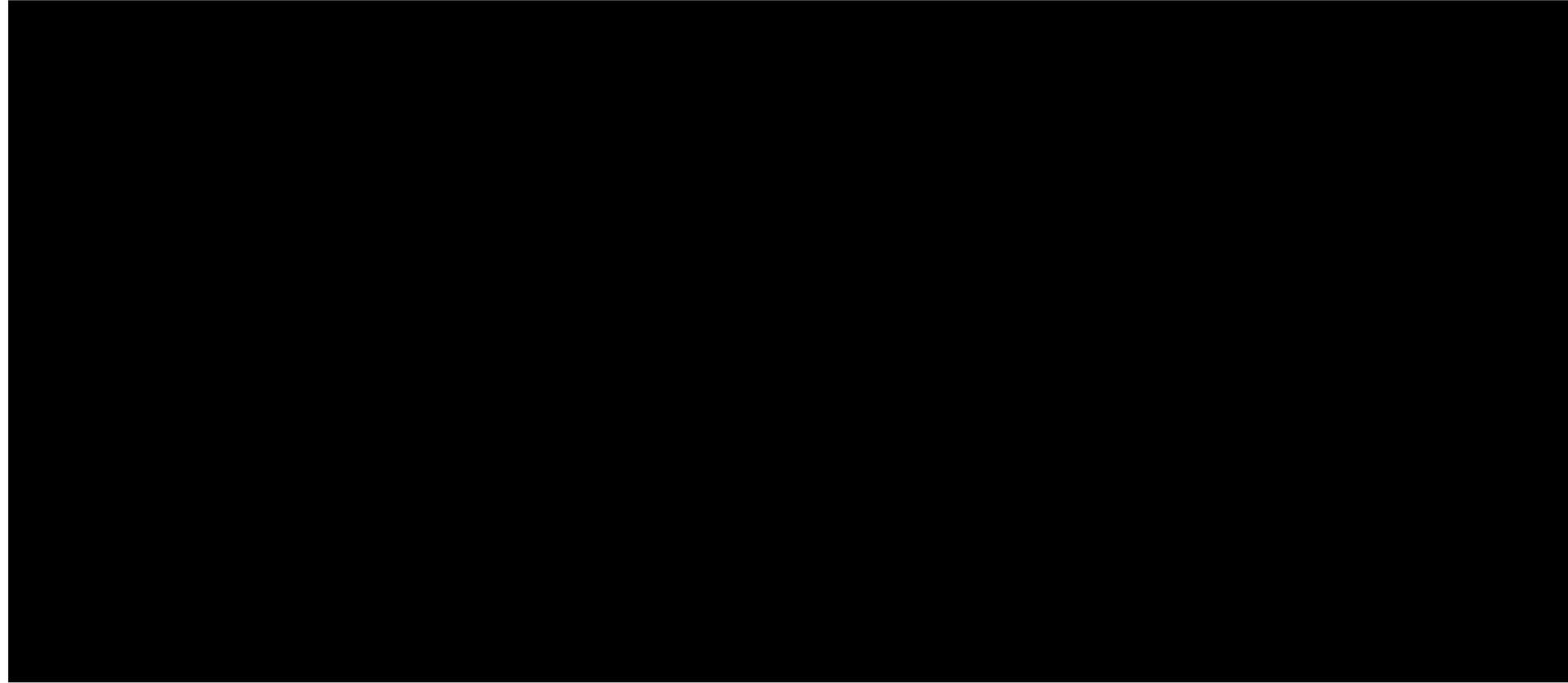
Matching Detail *continued*

DETAILED SECTOR DATA (\$000) Chief Information Officer



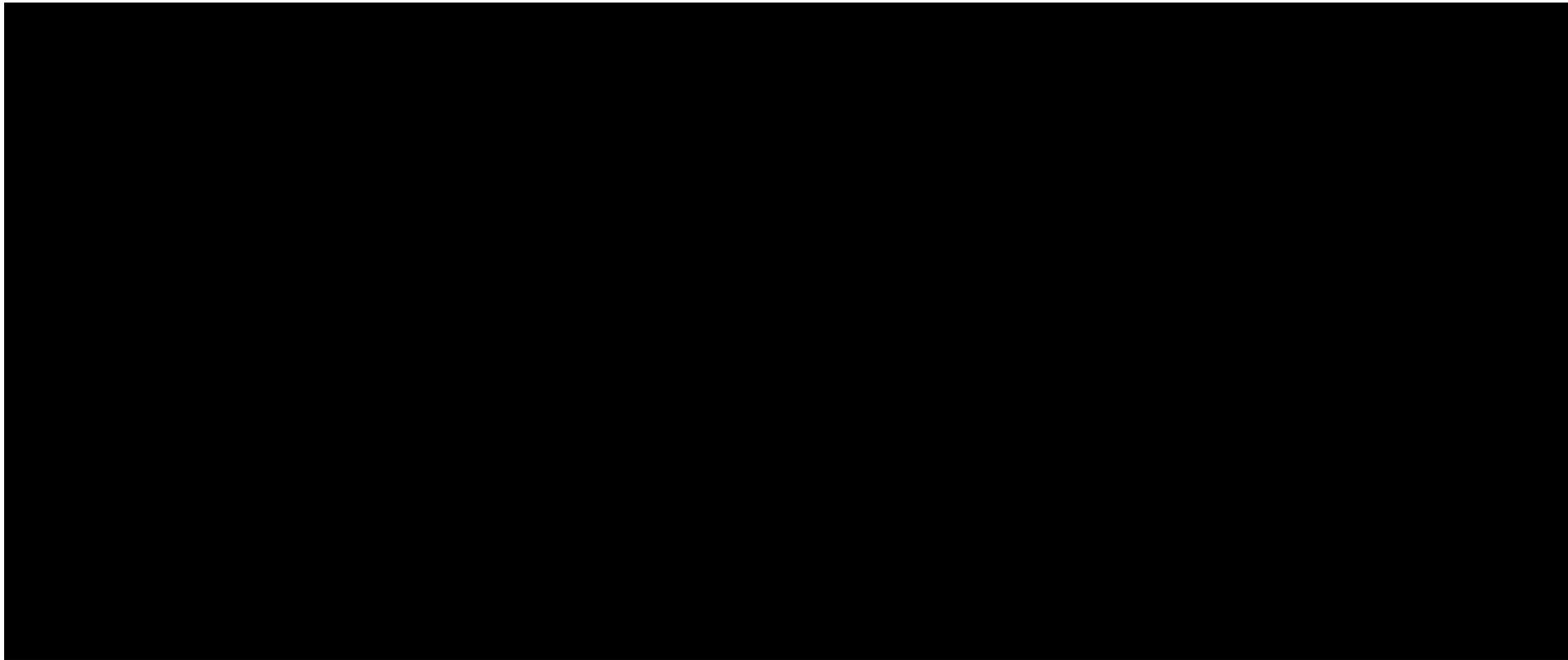
Matching Detail *continued*

DETAILED SECTOR DATA (\$000) VP & Chief Medical Officer



Matching Detail *continued*

DETAILED SECTOR DATA (\$000) VP, General Counsel & Corporate Secretary



Position Descriptions

TWDS Health Insurance Executive Survey

Alrich, Christine	VP, Corporate Marketing	Top Sales & Marketing Executive: Responsible for the marketing and sales efforts of all company products, including marketing strategy and programs, advertising, sales and distribution channels, management of sales force(s), and sales support activities. May be responsible for product pricing and product development related to markets served.
Fad, Scott	SVP, Operations	Executive Vice President: Reports to the CEO and is responsible for managing two or more major functional areas (e.g., Claims, IS and Sales & Marketing) and/or for two or more major business units (e.g., division, line-of-business, geographical business unit, subsidiary). At least 75% of the areas managed must be revenue generating areas.
Hynek, James	Chief Financial Officer	Top Financial Executive: Responsible for the accounting, treasury, and related financial functions of the company. Assists in long-range planning; assures that appropriate efforts are made to maximize the company's financial position. Advises the CEO on financial matters. May direct real estate and/or investment functions of the company. Typically the Chief Financial Officer, but may report to an EVP or Multiple Unit VP with the CFO title.
Jones, William	Chief Information Officer	Chief Information Systems Executive: Responsible for the planning, organization, and control of the company's data processing operations, including systems development and operations, applications development, and telecommunications. Evaluates, develops, and recommends plans for data and information processing techniques and equipment. Coordinates and schedules the integration and transition from existing to new data handling procedures. Provides for continuous review of current data processing applications in light of new developments in computer technology (mainframe, workstation, and PC) and the needs of the company.
Kaplan, Paul	VP & Chief Medical Officer	Top Medical Officer/Executive: Establishes medical policies, practices, and procedures that impact the health care products and services provided by the company. Assures that organizational practices, staffing, and communication practices are appropriate. Assists in developing medical protocol standards for the company and development of relevant statistics to improve the quality of healthcare provided. Acts as the company's medical expert and representative on issues related to health care and medical practices.
Kirk, William	VP, General Counsel & Corporate Secretary	Top Legal Executive/General Counsel: Responsible for providing legal assistance, counsel, and advice to the Chief Executive Officer, the Board of Directors, and other executives on various business and insurance problems. Keeps abreast of legislative and regulatory developments, particularly as they affect the operation of the company. Assures representation of the company before various insurance and industry associates, and government agencies. Assures presentation of the company's position before insurance commissions. Reviews legal implications of various ruling, rate matters, or administrative regulations. May be involved with large claims issues involving litigation. Responsible for legal provisions of reports required by law.

Contact Details

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 - andrew.smith@towerswatson.com

**AMENDED AND RESTATED
OFFICER EMPLOYMENT AGREEMENT**

This Officer Employment Agreement is amended and restated this 17th day of August, 2010, as originally effective on November 7, 2007, (the "Effective Date") by and between Timothy J. Constantine ("Employee") and BCBSD, Inc. ("Company").

WHEREAS, Employee is employed as Chief Executive Officer and President of Company; and

WHEREAS, Company and Employee entered into that certain Officer Employment Agreement dated November 7, 2007, and

WHEREAS, Company and Employee now desire to amend and restate that certain Employment Agreement as originally effective on the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Position of Employee. Employee shall be employed as an Officer of Company with the title of Chief Executive Officer and President for the term of this Agreement. Employee will have all of the customary powers and duties associated with that office. Employee shall devote his full working time and creative energies to the performance of his duties, and will abide by all bylaws, policies, practices, procedures and rules of Company, including, but not limited to, the Company's Code of Conduct as it may be revised from time to time.

2. Compensation.

a. Base Salary. Employee shall be employed by Company at a base salary of [REDACTED] per annum, effective January 1, 2008 [REDACTED] effective, January 1, 2010) (the “Base Salary”), payable in accordance with the regular payroll practices of Company. The Base Salary may be changed from time to time by mutual agreement of Employee and Company.

b. Incentive Compensation. Employee shall be eligible to participate in Company’s incentive compensation plans and programs generally offered to Company’s Officers at a level commensurate with his position (hereinafter referred to as the “Incentive Compensation Plans”), as such plans and programs may be revised, supplemented, discontinued, or adopted from time to time by Company.

3. Employee Benefits. Employee shall be entitled to participate in and shall receive benefits under all employee benefit plans, policies and programs provided by Company for the category of employees of which Employee is a member (hereinafter referred to as the “Employee Benefits”) including, but not limited to, pension, 401(k), medical (including prescription drug, dental and vision), disability, life, vacation and other welfare and fringe benefits, as such plans, policies and programs may be revised, supplemented, discontinued, or adopted from time to time by Company. In addition, Employee shall receive a taxable, non-accountable automobile allowance [REDACTED]. Furthermore, Employee shall participate in the Benefit Restoration Plan for Certain Employees of BCBSD, Inc. (“BRP”). Except as specifically provided in Paragraph 12 with respect to BRP payments, nothing in this Agreement shall affect the fringe and employee benefits that Employee would

otherwise be entitled to receive from the Company had this Agreement not been entered into. Employee shall also receive nonqualified deferred compensation as set forth in Paragraph 12 of this Agreement.

4. CareFirst Long Term Incentive Plan Payment. Company recognizes that Employee has been a participant in the CareFirst Long Term Incentive Plan (the “CareFirst Plan”) and has been eligible to receive annual cash compensation awards (“CFI Cash Awards”) and has accumulated deferred compensation awards (“CFI Deferred Compensation Awards”) as a result of his participation in the CareFirst Plan. CareFirst and the Company were considered a single employer under section 414(b) of the Internal Revenue Code of 1986 during the period that Company and CareFirst were affiliated. Employee provided services to Company during the affiliation period and has continued to work for Company after the affiliation ended and thus, has not incurred a termination of employment and therefore is not yet entitled to a payment of the CFI Deferred Compensation Awards. The CFI Cash Awards were paid by the Company. The CFI Deferred Compensation Awards were recorded on the books of the Company and the investment options available to Employee under the CareFirst Plan were administered by CareFirst through December 2009 under an administration services agreement. Effective December 2009, Employee is entitled to make investment elections in funds available to participants in the BCBSD, Inc. Unfunded Deferred Compensation Plan for Officers and Director-Level Employees. In accordance with Section 7.2(a)(ii) of the CareFirst Plan, amended and restated as of January 1, 2008 and Internal Revenue Code Section 409A (“Section 409A”), Company will pay to the Employee the CFI Deferred Compensation Awards upon termination of employment. Employee may direct the investment of the CFI

Deferred Compensation Awards and may designate a Beneficiary in writing on a form provided by Company. Such Beneficiary designation will be effective only upon receipt by Company's Chief Financial Officer or his designee. If Employee fails to designate a Beneficiary, Employee's Beneficiary shall be the person or persons (including Employee's estate) entitled to receive benefits upon Employee's death under the Company's group life insurance plan.

5. Term. Subject to the termination provisions of this Agreement set forth in Paragraphs 6-11, Employee shall be employed by Company for a term commencing on the Effective Date and ending on December 31, 2010, provided that this Agreement shall be automatically extended for an additional one (1) year term on each anniversary of January 1, 2008 ("Anniversary Date"), unless, either party notifies the other in writing, at least sixty (60) days prior to the Anniversary Date, that it does not wish to extend the Agreement. Employee's refusal to renew the term of this Agreement or refusal to continue employment with Company at the conclusion of or after the term of this Agreement shall not result in the forfeiture of any benefits to which Employee is entitled under any provision of this Agreement which survives the term of this Agreement or under any other policy, plan or agreement of Company.

6. Voluntary Termination by Employee. Employee may voluntarily terminate his employment under this Agreement at any time, provided Employee provides at least sixty (60) calendar days advance written notice to Company. If Employee terminates employment pursuant to this Paragraph, Employee shall only be entitled to his Base Salary and Employee

Benefits for the period in which full-time employment is maintained or sixty (60) calendar days, whichever is greater.

7. Termination Due to Disability. Company may terminate Employee's employment under this Agreement if Employee is disabled as defined under Company's long-term disability plan applicable to Employee and Employee qualifies for benefits under such plan. If Company terminates Employee's employment pursuant to this Paragraph, Employee shall only be entitled to (i) his Base Salary and Employee Benefits for the period up to the date of termination; (ii) a pro rata portion, in respect of the Plan Year during which such long-term disability occurred, of any earned payments under Company's Incentive Compensation Plans for which disabled Officers may be eligible, with any such payment to be made at the time such compensation is paid to other Company participants in such Plans; and (iii) any Employee Benefits to which Employee is entitled upon long-term disability under the terms of any such applicable plans, programs or policies (including, but not limited to, any health benefits provided to long-term disabled employees or former employees) in existence at the time of such long-term disability.

8. Termination Due to Death. This Agreement shall terminate immediately in the event of Employee's death. In such event, Company shall pay to the deceased Employee's Beneficiary, as designated by Employee under the group life insurance plan of the Company, an amount equal to the regular bi-weekly installments of Employee's Base Salary that would have been payable to Employee in the remainder of the month in which Employee dies and in the three (3) months following the month of Employee's death, and thereafter, Company shall have no further liability or obligation under this Agreement to Employee's executors, legal

representatives, administrators, heirs or assigns or any other person claiming under or through him, provided, however, that Employee's designated Beneficiary shall be entitled to receive (i) a pro rata portion, in respect of the Plan Year during which Employee died, of any earned payments under Company's Incentive Compensation Plans with any such payment to be made at the time such compensation is paid to other Company participants in such Plans; and (ii) any Employee Benefits to which Employee (or Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through Employee) is entitled upon Employee's death under the terms of any such applicable plan, program or policy in existence at the time of the Employee's death.

9. Termination by Company without Cause.

(a) Company may terminate Employee's employment under this Agreement without Cause at any time upon written notice, in which case Employee's active employment shall end on the date specified in such notice. If Employee is terminated by Company pursuant to this Paragraph 9, the following shall occur, subject to the release requirements of Paragraph 13: (i) Employee shall continue to receive his Base Salary in bi-weekly payments at the rate in effect as of the date of termination for twenty-four (24) months; (ii) Employee shall receive amounts equal to the incentive compensation Employee would have earned under the Incentive Compensation Plans, which shall be computed for each Plan Year of the then-remaining term of this Agreement up to but not exceeding twenty-four (24) months, at Employee's target percentage level in effect for the Plan Year during which Employee is terminated if, as and when such incentive payments are distributed for any Plan Year for which Employee would have been eligible for incentive compensation during the

remaining term of this Agreement (but not exceeding twenty-four (24) months); (iii) Employee shall receive a continuation of Employee's Health Benefits (medical with prescription drug, dental and vision) for Employee and Employee's family which Employee and Employee's family would have received for the then-remaining term of this Agreement (as if Employee had not been terminated and had continued at the same employment grade in effect at the time of termination), provided, however, that such continuation shall be implemented by the Employee being permitted to purchase such Health Benefits for the Employee and Employee's family through the Company at COBRA rates (or the equivalent and without any administrative charge) with reimbursement by the Company on a quarterly basis in arrears such that the after-tax cost to the Employee for the Employee and Employee's family after Company reimbursement is substantially equal to the after-tax cost for such Health Benefits to active senior executives of the Company for Health Benefits for such senior executives and their families; (iv) Employee shall receive the monthly auto allowance which Employee would have received for the then-remaining term of this Agreement (as if Employee had not been terminated); and (v) Employee shall have that number of years added to the Years of Service utilized under the BRP and the nonqualified deferred compensation provided for in Paragraph 12 of this Agreement, as is equal to the number of whole and partial years of the then-remaining term of this Agreement.

(b) If Company acknowledges that Employee's termination is without Cause, Employee shall not be required to mitigate the amount of any payment or benefit provided for in this Paragraph 9 by seeking other employment or otherwise, nor shall the

amount of any payment or benefit provided for in this paragraph be reduced by any compensation earned by other employment or otherwise.

(c) Except as may be required by a court order, Company's obligation to make the payments provided for in this Paragraph and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation, any set-off, counterclaim, recoupment, defense or other right which Company may have against Employee or others.

10. Termination by Company for Cause. Company may terminate Employee's employment under this Agreement at any time, for Cause, upon written notice to Employee. If Company terminates Employee's employment for Cause pursuant to this Paragraph, Employee shall only be entitled to his Base Salary and Employee Benefits, as described in Paragraphs 3 and 12 of this Agreement, accrued up to the date of termination, and Company shall have no obligation to make any other payments or provide any other benefits to Employee, except where such payment or benefit is required by law. For purposes of this Agreement, the term "Cause" shall mean any of the following: (a) gross misconduct, dishonesty, or deliberate and premeditated acts against the interest of Company; (b) conviction of a felony or other serious crime involving moral turpitude; or (c) continual and substantial failure to perform Employee's obligations and duties under this Agreement, which failure has continued for a period of at least ninety (90) days after written notice has been delivered to Employee specifying the manner in which Employee has failed to perform.

11. Termination Upon a Change of Control.

(a) A Termination Upon a Change of Control shall mean Employee's termination from employment during the term of this Agreement after a Change of Control either: (1) initiated by Company for any reason other than for Cause, disability, or death as described in Paragraphs 7, 8 and 10 hereof; or (2) initiated by Employee for Good Reason. For purposes of this Agreement, the term Good Reason shall mean any of the following: (i) a material failure of Company to comply with and satisfy any of the terms of this Agreement; (ii) a significant reduction by Company of the authority, duties or responsibilities of Employee; (iii) any action by Company that results in a significant diminution of Employee's employment grade, compensation level, incentive compensation, or Employee Benefits as described in Paragraphs 3 and 12 of this Agreement, which Employee holds as of the date of Change of Control; (iv) a significant alteration or termination of any Incentive Compensation Plans in which Employee is a participant as of the date of a Change of Control; or (v) a relocation of Employee's principal work location to more than fifty (50) miles from its current location in downtown Wilmington, Delaware. Notwithstanding anything to the contrary in items (i) through (v) of this subparagraph 11(a), a change in Employee's title without a change in his authority, duties, responsibilities, or compensation shall not constitute Good Reason.

(b) Upon Employee's good faith determination that Good Reason exists, but not later than the ninetieth (90th) day following the day on which Employee first became aware that Good Reason existed, Employee shall give Company at least ninety (90) days prior written notice of the date Employee intends to effect a termination of this Agreement under this Paragraph 11 (the "Cure Period"). Such written notice shall include the date on which

Employee first became aware that Good Reason existed and the nature of the Good Reason. Company, upon receiving such written notice, may attempt to resolve the matters for which Employee has given notice or may accept the provisions of the notice. If Company has not so resolved such matters in all material respects as of the end of the Cure Period, Employee's termination of this Agreement shall be deemed final. In no event, however, may Employee terminate this Agreement for Good Reason unless Employee has initiated the Cure Period within ninety (90) days after Employee first became aware that Good Reason existed.

(c) In the event of a Termination Upon a Change of Control, Company and Employee shall each have the same rights and obligations, including but not limited to severance or other payments and the crediting of additional Years of Service, as the case may be under Paragraph 9 of this Agreement (Termination by Company without Cause), except that if the Termination Upon Change of Control occurs within two years of the occurrence of the Change of Control, Employee's entitlement to Base Salary and any payments under the Incentive Compensation Plans set forth in Paragraph 9(a)(i) and 9(a)(ii) shall be paid by Company in a lump sum within the sixty (60) day period immediately following such termination, subject to the release requirements of Paragraph 13, and shall be reduced to Present Value using the dates the payments would otherwise have been due under the Agreement in the absence of such termination. For purposes of computing the Present Value of Base Salary and any payments under the Incentive Compensation Plans payable under clause 9(a)(i) and 9(a)(ii), the Base Salary payable to Employee under clause 9(a)(i) shall be deemed to increase at the rate of three percent (3%) per year on the first day of each year following Employee's termination; and incentive compensation to which the employee is

entitled to under clause 9(a)(ii) shall be deemed to be thirty percent (30%) of Employee's Base Salary payable under clause 9(a)(i) as increased hereunder and shall be deemed to be payable on March 15 of each following year. If the Termination upon a Change of Control is due to Good Reason and the Good Reason or one of the Good Reasons is the reduction in the Employee's compensation or incentive compensation or both the Employee's compensation and incentive compensation, (i) Employee's Base Salary for severance purposes will be deemed to be the greater of: (aa) the highest Base Salary received by the Employee after the Change in Control, or (bb) the Employee's Base Salary in effect on the day before the Change of Control occurs; (ii) Employee's incentive compensation will be no less than 30% multiplied by the Employee's Base Salary determined under clause (i); and, (iii) as additional damages, Employee will receive the difference (but not less than zero) between the salary and incentive compensation that Employee would have received during the Cure Period determined by using the Base Salary under clause (i) and the incentive compensation under clause (ii) and the Base Salary and incentive compensation that the Employee was actually paid during the Cure Period.

12. Nonqualified Deferred Compensation. In addition to participating in Employee Benefits plans of Company as set forth in Paragraph 3 of this Agreement, including but not limited to, Blue Cross Blue Shield of Delaware Retirement Plan ("Retirement Plan") and BRP, Employee shall also be entitled to a nonqualified deferred compensation benefit as set forth in this Paragraph 12.

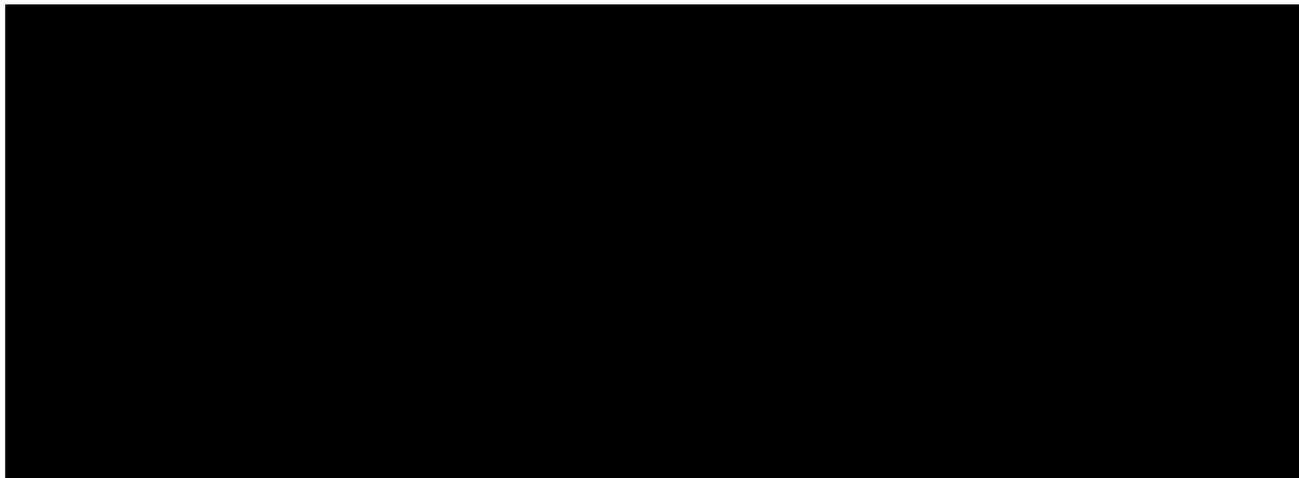
(a) Employee's first day of employment with the Company was August 31, 1998. For each complete Year of Service since August 31, 1998, Employee shall accrue a

nonqualified deferred compensation benefit which, when expressed as an immediate lump sum payment, will equal (i) plus (ii) minus (iii), where [REDACTED]

[REDACTED]

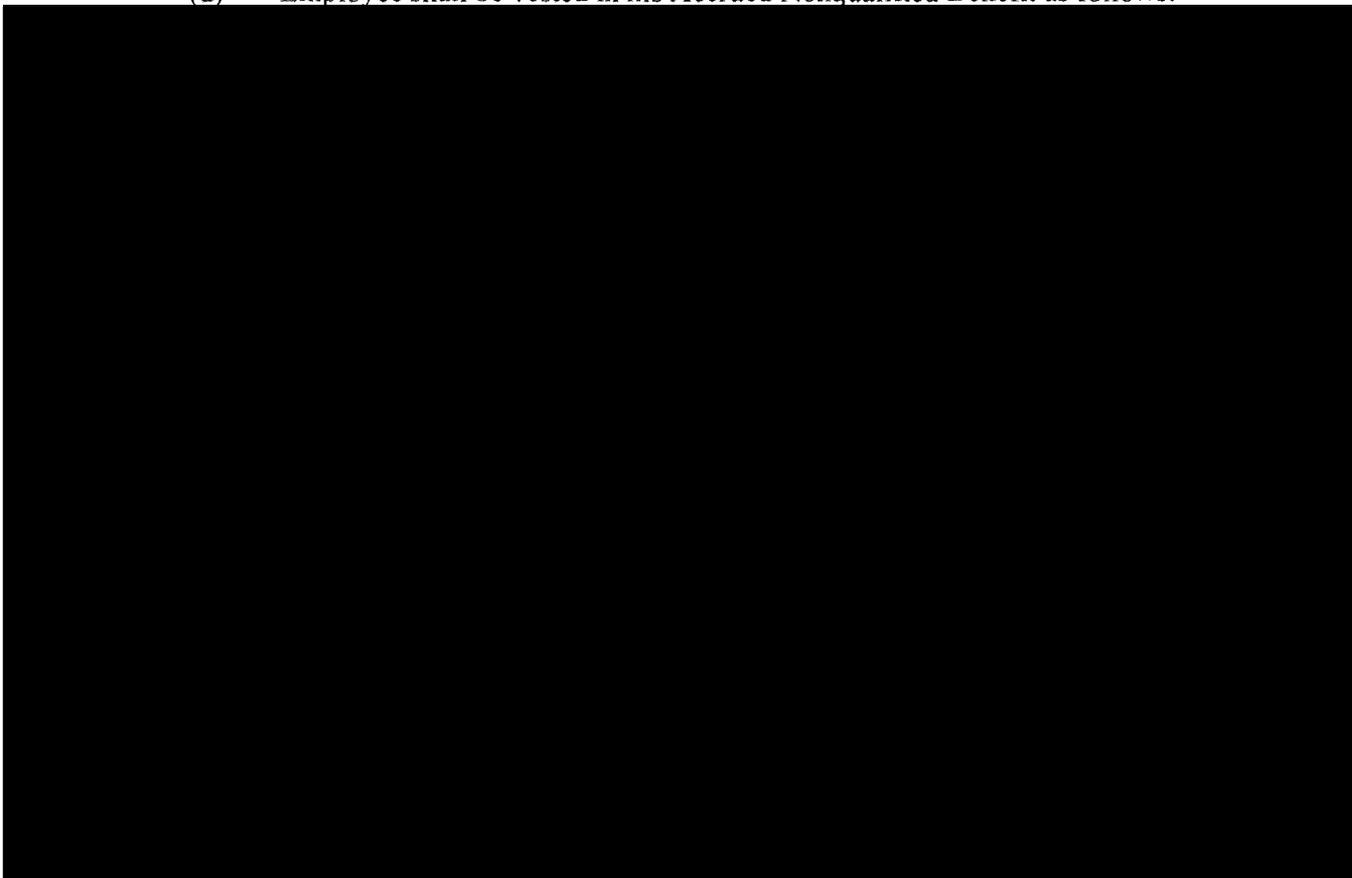
(b) If Employee's employment terminates with a partial Year of Service, he shall

[REDACTED]



(c) For purposes of this Paragraph 12 of this Agreement, "Final Average Earnings" shall mean Final Average Earnings as such term is defined in Section 2.26 of the Retirement Plan with regard to the pension equity formula benefit.

(d) Employee shall be vested in his Accrued Nonqualified Benefit as follows:



(e) Employee shall be entitled to receive his vested Accrued Nonqualified Benefit in a lump sum within sixty (60) days following the later to occur of the Employee's attainment of age 55 or Employee's termination of employment, subject to the release requirements of Paragraph 13 and provided that such Accrued Nonqualified Benefit shall not be payable upon termination of Employee by the Company for Cause. Notwithstanding the foregoing, Employee shall be entitled to receive his vested Accrued Nonqualified Benefit in a lump sum within sixty (60) days following Employee's termination of employment within two years after a Change in Control, provided that if such lump sum is payable prior to Employee's attainment of age 55, the lump sum payment shall be equal the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55. In addition, notwithstanding any provision of this Agreement or the BRP to the contrary, any benefits accrued under the BRP, that due to the BRP benefit offset formula described in this Paragraph 12 would change the time of payment for benefits accrued under this Paragraph 12 by shifting the payment of benefits from this Paragraph 12 to the BRP, shall be payable under the payment timing requirements applicable to benefits accrued under this Paragraph 12 and not under the payment provisions of the BRP to avoid such change in payment timing. For the avoidance of doubt, benefits accrued under the BRP that do not affect the time of payment for benefits accrued under this Paragraph 12 shall be paid in accordance with the otherwise applicable provisions of the BRP.

(f) If Employee competes with Company in violation of Paragraph 18 of this Agreement, or if Employee is terminated by Company for Cause pursuant to Paragraph 10 of this Agreement, Company, in its discretion, may declare the Employee's benefit to be forfeited

and may, in the case where Employee competes with Company in violation of Paragraph 18, require that Employee repay to Company all amounts previously received under this Paragraph 12, plus reasonable attorney's fees and other cost of collection incurred by Company.

(g) If Employee's employment terminates due to death, his Beneficiary shall receive an amount equal to Employee's vested Accrued Nonqualified Benefit, the amount of which shall be calculated as of the day before Employee's death, provided that if such amount is payable prior to Employee's attainment of age 55, the amount shall be equal the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55. This benefit shall be paid in a lump sum payment to Employee's Beneficiary, subject to the release requirements of Paragraph 13, within the sixty (60) day period immediately following the Employee's death. Employee's Beneficiary shall be the person or persons (including Employee's estate) designated by Employee to receive benefits under this Paragraph 12 upon Employee's death. Employee's designation of a Beneficiary must be in writing on a form provided by Company. Such beneficiary designation will be effective only upon receipt by Company's Chief Financial Officer. If Employee fails to designate a beneficiary, Employee's Beneficiary shall be the person or persons (including Employee's estate) entitled to receive benefits upon Employee's death under the Retirement Plan.

(h) If Employee's employment terminates due to Disability under Paragraph 7 of this Agreement (and such Disability, if prior to Employee's attainment of age 55, constitutes a qualifying disability for purposes of Section 409A), Employee shall receive a lump-sum amount equal to his vested Accrued Nonqualified Benefit, subject to the release requirements

of Paragraph 13, within the sixty (60) day period immediately following such termination of employment, provided that if such amount is payable prior to Employee's attainment of age 55, such amount shall be equal the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55.

(i) This Paragraph 12 of this Agreement shall survive the termination of this Agreement and shall not terminate until such time all of the benefits due to Employee under this Paragraph 12 have been paid to him or to his Beneficiary in full.

13. Release. As a condition to Employee's receipt of payments or benefits pursuant to Paragraphs 6-12 hereof, Employee or any other Persons receiving benefits or payments under this Agreement (if any) must execute a release which shall include a general release of any and all claims against Company, its affiliates, successors and assigns, their directors, officers, employees and agents, and any person or entity involved in the administration or operation of their Employee Benefit plans, with respect to all matters arising out of Employee's employment by Company and the termination thereof (other than Employee's rights under this Agreement or incorporated by reference in this Agreement) within sixty (60) days following the Employee's termination date. Payment of, or continued payment of, compensation and benefits described in Paragraphs 6-12 hereof, shall be contingent upon execution of such release and such compensation and benefits otherwise payable on or after the sixtieth (60th) day following termination shall be forfeited if the release is not executed and irrevocable on or before such sixtieth (60th) day. The terms of the release also shall contain a non-disparagement clause prohibiting Employee from making any public statements that disparage Company, its affiliates, successors, officers, directors, products or

services. Employee shall remain subject to the provisions of Paragraphs 17-19 of this Agreement regardless of whether Employee does or does not execute a release as offered. The Company may, in the exercise of its sole discretion, waive any requirement of a release under this Paragraph. Notwithstanding the foregoing, the administration of the release requirement described under this Paragraph 13 shall be executed in compliance with the requirements of Section 409A, including, where applicable, that where the period for execution and non-revocation of a release spans more than one calendar year, any payment contingent on the execution of the release shall not be made until the second calendar year, or later, as required by the applicable terms of this Agreement.

14. Interest. In the event that Company shall fail or refuse to make payment of any amounts due Employee or any other Persons within the applicable time period(s) set forth in this Agreement, Company shall pay to Employee, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required until paid to Employee, at the rate from time to time announced by Wilmington Trust Company (or its successor) as its “prime rate” plus two (2) percent. Each change in such rate is to take effect on the effective date of the change in such prime rate.

15. Attorneys’ Fees and Costs. Company shall pay Employee or any other Persons on demand after the conclusion of any proceeding to enforce this Agreement the amount necessary to reimburse Employee in full for all expenses (including all reasonable attorneys’ fees and legal expenses) incurred by Employee in enforcing any of the obligations of

Company under this Agreement, unless it is determined by the Court that Employee's claim is without merit and no award, monetary judgment or relief is granted to Employee.

16. Successors. Company shall require any successor or successors to all or substantially all of the business or assets of Company or to that part of the business or assets of Company in which Employee is most actively employed (whether direct or indirect, by purchase, merger, consolidation, exchange or otherwise), to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Company would be required to perform it if no such succession had taken place. Company shall remain liable to Employee, or any other Persons, jointly and severally with any such successor, for any and all obligations and performance under this Agreement in the same manner and to the same extent that Company would be required to perform if no such succession or successions had taken place.

17. Use of Confidential Information. Employee recognizes and acknowledges that by reason of Employee's employment by and service to Company (both during employment and before or after it), Employee has had access to confidential information of Company and its affiliates, including, without limitation, information and knowledge pertaining to products and services offered; innovations, designs, ideas, plans, trade secrets, proprietary information; sales, distribution and marketing plans, methods and systems; names, positions, compensation, and other information concerning Company's employees; prices, advertising, contracts, sales and profit figures, customer and provider lists; and relationships between Company and its affiliates and other distributors, customers, clients, suppliers and others who have business dealings with Company and its affiliates ("Confidential Information"). Employee

acknowledges that such Confidential Information is a valuable and unique asset and covenants that during the term of this Agreement and for a period of twenty-four (24) months after termination of Employee's employment with Company, Employee shall not communicate or otherwise disclose or permit disclosure in any way or for any reason whatsoever, to any person, firm, corporation, association or other entity, or use in any manner, any Confidential Information or other material relating to the business or operation of Company or any of its subsidiaries or affiliates, except upon prior written consent of Company or as may be required by law.

18. Non-Competition.

(a) Employee recognizes that the provisions of this Agreement provide substantial economic security, particularly in cases of a Change of Control or termination by Company without Cause; and that such security is of substantial value to Employee during the course of employment with Company, even if the circumstances that would cause payment by Company do not occur. Employee agrees that during the greater of the balance of the term of this Agreement or a period of twenty-four (24) months following the voluntary termination of employment with Company by Employee, Employee shall not, unless acting pursuant hereto or with the prior written consent of Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Employee's name to be used in connection with, any business or enterprise which: (i) is engaged in the same type of business then conducted or actively contemplated to be conducted by Company, its subsidiaries or

affiliates during the term of this Agreement or at the time of termination of Employee's employment; and (ii) conducts business in the State of Delaware or any jurisdiction in which Company holds a license from the Blue Cross Blue Shield Association to use the Blue Cross and Blue Shield service marks.

The foregoing restrictions shall not be construed to prohibit the ownership by Employee of less than one percent (1%) of any class of securities of any corporation or entity which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Employee nor any group of persons including Employee in any way, either directly or indirectly, manages or exercises control of any such corporation or entity, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Employee's rights as a security holder, or seeks to do any of the foregoing.

(b) Employee agrees that during the greater of the balance of the term of this Agreement or a period of twenty-four (24) months following the termination of employment with Company, Employee shall not, unless acting pursuant hereto or with the prior written consent of Company, directly or indirectly:

(i) Solicit, contact or otherwise communicate with any person who is or was a customer or prospective customer of Company during the twenty-four (24) months prior to Employee's termination for the purpose of providing that customer or prospective customer with the same or similar products or services as provided by Company; or

(ii) Solicit, contact or otherwise communicate with any person who was an employee of Company during the twenty-four (24) months prior to Employee's termination for the purpose of employing or engaging in a business relationship with that person to provide similar products or services as provided by Company.

19. Injunctive Relief.

(a) Employee and Company hereby acknowledge that the service to be rendered hereunder is unique, special and extraordinary in character which shall be difficult or impossible for Company to replace, that the restrictions contained in Paragraphs 17 and 18 hereof are reasonable and necessary to protect the legitimate interests of Company and its affiliates, that Company would not have entered into this Agreement in the absence of such restrictions, and that any violation of any provision of those Paragraphs will result in irreparable injury to Company. Employee hereby acknowledges and represents that his experience and capabilities are such that the restrictions contained in Paragraphs 17 and 18 hereof will not prevent Employee from obtaining employment or otherwise earning a living at the same general level of economic benefits as anticipated by this Agreement. Employee further represents and acknowledges that (i) Employee has been advised by Company to consult Employee's own legal counsel in respect of this Agreement, and (ii) that Employee has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with Employee's counsel.

(b) Employee agrees that Company shall be entitled to preliminary and permanent injunctive relief, as well as an equitable accounting of all earnings, profits and

other benefits arising from any violation of Paragraphs 17 or 18 hereof, which rights shall be cumulative and in addition to any other rights or remedies to which Company may be entitled.

In the event that any of the provisions of Paragraphs 17 or 18 hereof should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

(c) Employee agrees that Company shall be entitled to an award of its reasonable expenses, including attorneys' fees, in any successful proceeding brought by Company pursuant to this Paragraph; and agrees that if a court finds that Employee has violated the provisions of Paragraphs 17 or 18, Employee hereby consents to the entry of an order enjoining such violations for a period of twenty-four (24) months from the date of such order.

(d) Employee agrees that Employee shall provide, and that Company may similarly provide, a copy of Paragraphs 17-19 hereof to any business or enterprise (i) which Employee may directly or indirectly own, manage, operate, finance, join, or control, or participate in the ownership, management, operation, financing, or control of; or (ii) with which Employee may be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise, or in connection with which Employee may use or permit Employee's name to be used; or (iii) to which Employee sells, trades, barter or gives any Confidential Information as described in Paragraph 17; provided, however, that this

Paragraph shall not apply as to the furnishing of copies of Paragraphs 17-19 of this Agreement after expiration of the time period set forth therein.

(e) The non-competition, nondisclosure, non-solicitation and confidentiality obligations contained herein shall be extended by the length of time during which Employee shall have been in breach of any of the said provisions.

20. Company Employment Practices. The parties acknowledge that this Agreement does not set forth all of Employee's benefits, duties or obligations as an officer of Company. Except to the extent that this Agreement modifies or is inconsistent, these duties, obligations and benefits shall continue. Where there is an express modification or inconsistency, this Agreement shall control.

21. Books and Materials. Upon termination of this Agreement, Employee shall within twenty four (24) hours of termination deliver to Company all manuals, letters, notes, notebooks, reports, software, hardware, data, information (electronic or written), all Confidential Information as described in Paragraph 17, identification cards, keys or other materials providing access to any company facility and all other property relating to the business of Company which is in the possession or in any way under the control of Employee.

22. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction.

23. Binding Effect. This Agreement shall be binding on and inure to the benefit of any successor or successors of Company, and on the personal representatives of Employee.

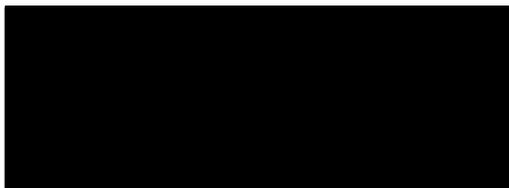
24. Governing Law and Consent to Jurisdiction. This Agreement shall be considered subject to and governed by the laws of the State of Delaware. Each party consents to the exclusive in personam jurisdiction of the courts of the State of Delaware in connection with any claim or dispute arising under or in connection with this Agreement, and waives any objection which it may have to the laying of venue of any such suit, action or proceeding in any such court. Employee and Company irrevocably and unconditionally consent to the service of any process, pleadings, notices or other papers in a manner permitted by the notice provisions of Paragraph 25 hereof.

25. Notices. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered or mailed by registered or certified mail, as follows (provided that notice of the change of address shall be deemed given only when received);

If to Company:

CHAIRPERSON, BOARD OF DIRECTORS
BLUE CROSS BLUE SHIELD OF DELAWARE
800 DELAWARE AVENUE, SUITE 900
WILMINGTON, DELAWARE 19801-1368

If to Employee:



or to such other name or addresses as Company or Employee, as the case may be, shall designate by written notice to each other person entitled to receive notices in the manner specified in this Paragraph.

26. Entire Agreement.

(a) This Agreement sets forth the entire understanding among the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by Employee and such officer or director as may be designated by the Board of Directors of Company. It is understood that the Incentive Compensation Plans and any plans and programs providing Employee Benefits shall constitute independent agreements except as specifically provided in Paragraph 12.

(b) Employee acknowledges that from time to time, Company may establish, maintain and distribute employee manuals or handbooks or personnel policy manuals, and officers or other representatives of Company may make written or oral statements relating to personnel policies and procedures. Such manuals, handbooks and statements are intended only for general guidance. Except as noted in this Agreement, no policies, procedures or statements of any nature by or on behalf of Company (whether written or oral, and whether or not contained in any employee manual or handbook or personnel policy manual), and no acts or practices of any nature, shall be construed to modify this Agreement or to create express or implied obligations of any nature to Employee.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Employee hereunder are of a personal nature and shall not be assigned or delegated in whole or in part by Employee.

27. Remedies Cumulative; No Waiver. No remedy conferred upon Company or Employee by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder, now or hereafter existing, at law or in equity. No delay or omission by Employee or Company in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by Company or Employee from time to time and as often as may be deemed expedient or necessary by Company in its sole discretion or by Employee.

28. Miscellaneous. All paragraph headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

29. Definitions: Unless otherwise defined herein or the context otherwise requires, the terms defined in this Paragraph shall have the meanings defined herein for all purposes of this Agreement, applicable to both the singular and plural forms of any such terms. Unless otherwise specified, any reference in this Agreement to a Paragraph shall mean the applicable

numbered Paragraph of this Agreement. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders.

(a) “Board” means the Board of Directors of BCBSD, Inc., as it currently exists or hereafter exists unless the provisions of this Agreement designate the Board as of a specific date or event.

(b) “Change of Control” shall be deemed to occur upon the earliest of any of the following events: a Change in Ownership of the Company; a Change in Effective Control of the Company; or a Change in the Ownership of a Substantial Portion of the Assets of the Company as defined below.

(i) A Change in Ownership of the Company occurs on the date of the acquisition by any Person or Persons acting as a group as defined in Treas. Regs. Section 1.409A-3 (i)(5)(v)(B) of the right to designate more than fifty percent (50%) of either (A) the Members of the Company or (B) the combined voting power of the then-outstanding voting rights entitled to vote generally in the election of directors of the Company.

(ii) Notwithstanding that a Change in Ownership has not occurred under paragraph (b)(i) above, a Change in Effective Control of the Company occurs on either of the following dates:

(A) the date any Person or Persons acting as a group as defined in Treas. Regs. Section 1.409A-3(i)(5)(v)(B) acquires, (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) the right to designate thirty percent (30%) or more of the Members of the Company. If any one person, or more than one Person

Acting as a Group, is considered to effectively control the Company, the acquisition of additional control of the Company by the same person or persons is not considered to cause a Change in Control of the Company.

(B) the date that within any twelve (12) month period, the individuals constituting the Board as of the beginning of such period (the "Incumbent Board") cease for any reason to constitute at least fifty percent (50%) of the members of the Board; provided, however, that if the election of any new Director is approved by a majority of the members of the Incumbent Board, such new Director shall be considered a member of the Incumbent Board.

(iii) A Change in the Ownership of a Substantial Portion of a Company's assets occurs on the date that any one Person, or more than one Person acting as a group (as determined in accordance with Treas. Regs. Section 1.409A-3(i)(5)(v)(B), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Company is not treated as a Change of Control if the assets are transferred to (i) an entity that is controlled by the Members of the Company

immediately after the transfer; or (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company.

(c) “Director” means a director for the Board.

(d) “Governmental Entity” means any local, state, federal or foreign (i) court, (ii) government, or (iii) governmental department, commission, instrumentality, board, agency or authority.

(e) “Members” means the Members of Company, as they currently exist or hereafter exist unless the provisions of this Agreement designate the Members as of a specific date or event.

(f) “Officer” shall mean a full-time employee of Company who (i) has entered into a written employment agreement with Company and (ii) has one of the following titles: Chief Executive Officer and President, President, Executive Vice President, Senior Vice President or Vice President.

(g) “Person” means any natural person, corporation, business trust, association, company, partnership, joint venture, Governmental Entity and any other entity.

(h) “Present Value” means the current value of an amount otherwise payable to Employee at a future date, discounted at the Short Term Applicable Federal Rate as defined in Internal Revenue Code Section 1274(d) for the month preceding the month in which the distribution is to be made to Employee.

(i) “Year of Service” means the period of twelve (12) consecutive months commencing on Employee’s first day of employment with the Company and on each anniversary of Employee’s first day of employment with the Company.

30. Parachute Payments. In the event that it shall be determined that any payment or benefit made or provided, or to be made or provided, by the Company (or any successor thereto or affiliate thereof) to or for the benefit of Employee, whether pursuant to the terms of this Agreement, any other agreement, plan, program or arrangement of or with the Company (or any successor thereto or affiliate thereof) or otherwise, will be subject to the excise tax imposed by Section 4999 of the Code or any comparable tax imposed by any replacement or successor provision of United States tax law, then the Company will apply a limitation on such payment or benefit so that the aggregate present value of the payments under this Agreement (“Agreement Payments”) shall be reduced (but not below zero) to the Reduced Amount. The “Reduced Amount” shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the limitation of deduction under Section 280G of the Code or the imposition of any excise tax under Section 4999 of the Code. Solely for purposes of this Paragraph 30, “present value” shall be determined in accordance with Section 280G(d)(4) of the Code. In the event that it is determined that the amount of the Agreement Payments will be reduced in accordance with the foregoing, the Agreement Payments shall be reduced on a nondiscretionary basis in such a way as to minimize the reduction in the economic value deliverable to the Executive. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A, and where more than one payment

has the same value for this purpose and they are payable at different times, they will be reduced on a pro-rata basis.

31. Compliance with Section 409A. This Agreement is intended to comply with Section 409A and its corresponding regulations or an exemption thereto, and payments may only be made under this Agreement upon an event and in a manner permitted by Section 409A, to the extent applicable. Separation pay provided under this Agreement is intended to be exempt from Section 409A under the "involuntary separation pay exception," to the maximum extent applicable. Further, any payments that qualify for the "short-term deferral" exception or another exception under Section 409A shall be paid under the applicable exception. All separation payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" to the extent required under Section 409A. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. In no event may the Employee, directly or indirectly, designate the calendar year of a payment. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of Section 409A to avoid the application of Section 409A to such amounts, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during the period of time specified in this Agreement, (ii) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred, and (iv)

the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit. Notwithstanding anything in this Agreement to the contrary, any right of the Company to offset or otherwise reduce any sums that may be due or become payable by the Company to the Employee or for the account of the Employee, by any overpayment or indebtedness of the Employee, shall be subject to limitations imposed by Section 409A.

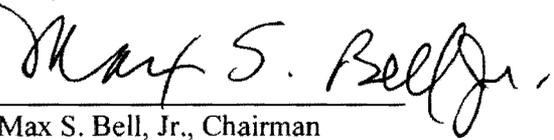
IN WITNESS WHEREOF, the parties have executed this Agreement or caused this Agreement to be executed on the day and year aforesaid.

EMPLOYEE



Timothy J. Constantine

BCBSD, INC.

By: 

Max S. Bell, Jr., Chairman
Board of Directors

**AMENDED AND RESTATED
OFFICER EMPLOYMENT AGREEMENT**

This Officer Employment Agreement is amended and restated this 18th day of August, 2010, as originally effective on January 1, 2008 (the "Effective Date") by and between Paul A. Kaplan, M.D. ("Employee") and BCBSD, Inc. ("Company").

WHEREAS, Employee is employed as Vice President of Network and Medical Management and Chief Medical Officer of Company; and

WHEREAS, Company and Employee entered into that certain Officer Employment Agreement dated August 4, 2008, effective January 1, 2008, and

WHEREAS, Company and Employee now desire to amend and restate that certain Employment Agreement as originally effective on the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Position of Employee. Employee shall be employed as an Officer of the Company with the title of Vice President of Network and Medical Management and Chief Medical Officer for the term of this Agreement. Employee will have all of the customary powers and duties associated with that office. Employee shall devote his full working time and creative energies to the performance of his duties, and will abide by all bylaws, policies, practices, procedures and rules of Company, including, but not limited to, the Company's Code of Conduct as it may be revised from time to time.

2. Compensation.

a. Base Salary. Employee shall be employed by Company at a base salary of [REDACTED] per annum, effective January 1, 2008 [REDACTED] per annum effective January 1, 2010) (the "Base Salary"), payable in accordance with the regular payroll practices of Company. The Base Salary may be changed from time to time by mutual agreement of Employee and Company.

b. Incentive Compensation. Employee shall be eligible to participate in Company's incentive compensation plans and programs generally offered to Company's Officers at a level commensurate with his position (hereinafter referred to as the "Incentive Compensation Plans"), as such plans and programs may be revised, supplemented, discontinued, or adopted from time to time by Company. The 2010 target incentive compensation percentage for Employee's position of Vice President of Network and Medical Management and Chief Medical Officer is 30%.

3. Employee Benefits. Employee shall be entitled to participate in and shall receive benefits under all employee benefit plans, policies and programs provided by Company for the category of employees of which Employee is a member (hereinafter referred to as the "Employee Benefits") including, but not limited to, pension, 401(k), medical (including prescription drug, dental and vision), disability, life, vacation and other welfare and fringe benefits, as such plans, policies and programs may be revised, supplemented, discontinued, or adopted from time to time by Company. In addition, Employee shall receive a taxable, non-accountable automobile allowance of [REDACTED]. Furthermore, Employee shall participate in the Benefit Restoration Plan for Certain Employees of

BCBSD, Inc. (“BRP”). Except as specifically provided in Paragraph 11 with respect to BRP payments, nothing in this Agreement shall affect the fringe and employee benefits that Employee would otherwise be entitled to receive from the Company had this Agreement not been entered into. Employee shall also receive nonqualified deferred compensation as set forth in Paragraph 11 of this Agreement.

4. Term. Subject to the termination provisions of this Agreement set forth in Paragraphs 5-10, Employee shall be employed by Company for a term commencing on the Effective Date and ending on December 31, 2009, provided that this Agreement shall be automatically extended for an additional one (1) year term on each anniversary of January 1, 2008 (“Anniversary Date”), unless, either party notifies the other in writing, at least sixty (60) days prior to the Anniversary Date, that it does not wish to extend the Agreement. Employee’s refusal to renew the term of this Agreement or refusal to continue employment with Company at the conclusion of or after the term of this Agreement shall not result in the forfeiture of any benefits to which Employee is entitled under any provision of this Agreement which survives the term of this Agreement or under any other policy, plan or agreement of Company. Upon the consummation of a Change of Control, the term of this Agreement shall be extended until the second (2nd) anniversary of the consummation of a Change of Control. Thereafter, this Agreement shall be automatically extended for an additional one (1) year term on each anniversary of the consummation of a Change of Control, unless either party notifies the other in writing, at least sixty (60) days prior to the anniversary of the consummation of a Change of Control, that it does not wish to extend the Agreement.

5. Voluntary Termination by Employee. Employee may voluntarily terminate his employment under this Agreement at any time, provided Employee provides at least sixty (60) calendar days advance written notice to Company. If Employee terminates employment pursuant to this Paragraph, Employee shall only be entitled to his Base Salary and Employee Benefits for the period in which full-time employment is maintained or sixty (60) calendar days, whichever is greater.

6. Termination Due to Disability. Company may terminate Employee's employment under this Agreement if Employee is disabled as defined under Company's long-term disability plan applicable to Employee and Employee qualifies for benefits under such plan. If Company terminates Employee's employment pursuant to this Paragraph, Employee shall only be entitled to (i) his Base Salary and Employee Benefits for the period up to the date of termination; (ii) a pro rata portion, in respect of the Plan Year during which such long-term disability occurred, of any earned payments under Company's Incentive Compensation Plans for which disabled Officers may be eligible, with any such payment to be made at the time such compensation is paid to other Company participants in such Plans; and (iii) any Employee Benefits to which Employee is entitled upon long-term disability under the terms of any such applicable plans, programs or policies (including, but not limited to, any health benefits provided to long-term disabled employees or former employees) in existence at the time of such long-term disability.

7. Termination Due to Death. This Agreement shall terminate immediately in the event of Employee's death. In such event, Company shall pay to the deceased Employee's Beneficiary, as designated by Employee under the group life insurance plan of

the Company, an amount equal to the regular bi-weekly installments of Employee's Base Salary that would have been payable to Employee in the remainder of the month in which Employee dies and in the three (3) months following the month of Employee's death, and thereafter, Company shall have no further liability or obligation under this Agreement to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him, provided, however, that Employee's designated Beneficiary shall be entitled to receive (i) a pro rata portion, in respect of the Plan Year during which Employee died, of any earned payments under Company's Incentive Compensation Plans with any such payment to be made at the time such compensation is paid to other Company participants in such Plans; and (ii) any Employee Benefits to which Employee (or Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through Employee) is entitled upon Employee's death under the terms of any such applicable plan, program or policy in existence at the time of the Employee's death.

8. Termination by Company without Cause.

(a) Company may terminate Employee's employment under this Agreement without Cause at any time upon written notice, in which case Employee's active employment shall end on the date specified in such notice. If Employee is terminated by Company pursuant to this Paragraph 8, the following shall occur, subject to the release requirements of Paragraph 12: (i) Employee shall continue to receive his Base Salary in bi-weekly payments at the rate in effect as of the date of termination for the then-remaining term of this Agreement or eighteen (18) months, whichever is greater, (as if Employee had not

been terminated); (ii) Employee shall receive amounts equal to the incentive compensation Employee would have earned under the Incentive Compensation Plans and shall be computed each Plan Year of the then-remaining term of this Agreement at Employee's target percentage level in effect for the Plan Year during which Employee is terminated if, as and when such incentive payments are distributed for any Plan Year for which Employee would have been eligible for incentive compensation if Employee had not been terminated including the incentive compensation that would be payable in the year following the last year of the term of this Agreement or the end of the eighteenth (18th) month, whichever is greater; (iii) Employee shall receive a continuation of Employee's Health Benefits (medical with prescription drug, dental and vision) for Employee and Employee's family (as if Employee had not been terminated and had continued at the same employment grade in effect at the time of termination) for forty-two (42) months following Employee's termination of employment, provided, however, that such continuation shall be implemented by the Employee being permitted to purchase such Health Benefits for the Employee and Employee's family through the Company at COBRA rates (or the equivalent and without any administrative charge) and provided further that the Company shall provide reimbursement for the amounts paid in respect of the first twenty-four (24) months of such coverage (but no reimbursement for the last eighteen (18) months of such coverage), such that reimbursements, to the extent applicable, shall occur on a quarterly basis in arrears in an amount resulting in an after-tax cost to the Employee for the Employee and Employee's family after Company reimbursement that is substantially equal to the after-tax cost for such Health Benefits to active senior executives of the Company for Health Benefits for such

senior executives and their families; (iv) the monthly automobile allowance which Employee would have received for the then-remaining term of this Agreement (as if Employee had not been terminated); and (v) Employee shall have that number of years added to the Years of Service or Years of Officer Service, utilized under the BRP and the nonqualified deferred compensation provided for in Paragraph 11 of this Agreement, as is equal to the number of whole and partial years of the then-remaining term of this Agreement. In addition, if Employee is not otherwise entitled to participate in the Company's retiree medical plan at the time of the termination of the employment of Employee under this Paragraph 8, when Employee turns fifty-five (55) years of age following his termination of employment under this Paragraph 8 then Employee shall be entitled to participate in the Company's retiree medical plan, as the Company's retiree medical plan then exists at the time Employee turns fifty-five (55) years of age, under the same terms and conditions as other participants, including the election of coverage for Employee and Employee's family, and as may be modified from time to time by the Company thereafter, and the cost to Employee for such retiree medical coverage for Employee and Employee's family shall be the COBRA rates (or the equivalent and without administrative charge).

(b) If Company acknowledges that Employee's termination is without Cause, Employee shall not be required to mitigate the amount of any payment or benefit provided for in this Paragraph 8 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Paragraph be reduced by any compensation earned by other employment or otherwise.

(c) Except as may be required by a court order, Company's obligation to make the payments provided for in this Paragraph and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation, any set-off, counterclaim, recoupment, defense or other right which Company may have against Employee or others.

9. Termination by Company for Cause. Company may terminate Employee's employment under this Agreement at any time, for Cause, upon written notice to Employee. If Company terminates Employee's employment for Cause pursuant to this Paragraph, Employee shall only be entitled to his Base Salary and Employee Benefits, as described in Paragraphs 3 and 11 of this Agreement, accrued up to the date of termination, and Company shall have no obligation to make any other payments or provide any other benefits to Employee, except where such payment or benefit is required by law. For purposes of this Agreement, the term "Cause" shall mean any of the following: (a) gross misconduct, dishonesty, or deliberate and premeditated acts against the interest of Company; (b) conviction of a felony or other serious crime involving moral turpitude; or (c) continual and substantial failure to perform Employee's obligations and duties under this Agreement, which failure has continued for a period of at least ninety (90) days after written notice has been delivered to Employee specifying the manner in which Employee has failed to perform.

10. Termination Upon a Change of Control.

(a) A Termination Upon a Change of Control shall mean Employee's termination from employment during the term of this Agreement after a Change of Control either: (1) initiated by Company for any reason other than for disability, death or Cause as

described in Paragraphs 6, 7 and 9 hereof; or (2) initiated by Employee for Good Reason. For purposes of this Agreement, the term Good Reason shall mean any of the following: (i) a material failure of Company to comply with and satisfy any of the terms of this Agreement; (ii) a significant reduction by Company of the authority, duties or responsibilities of Employee; (iii) any action by Company that results in a significant diminution of Employee's employment grade, compensation level, incentive compensation, or Employee Benefits, as described in Paragraphs 3 and 11 of this Agreement, which Employee holds as of the date of Change of Control; (iv) a significant alteration or termination of any Incentive Compensation Plans in which Employee is a participant as of the date of a Change of Control; (v) the Company gives notice of its intent not to extend the term of the Agreement under Paragraph 4; or (vi) a relocation of Employee's principal work location to more than fifty (50) miles from its current location in downtown Wilmington, Delaware.

(b) Upon Employee's good faith determination that Good Reason exists, but not later than the ninetieth (90th) day following the day on which Employee first became aware that Good Reason existed, Employee shall give Company at least ninety (90) days prior written notice of the date Employee intends to effect a termination of this Agreement under this Paragraph 10 (the "Cure Period"). Such written notice shall include the date on which Employee first became aware that Good Reason existed and the nature of the Good Reason. Company, upon receiving such written notice, may attempt to resolve the matters for which Employee has given notice or may accept the provisions of the notice. If Company has not so resolved such matters in all material respects as of the end of the Cure Period, Employee's termination of this Agreement shall be deemed final. In no event, however, may

Employee terminate this Agreement for Good Reason unless Employee has initiated the Cure Period within ninety (90) days after Employee first became aware that Good Reason existed.

(c) In the event of a Termination Upon a Change of Control, Company and Employee shall each have the same rights and obligations, including but not limited to severance or other payments, retiree medical benefits and the crediting of additional Years of Service, or Years of Officer Service, as the case may be under Paragraph 8(a) of this Agreement (Termination by Company without Cause), except that if the Termination Upon Change of Control occurs within two years of the occurrence of the Change of Control, Employee's entitlement to Base Salary and any payments under the Incentive Compensation Plans set forth in Paragraph 8(a)(i) and 8(a)(ii) shall be paid by Company in a lump sum within the sixty (60) day period immediately following such termination, subject to the release requirements of Paragraph 12, and shall be reduced to Present Value using the dates the payments would otherwise have been due under the Agreement in the absence of such termination. For purposes of computing the Present Value of Base Salary and any payments under the Incentive Compensation Plans payable under clause 8(a)(i) and 8(a)(ii), the Base Salary payable to Employee under clause 8(a)(i) shall be deemed to increase at the rate of three percent (3%) per year on the first day of each year following Employee's termination; and incentive compensation to which the employee is entitled to under clause 8(a)(ii) shall be deemed to be thirty percent (30%) of Employee's Base Salary payable under clause 8(a)(i) as increased hereunder and shall be deemed to be payable on March 15 of each following year. If the Termination upon a Change of Control is due to Good Reason and the Good Reason or one of the Good Reasons is the reduction in the Employee's compensation or incentive

compensation or both the Employee's compensation and incentive compensation, (i) Employee's Base Salary for severance purposes will be deemed to be the greater of: (aa) the highest Base Salary received by the Employee after the Change in Control, or (bb) the Employee's Base Salary in effect on the day before the Change of Control occurs; (ii) Employee's incentive compensation will be no less than 30% multiplied by the Employee's Base Salary determined under clause (i); and, (iii) as additional damages, Employee will receive the difference (but not less than zero) between the salary and incentive compensation that Employee would have received during the Cure Period determined by using the Base Salary under clause (i) and the incentive compensation under clause (ii) and the Base Salary and incentive compensation that the Employee was actually paid during the Cure Period.

11. Nonqualified Deferred Compensation. In addition to participating in Employee Benefits plans of Company as set forth in Paragraph 3 of this Agreement, including but not limited to, Blue Cross Blue Shield of Delaware Retirement Plan ("Retirement Plan") and BRP, Employee shall also be entitled to a nonqualified deferred compensation benefit as set forth in this Paragraph 11.

[REDACTED]

[Redacted text block]

- [Redacted text block]

[Redacted text block]

[REDACTED]

(c) For purposes of this Paragraph 11 of this Agreement, "Final Average Earnings shall mean Final Average Earnings as such term is defined in Section 2.26 of the Retirement Plan with regard to the pension equity formula benefit.

(d) Employee shall be vested in his Accrued Nonqualified Benefit as follows:

[REDACTED]

[REDACTED]

[REDACTED]

(e) Employee shall be entitled to receive his vested Accrued Nonqualified Benefit in a lump sum within sixty (60) days following the later to occur of the Employee's attainment of age 55 or Employee's termination of employment, subject to the release requirements of Paragraph 12 and provided that such Accrued Nonqualified Benefit shall not be payable upon termination of Employee by the Company for Cause. Notwithstanding the foregoing, Employee shall be entitled to receive his vested Accrued Nonqualified Benefit in a lump sum within sixty (60) days following Employee's termination of employment within two years after a Change in Control, provided that if such lump sum is payable prior to Employee's attainment of age 55, the lump sum payment shall be equal to the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55. In addition, notwithstanding any provision of this Agreement or the BRP to the contrary, any benefits accrued under the BRP, that due to the BRP benefit offset formula described in this Paragraph 11 would change the time of payment for benefits accrued under this Paragraph 11 by shifting the payment of benefits from this Paragraph 11 to the BRP, shall be payable under the payment timing requirements applicable to benefits accrued under this Paragraph 11 and not under the payment provisions of the BRP to avoid such change in payment timing. For the avoidance of doubt, benefits accrued under the BRP that do not affect the time of

payment for benefits accrued under this Paragraph 11 shall be paid in accordance with the otherwise applicable provisions of the BRP.

(f) If Employee competes with Company in violation of Paragraph 17 of this Agreement, or if Employee is terminated by Company for Cause pursuant to Paragraph 9 of this Agreement, Company, in its discretion, may declare the Employee's benefit to be forfeited and may, in the case where Employee competes with Company in violation of Paragraph 17, require that Employee repay to Company all amounts previously received under this Paragraph 11, plus reasonable attorney's fees and other cost of collection incurred by Company.

(g) If Employee's employment terminates due to death, his Beneficiary shall receive an amount equal to Employee's vested Accrued Nonqualified Benefit, the amount of which shall be calculated as of the day before Employee's death, provided that if such amount is payable prior to Employee's attainment of age 55, the amount shall be equal to the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55. This benefit shall be paid in a lump sum payment to Employee's Beneficiary, subject to the release requirements of Paragraph 12, within the sixty (60) day period immediately following the Employee's death. Employee's Beneficiary shall be the person or persons (including Employee's estate) designated by Employee to receive benefits under this Paragraph 11 upon Employee's death. Employee's designation of a Beneficiary must be in writing on a form provided by Company. Such beneficiary designation will be effective only upon receipt by Company's Chief Financial Officer. If Employee fails to designate a beneficiary,

Employee's Beneficiary shall be the person or persons (including Employee's estate) entitled to receive benefits upon Employee's death under the Retirement Plan.

(h) If Employee's employment terminates due to Disability under Paragraph 6 of this Agreement (and such Disability, if prior to Employee's attainment of age 55, constitutes a qualifying disability for purposes of Section 409A), Employee shall receive a lump sum amount equal to his vested Accrued Nonqualified Benefit, subject to the release requirements of Paragraph 12, within the sixty (60) day period immediately following such termination of employment, provided that if such amount is payable prior to Employee's attainment of age 55, such amount shall be equal to the Present Value of the vested Accrued Nonqualified Benefit otherwise payable at age 55.

(i) This Paragraph 11 of this Agreement shall survive the termination of this Agreement and shall not terminate until such time all of the benefits due to Employee under this Paragraph 11 have been paid to him or to his Beneficiary in full.

12. Release. As a condition to Employee's receipt of payments or benefits pursuant to Paragraphs 5-11 hereof, Employee or any other Persons receiving benefits or payments under this Agreement (if any) must execute a release which shall include a general release of any and all claims against Company, its affiliates, successors and assigns, their directors, officers, employees and agents, and any person or entity involved in the administration or operation of their Employee Benefit plans, with respect to all matters arising out of Employee's employment by Company and the termination thereof (other than Employee's rights under this Agreement or incorporated by reference in this Agreement) within sixty (60) days following the Employee's termination date. Payment of, or continued

payment of, compensation and benefits described in Paragraphs 5-11 hereof, shall be contingent upon execution of such release and such compensation and benefits otherwise payable on or after the sixtieth (60th) day following termination shall be forfeited if the release is not executed and irrevocable on or before such sixtieth (60th) day. The terms of the release also shall contain a non-disparagement clause prohibiting Employee from making any public statements that disparage Company, its affiliates, successors, officers, directors, products or services. Employee shall remain subject to the provisions of Paragraphs 16-18 of this Agreement regardless of whether Employee does or does not execute a release as offered. The Company may, in the exercise of its sole discretion, waive any requirement of a release under this Paragraph. Notwithstanding the foregoing, the administration of the release requirement described under this Paragraph 12 shall be executed in compliance with the requirements of Section 409A, including, where applicable, that where the period for execution and non-revocation of a release spans more than one calendar year, any payment contingent on the execution of the release shall not be made until the second calendar year, or later, as required by the applicable terms of this Agreement.

13. Interest. In the event that Company shall fail or refuse to make payment of any amounts due Employee or any other Persons within the applicable time period(s) set forth in this Agreement, Company shall pay to Employee, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required until paid to Employee, at the rate from time to time announced by Wilmington Trust Company (or its successor) as its “prime rate”

plus two (2) percent. Each change in such rate is to take effect on the effective date of the change in such prime rate.

14. Attorneys' Fees and Costs. Company shall pay Employee or any other Persons on demand after the conclusion of any proceeding to enforce this Agreement the amount necessary to reimburse Employee in full for all expenses (including all reasonable attorneys' fees and legal expenses) incurred by Employee in enforcing any of the obligations of Company under this Agreement, unless it is determined by the Court that Employee's claim is without merit and no award, monetary judgment or relief is granted to Employee.

15. Successors. Company shall require any successor or successors to all or substantially all of the business or assets of Company or to that part of the business or assets of Company in which Employee is most actively employed (whether direct or indirect, by purchase, merger, consolidation, exchange or otherwise), to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Company would be required to perform it if no such succession had taken place. Company shall remain liable to Employee, or any other Persons, jointly and severally with any such successor, for any and all obligations and performance under this Agreement in the same manner and to the same extent that Company would be required to perform if no such succession or successions had taken place.

16. Use of Confidential Information. Employee recognizes and acknowledges that by reason of Employee's employment by and service to Company (both during employment and before or after it), Employee has had access to confidential information of Company and its affiliates, including, without limitation, information and knowledge

pertaining to products and services offered; innovations, designs, ideas, plans, trade secrets, proprietary information; sales, distribution and marketing plans, methods and systems; names, positions, compensation, and other information concerning Company's employees; prices, advertising, contracts, sales and profit figures, customer and provider lists; and relationships between Company and its affiliates and other distributors, customers, clients, suppliers and others who have business dealings with Company and its affiliates ("Confidential Information"). Employee acknowledges that such Confidential Information is a valuable and unique asset and covenants that during the term of this Agreement and for a period of twenty-four (24) months after termination of Employee's employment with Company, Employee shall not communicate or otherwise disclose or permit disclosure in any way or for any reason whatsoever, to any person, firm, corporation, association or other entity, or use in any manner, any Confidential Information or other material relating to the business or operation of Company or any of its subsidiaries or affiliates, except upon prior written consent of Company or as may be required by law.

17. Non-Competition.

(a) Employee recognizes that the provisions of this Agreement provide substantial economic security, particularly in cases of a Change of Control or termination by Company without Cause; and that such security is of substantial value to Employee during the course of employment with Company, even if the circumstances that would cause payment by Company do not occur. Employee agrees that during the greater of the balance of the term of this Agreement or a period of eighteen (18) months following the voluntary termination of employment with Company by Employee, Employee shall not, unless acting

pursuant hereto or with the prior written consent of Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Employee's name to be used in connection with, any business or enterprise which: (i) is engaged in the same type of business then conducted or actively contemplated to be conducted by Company, its subsidiaries or affiliates during the term of this Agreement or at the time of termination of Employee's employment; and (ii) conducts business in the State of Delaware or any jurisdiction in which Company holds a license from the Blue Cross Blue Shield Association to use the Blue Cross and Blue Shield service marks. Notwithstanding the foregoing, nothing in this paragraph 17 shall preclude Employee from accepting employment with an entity that is engaged nationally or regionally in the same type of business then conducted or actively contemplated to be conducted by Company its subsidiaries or affiliates during the term of this Agreement or at the time of termination of Employee's employment provided that Employee does not work at such entity's Delaware location(s) or on matters directly related to such entity's Delaware operations.

The foregoing restrictions shall not be construed to prohibit the ownership by Employee of less than one percent (1%) of any class of securities of any corporation or entity which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Employee nor any group of persons including Employee in any way, either directly or indirectly, manages or exercises control of any such corporation

or entity, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Employee's rights as a security holder, or seeks to do any of the foregoing.

(b) Employee agrees that during the greater of the balance of the term of this Agreement or a period of eighteen (18) months following the termination of employment with Company, Employee shall not, unless acting pursuant hereto or with the prior written consent of Company, directly or indirectly:

(i) Solicit, contact or otherwise communicate with any person who is or was a customer or prospective customer of Company during the twenty-four (24) months prior to Employee's termination for the purpose of providing that customer or prospective customer with the same or similar products or services as provided by Company; or

(ii) Solicit, contact or otherwise communicate with any person who was an employee of Company during the twenty-four (24) months prior to Employee's termination for the purpose of employing or engaging in a business relationship with that person to provide similar products or services as provided by Company.

18. Injunctive Relief.

(a) Employee and Company hereby acknowledge that the service to be rendered hereunder is unique, special and extraordinary in character which shall be difficult or impossible for Company to replace, that the restrictions contained in Paragraphs 16 and 17 hereof are reasonable and necessary to protect the legitimate interests of Company and its

affiliates, that Company would not have entered into this Agreement in the absence of such restrictions, and that any violation of any provision of those Paragraphs will result in irreparable injury to Company. Employee hereby acknowledges and represents that his experience and capabilities are such that the restrictions contained in Paragraphs 16 and 17 hereof will not prevent Employee from obtaining employment or otherwise earning a living at the same general level of economic benefits as anticipated by this Agreement. Employee further represents and acknowledges that (i) Employee has been advised by Company to consult Employee's own legal counsel in respect of this Agreement, and (ii) that Employee has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with Employee's counsel.

(b) Employee agrees that Company shall be entitled to preliminary and permanent injunctive relief, as well as an equitable accounting of all earnings, profits and other benefits arising from any violation of Paragraphs 16 or 17 hereof, which rights shall be cumulative and in addition to any other rights or remedies to which Company may be entitled. In the event that any of the provisions of Paragraphs 16 or 17 hereof should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

(c) Employee agrees that Company shall be entitled to an award of its reasonable expenses, including attorneys' fees, in any successful proceeding brought by Company pursuant to this Paragraph; and agrees that if a court finds that Employee has

violated the provisions of Paragraphs 16 or 17, Employee hereby consents to the entry of an order enjoining such violations for a period of eighteen (18) months from the date of such order.

(d) Employee agrees that Employee shall provide, and that Company may similarly provide, a copy of Paragraphs 16-18 hereof to any business or enterprise (i) which Employee may directly or indirectly own, manage, operate, finance, join, or control or participate in the ownership, management, operation, financing, or control of; or (ii) with which Employee may be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise, or in connection with which Employee may use or permit Employee's name to be used; or (iii) to which Employee sells, trades, barter or gives any Confidential Information as described in Paragraph 16; provided, however, that this Paragraph shall not apply as to the furnishing of copies of Paragraphs 16-18 of this Agreement after expiration of the time period set forth therein.

(e) The non-competition, nondisclosure, non-solicitation and confidentiality obligations contained herein shall be extended by the length of time during which Employee shall have been in breach of any of the said provisions.

19. Company Employment Practices. The parties acknowledge that this Agreement does not set forth all of Employee's benefits, duties or obligations as an officer of Company. Except to the extent that this Agreement modifies or is inconsistent, these duties, obligations and benefits shall continue. Where there is an express modification or inconsistency, this Agreement shall control.

20. Books and Materials. Upon termination of this Agreement, Employee shall within twenty four (24) hours of termination deliver to Company all manuals, letters, notes, notebooks, reports, software, hardware, data, information (electronic or written), all Confidential Information as described in Paragraph 16, identification cards, keys or other materials providing access to any company facility and all other property relating to the business of Company which is in the possession or in any way under the control of Employee.

21. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction.

22. Binding Effect. This Agreement shall be binding on and inure to the benefit of any successor or successors of Company, and on the personal representatives of Employee.

23. Governing Law and Consent to Jurisdiction. This Agreement shall be considered subject to and governed by the laws of the State of Delaware. Each party consents to the exclusive in personam jurisdiction of the courts of the State of Delaware in connection with any claim or dispute arising under or in connection with this Agreement, and waives any objection which it may have to the laying of venue of any such suit, action or proceeding in any such court. Employee and Company irrevocably and unconditionally

consent to the service of any process, pleadings, notices or other papers in a manner permitted by the notice provisions of Paragraph 24 hereof.

24. Notices. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered or mailed by registered or certified mail, as follows (provided that notice of the change of address shall be deemed given only when received);

If to Company:

OFFICE OF THE CHIEF EXECUTIVE OFFICER
BLUE CROSS BLUE SHIELD OF DELAWARE
800 DELAWARE AVENUE, SUITE 900
WILMINGTON, DELAWARE 19801-1368

If to Employee:

PAUL A. KAPLAN, M.D.
At Last Known Address of Employee on Company records

or to such other name or addresses as Company or Employee, as the case may be, shall designate by written notice to each other person entitled to receive notices in the manner specified in this Paragraph.

25. Entire Agreement.

(a) This Agreement sets forth the entire understanding among the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by Employee and such officer or director as may be designated by the Board of Directors of Company. It is understood that

the Incentive Compensation Plans and any plans and programs providing Employee Benefits shall constitute independent agreements, except as specifically provided in Paragraph 11.

(b) Employee acknowledges that from time to time, Company may establish, maintain and distribute employee manuals or handbooks or personnel policy manuals, and officers or other representatives of Company may make written or oral statements relating to personnel policies and procedures. Such manuals, handbooks and statements are intended only for general guidance. Except as noted in this Agreement, no policies, procedures or statements of any nature by or on behalf of Company (whether written or oral, and whether or not contained in any employee manual or handbook or personnel policy manual), and no acts or practices of any nature, shall be construed to modify this Agreement or to create express or implied obligations of any nature to Employee.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Employee hereunder are of a personal nature and shall not be assigned or delegated in whole or in part by Employee.

26. Remedies Cumulative; No Waiver. No remedy conferred upon Company or Employee by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder now or hereafter existing at law or in equity. No delay or omission by Employee or Company in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be

exercised by Company or Employee from time to time and as often as may be deemed expedient or necessary by Company in its sole discretion or by Employee.

27. Miscellaneous. All paragraph headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

28. Definitions: Unless otherwise defined herein or the context otherwise requires, the terms defined in this Paragraph shall have the meanings defined herein for all purposes of this Agreement, applicable to both the singular and plural forms of any such terms. Unless otherwise specified, any reference in this Agreement to a Paragraph shall mean the applicable numbered Paragraph of this Agreement. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders.

(a) “Board” means the Board of Directors of BCBSD, Inc., as it currently exists or hereafter exists unless the provisions of this Agreement designate the Board as of a specific date or event.

(b) “Change of Control” shall be deemed to occur upon the earliest of any of the following events: a Change in Ownership of the Company; a Change in Effective Control of the Company; or a Change in the Ownership of a Substantial Portion of the Assets of the Company as defined below.

(i) A Change in Ownership of the Company occurs on the date of the acquisition by any Person or Persons acting as a group as defined in Treas. Regs. Section 1.409A-3 (i)(5)(v)(B) of the right to designate more than

fifty percent (50%) of either (A) the Members of the Company or (B) the combined voting power of the then-outstanding voting rights entitled to vote generally in the election of directors of the Company.

(ii) Notwithstanding that a Change in Ownership has not occurred under paragraph (b)(i) above, a Change in Effective Control of the Company occurs on either of the following dates:

(A) the date any Person or Persons acting as a group as defined in Treas. Regs. Section 1.409A-3(i)(5)(v)(B) acquires, (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) the right to designate thirty percent (30%) or more of the Members of the Company. If any one person, or more than one Person Acting as a Group, is considered to effectively control the Company, the acquisition of additional control of the Company by the same person or persons is not considered to cause a Change in Control of the Company.

(B) the date that within any twelve (12) month period, the individuals constituting the Board as of the beginning of such period (the "Incumbent Board") cease for any reason to constitute at least fifty percent (50%) of the members of the Board; provided, however, that if the election of any new Director is approved by a majority of the Members of the Incumbent Board, such new Director shall be considered a member of the Incumbent Board.

(iii) A Change in the Ownership of a Substantial Portion of a Company's assets occurs on the date that any one Person, or more than one

Person acting as a group (as determined in accordance with Treas. Regs. Section 1.409A-3(i)(5)(v)(B), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Company is not treated as a Change of Control if the assets are transferred to (i) an entity that is controlled by the Members of the Company immediately after the transfer; or (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company.

(c) “Director” means a director for the Board.

(d) “Governmental Entity” means any local, state, federal or foreign (i) court, (ii) government, or (iii) governmental department, commission, instrumentality, board, agency or authority.

(e) “Members” means the Members of Company, as they currently exist or hereafter exist unless the provisions of this Agreement designate the Members as of a specific date or event.

(f) “Officer” shall mean a full-time employee of Company who (i) has entered into a written employment agreement with Company and (ii) has one of the following

titles: Chief Executive Officer and President, President, Executive Vice President, Senior Vice President or Vice President.

(g) “Person” means any natural person, corporation, business trust, association, company, partnership, joint venture, Governmental Entity and any other entity.

(h) “Present Value” means the current value of an amount otherwise payable to Employee at a future date, discounted at the Short Term Applicable Federal Rate as defined in Internal Revenue Code Section 1274(d) for the month preceding the month in which the distribution is to be made to Employee.

(i) “Year of Service” means the period of twelve (12) consecutive months commencing on Employee’s first day of employment with the Company and on each anniversary of Employee’s first day of employment with the Company. “A Year of Officer Service” means the period of twelve (12) consecutive months commencing on Employee’s first day of employment with the Company as an Officer of the Company and on each anniversary of Employee’s first day of employment with the Company as an Officer. Employee’s first date of employment with the Company was April 21, 1997. Employee’s first date of employment with the Company as an Officer of the Company was June 1, 2007.

29. Parachute Payments. In the event that it shall be determined that any payment or benefit made or provided, or to be made or provided, by the Company (or any successor thereto or affiliate thereof) to or for the benefit of Employee whether pursuant to the terms of this Agreement, any other agreement, plan, program, or arrangement of or with the Company (or any successor thereto or affiliate thereof) or otherwise, will be subject to the excise tax imposed by Section 4999 of the Code or any comparable tax imposed by any replacement or

successor provision of United States tax law, then the Company will apply a limitation on such payment or benefit so that the aggregate present value of the payments under this Agreement (“Agreement Payments”) shall be reduced (but not below zero) to the Reduced Amount. The “Reduced Amount” shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the limitation of deduction under Section 280G of the Code or the imposition of any excise tax under Section 4999 of the Code. Solely for the purposes of this Paragraph 29, the “present value” shall be determined in accordance with Section 280G(d)(4) of the Code. In the event that it is determined that the amount of the Agreement Payments will be reduced in accordance with the foregoing, the Agreement Payments shall be reduced on a nondiscretionary basis in such a way as to minimize the reduction in the economic value deliverable to the Executive. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A, and where more than one payment has the same value for this purpose and they are payable at different times, they will be reduced on a pro-rata basis.

30. Compliance with Section 409A. This Agreement is intended to comply with Section 409A and its corresponding regulations or an exemption thereto, and payments may only be made under this Agreement upon an event and in a manner permitted by Section 409A, to the extent applicable. Separation pay provided under this Agreement is intended to be exempt from Section 409A under the "involuntary separation pay exception," to the maximum extent applicable. Further, any payments that qualify for the "short-term deferral" exception or another exception under Section 409A shall be paid under the applicable exception. All separation payments to be made upon a termination of employment under this

Agreement may only be made upon a "separation from service" to the extent required under Section 409A. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. In no event may the Employee, directly or indirectly, designate the calendar year of a payment. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of Section 409A to avoid the application of Section 409A to such amounts, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during the period of time specified in this Agreement, (ii) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit. Notwithstanding anything in this Agreement to the contrary, any right of the Company to offset or otherwise reduce any sums that may be due or become payable by the Company to the Employee or for the account of the Employee, by any overpayment or indebtedness of the Employee, shall be subject to limitations imposed by Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement or caused this Agreement to be executed on the day and year aforesaid.

EMPLOYEE

BCBSD, INC.



Paul A. Kaplan, M.D.

By: _____
Timothy J. Constantine
Chief Executive Officer

**Executive Compensation Analysis
Change of Control
BCBSD Board of Directors
May 18, 2011**

**EXHIBIT
JOINT-43.1**

For many years, BCBSD has had employment agreements with its executive officers. These are standard in the industry and are intended to protect both BCBSD, Inc. (the “Company”) and the executives. The CEO and each of BCBSD’s six Vice Presidents (one of whom is designated a Senior Vice President) have such an agreement. An important part of the agreements concerns termination of employment, including: causes for termination, noncompetition and nondisclosure by the executive following termination, and compensation in cases of termination other than for cause. The contracts are intended to keep an executive whole by providing severance benefits in the event of a termination of employment (other than for cause) prior to the contract expiration. If a Change of Control (“COC”) occurs, at closing, each of the six Vice Presidents would get a fresh starting date for his or her contract. Each contract is currently on a calendar-year basis and has terms of either one or two years. (This “fresh start” provision is not included in the CEO’s three-year contract, under which severance benefits are limited to 24 months.) If approved and completed, the proposed Highmark affiliation would constitute a COC for severance purposes; but, other than the severance benefits, there are no bonuses or other incentives for executives that are contingent upon a COC. It is important to note that a COC alone does not allow an executive to collect a severance benefit. There must be an additional trigger, such as involuntary termination of the executive’s employment or a substantial reduction of duties or compensation.

In a “Worst Case” scenario, i.e., if the employment of all seven officers was terminated other than for cause immediately after closing, the Company would be obligated to make severance payments corresponding to the officers’ varying contract durations, including base salary and annual incentive, as well as certain other benefits. (Even without a COC, the officers would be entitled to periodic severance payments upon such a termination, but the occurrence of a COC would result in the payments being made in a lump sum, reduced to present value.)

The other significant potential severance benefit is related to the Company’s nonqualified retirement plans. In addition to its qualified retirement plan with two formulas (the traditional formula and the newer pension equity formula), which is generally available to most employees, the Company maintains nonqualified retirement plans for executives. These include Supplemental Executive Retirement Plans (“SERPs”) that complement the traditional pension plan formula, as well as a Benefit Restoration Plan (“BRP”) and a Nonqualified Deferred Compensation employment agreement provision (“NQDC”) that complement the pension equity formula of the qualified plan. Two of the officers participate in the traditional formula in the qualified plan and in the SERPs, but not in the BRP or NQDC; these are mutually exclusive. The remaining five officers participate in the pension equity formula of the qualified plan and the BRP, and three of them also have the NQDC provision in their employment agreements.

Each of the officers already has certain vested rights in these nonqualified plans, as well as the qualified plan, which would be the Company’s obligation irrespective of a change of control; i.e., upon a voluntary termination or retirement. Amounts already accrued and vested in these plans are not affected by a COC and are not displayed in the table on page 3. In the event of termination following a COC, four of the officers would receive additional amounts credited to their respective NQDC contract provisions or SERP Plan, corresponding to the remaining durations of their contracts.

The Company has obtained updated estimates of the incremental amounts (beyond amounts already earned and vested) for which it could be obligated if lump sum severance benefits became payable because of a termination within two years of a change of control. For purposes of illustration, the estimates assume two different and highly unlikely “Worst Case Scenarios,” in which all seven executives would be terminated immediately following changes of control effective at years ending 2011 and 2012, respectively. Please note that the tables on page 3 include the major elements of severance payments, i.e., base salary, annual incentive, and additional retirement plan amounts (if applicable), but do not include medical benefit costs or the officers’ car allowance (\$250 per month), each of which is also payable during a severance benefit period. Because the amounts of potential severance would be largely driven by contract durations and base salaries, we have listed that information in a table on page 2. As the Board has directed, BCBSD’s officer salaries have been reviewed periodically by outside experts. The table on page 2 includes officer-by-officer comparison points from the most recent such outside analysis. The Company’s projected total direct compensation is significantly below the 50th percentile for the non-public BCBS industry sector and the 25th percentile for the health insurance and managed care industry sector, even after adjusting for revenue differences.

**Executive Compensation Analysis
Change of Control
BCBSD Board of Directors
May 18, 2011**

Peer Comparison Data - Non-Public BCBS Plans (Note A)

<u>Officer</u>	<u>Current Base Salary</u>	<u>Current Target Bonus (Note B)</u>	<u>Total Targeted Direct Comp.</u>	<u>50th Percentile Salary</u>	<u>50th Percentile Bonus (Note C)</u>	<u>Total Targeted Direct Comp.</u>
	\$420,000	\$126,000	\$ 546,000	\$632,000	\$623,000	\$1,255,000
	\$258,100	\$ 77,430	\$ 335,530	\$269,000	\$297,000	\$ 566,000
	\$286,459	\$ 85,938	\$ 372,397	\$344,000	\$319,000	\$ 663,000
	\$280,700	\$ 84,210	\$ 364,910	\$253,000	\$227,000	\$ 480,000
	\$244,700	\$ 73,410	\$ 318,110	\$247,000	\$198,000	\$ 445,000
	\$329,400	\$ 98,820	\$ 428,220	\$299,000	\$241,000	\$ 540,000
	\$248,700	\$ 74,610	\$ 323,310	\$210,000	\$125,000	\$ 335,000
Total			\$2,688,477			\$4,284,000
Average (All positions)			\$ 384,068			\$ 612,000
Average (Senior V.P. and V.P. positions)			\$ 357,079			\$ 504,833

Note A) Peer Comparison Data obtained from competitive compensation assessments performed by Towers Watson. Peers include non-public BCBS Plans. Data was regressed based upon gross healthcare revenue or assets. Towers Watson also provided benchmark data for the health insurance and managed care industry sector. BCBSD's Total Targeted Direct Compensation was below the 25th percentile for each of the seven positions.

Note B) Current Target Bonus for CEO and Vice President positions is 30%.

Note C) Includes both an annual and a long-term incentive component. BCBSD discontinued its long-term incentive plan several years ago in connection with the CareFirst, Inc. affiliation.

**Executive Compensation Analysis
Change of Control
BCBSD Board of Directors
May 18, 2011**

For a change of control occurring on December 31, 2011, these “Worst Case” amounts are estimated as follows:

	Total Months	2011 Annual Base Salary	Total Base Salary Payments¹	Annual Incentive Percentage²	Total Incentive Payments	Total SERP Additional Amounts	Total NQDC Additional Amounts³	Total COC Payments
	24	\$ 420,000	\$ 845,754	30%	\$ 248,748	N/A	\$ 535,970	\$1,630,472
	24	258,100	519,736	30%	152,861	\$ 196,819	N/A	869,416
	24	286,459	576,843	30%	169,657	N/A	169,151	915,651
	24	329,400	663,313	30%	195,089	N/A	349,745	1,208,147
	24	248,700	500,807	30%	147,294	N/A	N/A	648,101
	12	280,700	283,988	30%	83,525	N/A	N/A	367,513
	12	244,700	247,567	30%	72,813	N/A	N/A	320,380
Total		\$2,068,059	\$3,638,008		\$1,069,987	\$ 196,819	\$1,054,866	\$5,959,680

For a change of control occurring on December 31, 2012, these “Worst Case” amounts are estimated as follows:

Officer	Total Months	2012 Annual Base Salary	Total Base Salary Payments¹	Annual Incentive Percentage²	Total Incentive Payments	Total SERP Additional Amounts	Total NQDC Additional Amounts³	Total COC Payments
	24	\$ 420,000	\$ 871,127	30%	\$ 256,210	N/A	\$ 304,018	\$1,431,355
	24	258,100	535,328	30%	157,447	\$ 213,680	N/A	906,455
	24	286,459	594,148	30%	174,747	N/A	248,371	1,017,266
	24	329,400	683,212	30%	200,942	N/A	373,618	1,257,772
	24	248,700	515,832	30%	151,713	N/A	N/A	667,545
	12	280,700	292,508	30%	86,030	N/A	N/A	378,538
	12	244,700	254,994	30%	74,997	N/A	N/A	329,991
Total		\$2,068,059	\$3,747,149		\$1,102,086	\$ 213,680	\$ 926,007	\$5,988,922

Please note that the following footnotes are the same for both tables:

¹For purposes of computing present value of Change of Control severance benefit, Annual Base Salary is deemed to increase at 3% per annum.

²For purposes of computing present value of Change of Control severance benefit, Annual Incentive is deemed to be 30% of Annual Base Salary.

³For purposes of computing present value of Change of Control NQDC benefit, benefit amount payable at age 55 discounted to age at calculation date using 3.8% interest rate (current interest rate for pension equity formula of qualified plan) with no regard to mortality.

BCBSD Associate Retention Bonus Plan
Background Information

Individual Name (to be redacted in favor of letters: Employee A, Employee B, etc.)	Individual's specific employment function (displayed in full)	Reason for Individual's inclusion in Plan (displayed in full)
Employee A	Primary lead for account relationship with Company's largest client (State of Delaware)	The account relationship with the State is critical to BCBSD (it is roughly one third of our local membership), and the program is going out to bid within a few weeks. The Company believes it is critical to assure continuity in this relationship, and this individual has established a good working relationship with the client.
Employee B	Primary lead for account relationships with several of the Company's other largest clients	The Company has a disproportionate amount of its business in a few key clients. For the same reason as with the State of Delaware account, it is considered critical to maintain continuity to demonstrate its ongoing commitment to them as it makes the transition to Highmark, and this individual has established good working relationships with the clients.
Employee C	Primary lead for the Company's Underwriting function	This individual has the Company's most comprehensive background and knowledge of its rating and underwriting policies, procedures and strategies. Retaining this knowledge is critical to avoiding market disruptions as BCBSD makes the transition to Highmark rating and pricing platforms.
Employee D	Senior actuarial professional	The Company currently has only two full time employees in its Actuarial department; this individual handles the greatest volume of its actuarial workload and has the most comprehensive knowledge of its pricing history and strategies.
Employee E	Primary lead for Company's overall Human Resource function	The Company believes it is of critical importance to assure strong employee communications and relations as it goes through the affiliation process; this individual has the knowledge and skills to do this.
Employee F	Primary internal expert on the Company's employee benefits as well as Highmark's	A significant component of the employee integration effort is the migration of BCBSD employees onto Highmark benefits; this individual will be critical to effective benefits-related coordination between the two companies.
Employee G	Primary leader of the Company's internal and external communications function	The affiliation process will place extreme demands on the Company to maintain timely and consistent communications over an extended period with key internal and external stakeholders, including Highmark and the media. This individual has the institutional knowledge and experience to do so in that environment.
Employee H	Primary non-physician leader of BCBSD's medical management and quality assurance programs	The Company believes it is of critical importance to avoid lapses in any of these extremely important areas during the affiliation process. This individual has demonstrated the leadership skills to assure this.

Additional background:

- BCBSD utilized Mercer to assist it in evaluating a potential Retention Bonus Program
- The goals of the program are as follows:
 - Retain key employees and ensure business continuity
 - Allow associates to focus on their jobs by easing their termination concerns
 - Recognize the additional efforts and add-on responsibilities of employees during a transition
 - Ensure that the company continues to operate at a high level during the period of time from the affiliation announcement until closing (this will likely be over 15 months)
- Eligibility was determined as follows:
 - Associates that would be difficult to replace, particularly during the period from the affiliation announcement until closing
 - Associates with unique skills sets or institutional knowledge
 - Associates who are part of critical operational or strategic functions

MERCER

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN



BlueCross BlueShield
of Delaware

February 18, 2009

Blue Cross Blue Shield of Delaware Severance Policy Review Discussion Draft

Nancy Harrison, Philadelphia
Wambui Wainaina, Washington DC

BCBSD000828

EXHIBIT
JOINT-45

www.mercer.com



Introduction

- Blue Cross Blue Shield of Delaware (BCBSD) retained Mercer to review its existing severance plan to ensure that it is market competitive
- BCBSD spun off from CareFirst in 2006 and retained many of the legacy CareFirst human resources policies and plans. BCBSD is reviewing these plans to ensure that they are still appropriate and competitive relative to market practice
- In addition to understanding the competitiveness of its severance plan and its provisions, BCBSD is also interested in understanding whether it is common:
 - To have an enhanced severance schedule for positions that may be displaced in connection with a change in control (CIC)
 - To provide retention bonuses to key individuals in connection with a potential CIC agreement
- Mercer compared BCBSD to general industry and to the healthcare industry, where data was available, addressing severance eligibility, minimum and maximum payout levels, forms of payout and benefit provisions. Mercer also reviewed prevalent practices surrounding enhanced severance and retention payouts during a CIC
- Additional market data is provided in the Appendices

Executive Summary

BCBSD's severance formula differs from the market

- Overall, BCBSD's severance program's benefit levels are above market in some areas
 - The difference in general (non-CIC) severance levels is more pronounced for executives and management than for the exempt professional and non-exempt employee population. Benefits for lower level employees are more comparable to general industry
 - The maximum benefits (number of weeks of severance) are at the high end of market practice for management groups, which could represent a high cost for BCBSD, as many employees have long tenure (over 10 years of service)
- BCBSD does not have a minimum service requirement as is typical in the market
- BCBSD's program is structured differently from the market
 - Typically severance programs include a minimum benefit level for eligible employees (i.e. 2-4 weeks of pay), a formula of weeks of severance per year of service (i.e. 1 to 2 weeks per year of service), and a maximum benefit (i.e. 26 weeks of pay).
 - While in the market benefits generally increase steadily with years of service, BCBSD's program groups the number of years of service and pays out based on these 'buckets'
 - This may create inequities in benefits provided to employees with similar tenure. For example, an exempt employee who has been with the company 9.5 years would only be eligible for 13 weeks of severance, while another exempt employee with 10.5 years of service would be eligible for 20 weeks of severance

Executive Summary

It is not prevalent for enhanced CIC severance to be provided below the executive or senior management level

- BCBSD's eligibility for enhanced CIC benefits – which is provided to all levels of employees – is broader than the market
 - It is unusual to have an organization-wide enhanced severance plan during a CIC; these plans are typically found only at the executive level
 - According to a Mercer survey on CIC practices conducted in 2007, organizations less than \$1B in revenues provide CIC benefits to a median of 11 employees
 - Most organizations limit CIC benefits to less than 1% of the employees; approximately 8% of organizations extend eligibility to 10% or more of the employee population

Executive Summary

BCBSD may want to consider changing its program to bring it more in line with market

- If BCBSD is interested in better aligning its severance benefits with the market, the following alternatives could be considered:
 - Adopt a payout formula which provides a defined number of weeks per year of service with minimum and maximum payouts to be more comparable with general industry (see appendix for additional detail)
 - Introduce a minimum service requirement of between 6 months and one year for severance benefits eligibility
 - Eliminate enhanced severance benefits below the executive level
 - The enhanced CIC severance benefit level for the five officers who currently do not have employment agreements is consistent with market practice and may help to provide more consistent treatment of executives as a group
 - In the case of a proposed or pending transaction, consider implementing a targeted retention program relative to specific business context
 - Retention incentives during a CIC tend to be tailored to the business situation and the motivation behind the transaction
- Prior to making any program changes, BCBSD should model potential cost and assess the impact on affected employees
- In addition, BCBSD should make sure its plan either is exempt from or complies with Section 409A of the Internal Revenue Code

Current Program

BCBSD differentiates benefits based on career band and tenure

- BCBSD's severance can be summarized as follows:

Chart A: Weeks of Severance Benefits

Career Band	Band Description	By Band and Years of Vesting Service with BCBSD			
		Less than 1 Year	1 – 9 Years	10 – 19 Years	20 or More Years
I, II	Non-Exempt	2	8	12	20
A, B	Exempt Professional / Manager	4	13	20	26
C	Manager / Director	12	20	29	39
X	Executive	26	26	39	52

- Severance arrangements for the VP's and CEO are provided under their employment contracts.

Current Program

Employees can receive a higher benefit level in the event of a business combination (CIC)

Chart B: Weeks of Severance Available During a Business Combination Transition Period with a Company Approved by the BCBSD Board of Directors

Career Band	Band Description	Number of Weeks
I, II	Non-Exempt	12
A, B	Exempt Professional	15
B, C	Manager	26
C	Director	39
X	Executives	78

- During a business combination transition period, employees may receive the greater of either:
 - The number of weeks available for reasons other than the business combination (chart A); or
 - The number of weeks available during the business combination transition period (chart B)

Comparison to Market: Eligibility

BCBSD's severance eligibility is consistent with the market, with the exception of a minimum service requirement

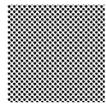
BCBSD Policy	Market Practice and Observations
<ul style="list-style-type: none"> ▪ All full-time and benefits eligible part-time employees (those who work at least 20 hours a week) of BCBSD are eligible for severance under the 'Severance Plan,' with the exception of employees who have an employment agreement ▪ Temporary associates, leased employees, interns and non-benefit-eligible part-time associates are not eligible for severance ▪ Associates are given a 2 week notice period prior to their official termination date. If they do not sign and return the Severance Agreement during that 2 week period they are placed on unpaid leave until the date the signed Severance Agreement is due (21 days for associates under 40 years and 45 days for those over 40 years of age). Upon receipt of the signed Severance Agreement, severance payments are made dating back to their official termination date. ▪ No minimum service requirement 	<ul style="list-style-type: none"> ▪ The majority of organizations extend severance to all levels of the organization ▪ Severance is typically provided to full-time employees at all levels and over half of healthcare organizations extend severance benefits to part-time employees ▪ Over 80% of organizations require a release of claims against the organization ▪ Typically organizations with formal severance policies have minimum service requirements ranging from six months to a year of eligibility <ul style="list-style-type: none"> – Lower level employees are more likely to have minimum years of service requirement

Comparison to Market: Payout Formula

BCBSD's payout formula is structured differently from the market, and benefit levels are generally above market averages

BCBSD Policy	Market Practice and Observations
<ul style="list-style-type: none"> ▪ Years of service are grouped into 'buckets' and payout is based on employee level and years of service 'bucket' ▪ Minimum benefit levels are 2 weeks for non-exempt employees, 4 weeks for exempt professions, 12 weeks for Band C managers and directors and 26 weeks for executives ▪ The maximum non-CIC benefit is 20 weeks for non-exempt employees, 26 weeks for exempt professionals, 39 weeks for Band C managers and directors, and 52 weeks for executives 	<ul style="list-style-type: none"> ▪ Typically, payout formulas are expressed as a number of weeks of salary, and employers usually identify a minimum and maximum payout amount <ul style="list-style-type: none"> – 1 to 2 weeks of salary per year of service are common severance multiples for the professional and paraprofessional levels ▪ Market practice indicates a range of payout multiples at different service levels ▪ Minimum benefit levels provided by BCBSD are generally at the high end of the market ▪ Over half of organizations place a cap on severance pay <ul style="list-style-type: none"> – Executive caps are commonly 52 weeks, consistent with BCBSD – For management, the median cap is 26 weeks and the 75th percentile is 52 weeks, placing BCBSD in the third quartile – For professionals, BCBSD is aligned with the market median of 26 weeks – BCBSD's maximum of 20 weeks for non-exempts is between the 25th percentile (13 weeks) and median (26 weeks) of the market

Sources: Mercer, *US Policies and Practices*, 2008
 Lee Hecht Harrison, *Severance and Separation Benefits*, 2005



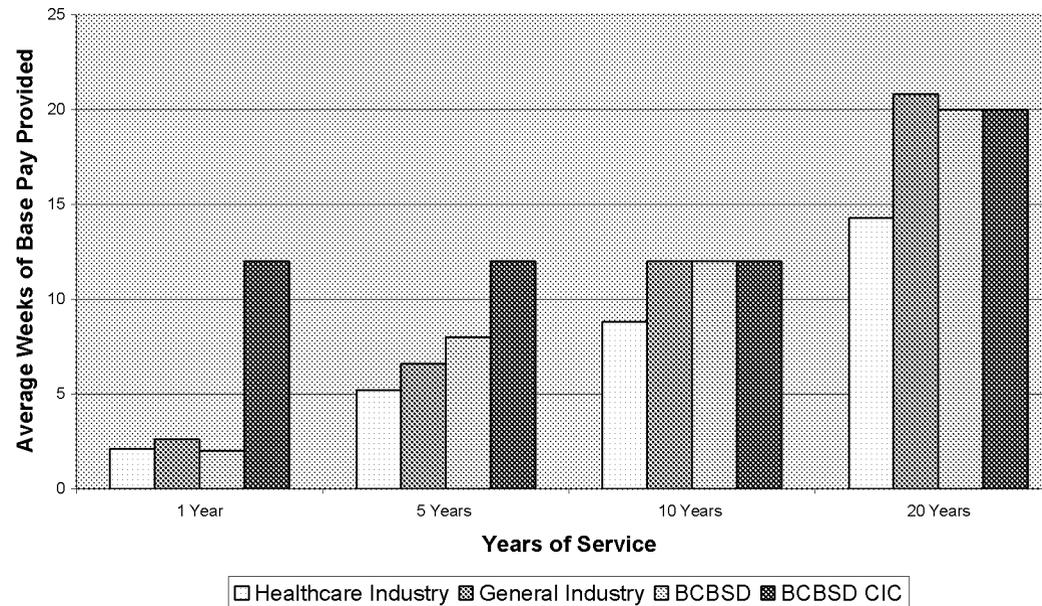
Comparison to Market: Career Bands I and II

General severance provided to Non-exempt employees (Career Bands I and II) is in line with general industry averages

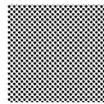
However, the enhanced severance policy for a CIC is more generous than both general industry and healthcare typical practice for employees with less than 10 years of service

Non-exempt employees would typically not be eligible for an enhanced severance package

Number of Weeks Salary Paid as Severance for Non-Exempt Employees



Source: Watson Wyatt, Survey Report on Compensation Policies and Practices 2007/2008



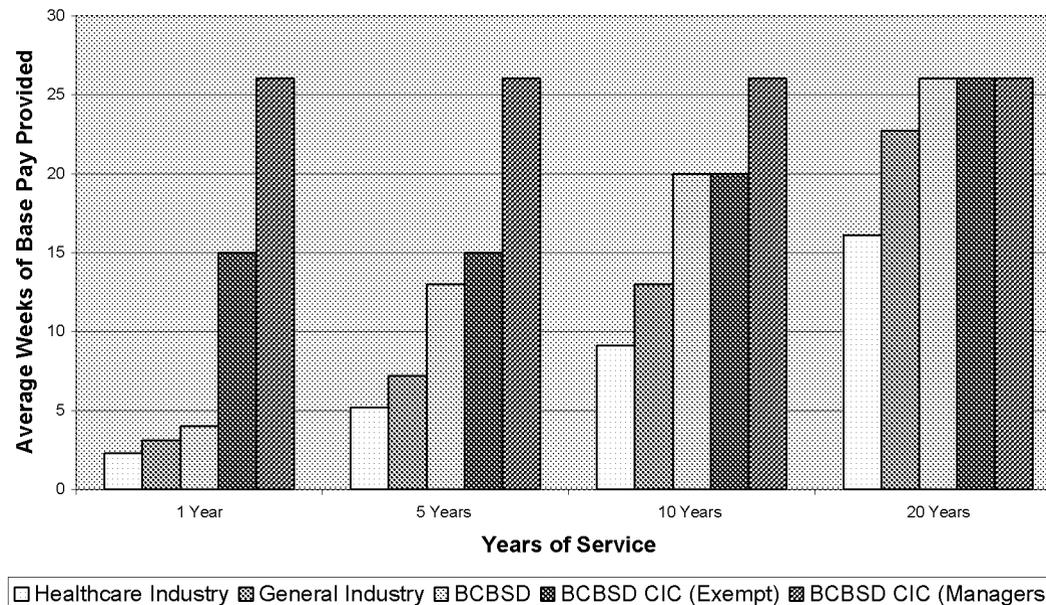
Comparison to Market: Career Bands A and B

Severance for Exempt professionals / Managers (Career Bands A and B) exceeds market averages

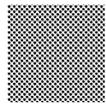
BCBSD's severance program's benefit levels are generally more generous than both general industry as well as the healthcare industry at the exempt professional / manager level

- However, benefit levels are generally comparable to general industry at 20 years of service

Number of Weeks Salary Paid as Severance for Exempt Professionals / Managers



Source: Watson Wyatt, Survey Report on Compensation Policies and Practices 2007/2008

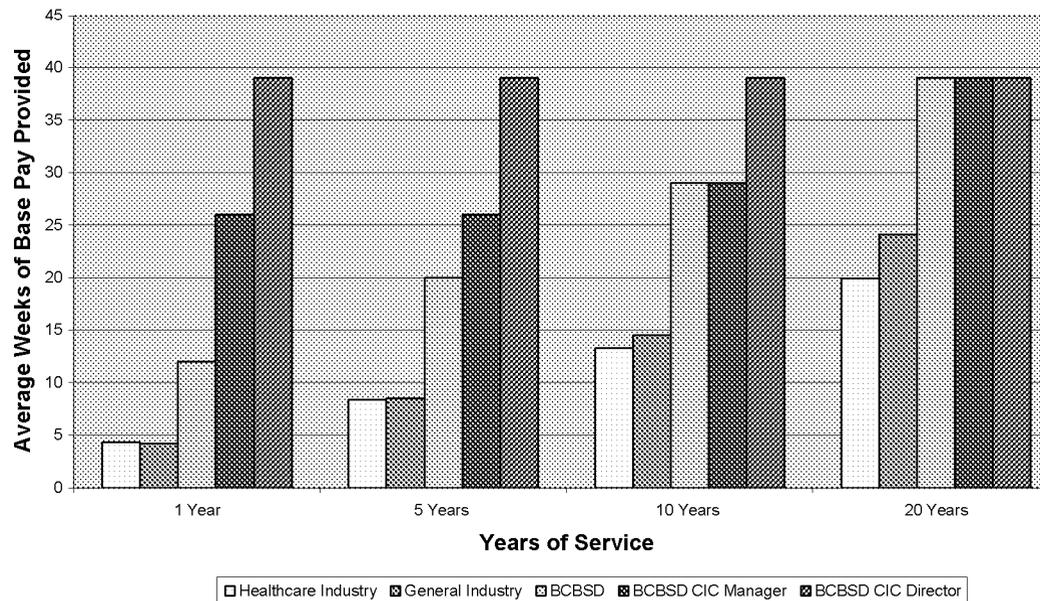


Comparison to Market: Career Band C

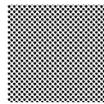
Severance benefits provided to Managers and Directors in Career Band C are above market averages

BCBSD's severance levels are higher than both general industry and healthcare average benefit levels for managers and directors

Number of Weeks Salary Paid as Severance for Managers / Directors



Source: Watson Wyatt, Survey Report on Compensation Policies and Practices 2007/2008

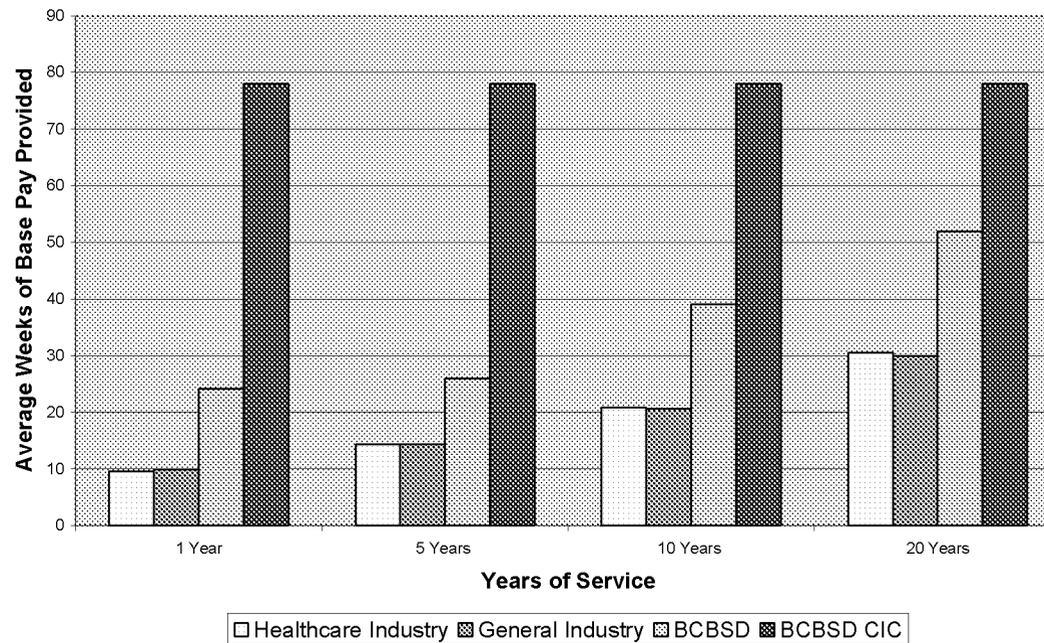


Comparison to Market: Career Band X

Benefits provided to executives (Career Band X) exceed levels reported for severance policies but are consistent with benefit levels often provided through employment agreements and targeted CIC agreements

We note that while most severance policies do not include an enhanced CIC benefit, it is prevalent for executives to have an employment or CIC agreement which provides a cash severance benefit in line with that provided under the BCBSD plan

Number of Weeks Salary Paid as Severance for Executives



Source: Watson Wyatt, Survey Report on Compensation Policies and Practices 2007/2008

Comparison to Market: Salary Continuation

BCBSD's payment of severance through salary continuation is consistent with the market

BCBSD Policy	Market Practice and Observations
<ul style="list-style-type: none"> ▪ Salary continuation benefit is paid on a bi-weekly basis in an amount equal to the most recent bi-weekly base salary ▪ Employees may be eligible to receive a pro-rated incentive payment in accordance with the terms of the applicable incentive plan 	<ul style="list-style-type: none"> ▪ In general, salary continuation or lump sum payout are equally common at the executive level (35%) and lump sum payouts are most common for professional and management levels ▪ Companies that are continuing benefits typically provide severance through salary continuation ▪ Companies that are not continuing benefits typically provide a lump sum ▪ In the healthcare industry, salary continuation is most commonly used (68%), with lump sum payment being less common (24%).

Sources: Mercer, *US Policies and Practices, 2008*
 Watson Wyatt Survey Report on Compensation Policies & Practice 2007/2008

Comparison to Market: Benefits and Outplacement

BCBSD's benefits continuation and outplacement services policies are in line with market practice

BCBSD Policy	Market Practice and Observations
<ul style="list-style-type: none"> ▪ Employees who are eligible for severance will also be eligible to receive continuation of the health benefits the employee elected as an active employee including medical, dental, vision, prescription drug, flexible spending accounts, and EAP services, until the earlier of: <ul style="list-style-type: none"> - The conclusion of the severance period; or - The date the associate becomes eligible to receive health insurance benefits under another health insurance plan provided by a new employer ▪ Employees are also eligible for outplacement services 	<ul style="list-style-type: none"> ▪ Most companies continue to offer health benefits to employees following termination <ul style="list-style-type: none"> - Employees typically receive benefits for the same number of weeks as the severance payment ▪ Over half of employers provide outplacement assistance to employees during a downsizing ▪ When providing outplacement assistance the majority of companies choose external providers because it is provided at a lower cost

Source Lee Hecht Harrison, *Severance and Separation Benefits*

Comparison to Market: Change in Control

BCBSD's plan currently provides a separate CIC severance schedule

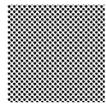
- BCBSD employees receive the higher of the basic severance benefit or the schedule that applies to a business combination transition period
- In general, CIC severance provisions are common for executives but much less so at lower levels of the organization
- In one survey, 22% of organizations make special severance provisions for change in control situations. However, the majority of those (61%) extend those provisions to corporate officers only
- The objective of providing enhanced severance in a CIC to executives is to motivate executives to pursue and facilitate a transaction which may be in shareholder or stakeholder interest without regard for personal employment security
 - In contrast, general severance policies are designed to provide a competitive benefit which compensates employees for job loss
- CIC severance programs may also be put in place to:
 - Retain the management team through period of uncertainty
 - Keep the team focused on business results and the transition rather than their financial security

*Sources: Mercer Change in Control Survey, 2007
Lee Hecht Harrison Severance & Separation Benefits*

Market Practice: Retention Plans

Retention plan design is generally tailored to the business context

- Market practice concerning retention programs varies significantly; programs tend to be tailored to the business situation and the rationale for the transaction
- During a change in control, common reasons to implement a retention plan are to:
 - Retain key employees and ensure business continuity
 - Allow employees to focus on their job by easing their termination concerns
 - Reward employees for working and executing through uncertainty or turmoil
 - Recognize additional efforts and add-on responsibilities of employees during a transition
 - Demonstrate the company's commitment to a specific group of employees
- Eligibility for retention awards is typically limited to key employees who are critical to business continuity and are at risk during the transition period such as:
 - Those difficult to replace
 - Those with unique skill sets or institutional knowledge
 - Those who are part of critical operational or strategic functions
- Often, companies conduct an internal assessment to identify employees who meet these criteria and are most critical to retain
- Because their purpose is to support retention through a disruption, retention plans (unlike CIC plans) generally pay a benefit whether the employee is involuntarily terminated or remains with the organization beyond the retention period



Market Practice: Retention Plans

Retention plans are generally limited in eligibility

- Minority practice is to extend eligibility to all employees. Survey results indicate that 9 to 32% of employees are included in the retention program, and retention programs costs can vary from 0.4% to 1.8% of a transaction cost
- For those organizations that offer retention bonuses, there is no dominant formula used to determine the bonus. Formulas can be based on:
 - Percentage of salary
 - Level/position in the organization
 - Length of employment
 - Additional severance
 - Individual negotiation
 - Individual organization performance
- Market data is shown below:

Retention award level (by salary)

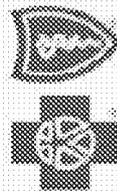
Base Salary	n	Retention award (percentage of base salary)			
		25 %ile	50 %ile	75 %ile	Mean
\$200,000 - \$400,000	15	20%	50%	50%	54%
\$150,000 - \$200,000	19	25%	40%	63%	76%
\$100,000 - \$150,000	10	-	40%	-	62%
\$80,000 - \$100,000	24	25%	39%	50%	58%
Up to \$80,000	16	14%	30%	39%	39%

Note: n represents number of retention programs(not number of survey participants)

Source: Mercer 2007/2008 Retaining Your Best People – Benchmarking Merger & Acquisition Retention Programs

Appendix

BlueCross BlueShield
of Delaware



Appendix: Data Sources

- Mercer compared BCBSD's severance policy provisions to data reported for the healthcare industry and general industry in the following surveys:
 - Mercer 2008 *US Policies and Practices Report*
 - Mercer 2007 *Change in Control Survey*
 - Mercer 2007 *Spotlight on Benefits – Healthcare*
 - Mercer 2007/2008 *Retaining Your Best People – Benchmarking Merger & Acquisition Retention Programs*
 - Watson Wyatt 2007/2008 *Survey Report on Compensation Policies & Practices*
 - Lee Hecht Harrison *Severance and Separation Benefits, 2005*

Appendix: Payout Formula Factors

Factors Impacting Severance Payout Formula – Prevalence by Employee Level

Employee Level	Years of Service	Job Level	Age	Reason for Termination	Standard Rate for all Employees	Employment Agreement	Individually Negotiated
Executive	94%	75%	13 %	77%	14 %	66%	60%
Management	96%	65%	13%	77%	23%	28%	44%
Professional	95%	56%	11%	75%	27%	20%	32%
Paraprofessional	92%	52%	11%	73%	25 %	16%	28%

Source: Mercer, Policies and Practices – US, 2008

Appendix: Payout Formulas

Most Common Severance Benefits (Weeks of Pay) by Years of Service and Employee Level (General Industry)

Employee Level	1 Year	5 Years	10 Years	20 Years
Executive	0-4	0-9	10-19	0-24
Management	0-4	5-9	10-19	0-24
Professional	2-3	5-9	10-19	0-24
Paraprofessional	2-3	5-9	10-19	20-29

Severance Payout Form by Employee Level (General Industry)

Employee Level	Lump Sum & Salary Continuation	Salary Continuation	Lump Sum Payment	Employee Choice	Other
Executive	22%	35%	35%	6%	1%
Management	14%	36%	44%	6%	1%
Professional	11%	35%	48%	5%	1%
Paraprofessional	10%	36%	49%	4%	1%

*Data shown in number of weeks

Source: Mercer, *Policies and Practices – US, 2008*

Appendix: Benefit Continuation

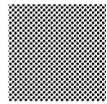
Average Number of Weeks Medical Premiums Paid by Employee Level in the General Industry

Employee Level	1 Year	5 Years	10 Years	20 Years
Executive	16.2	21.7	27.7	34.9
Management	9.1	13.8	19.2	26.8
Exempt, (Non-Management)	8.4	13.1	18.2	25.8
Nonexempt	8.0	12.4	16.9	24.0

Average Number of Weeks Medical Premiums Paid by Employee Level in the Healthcare Industry

Employee Level	1 Year	5 Years	10 Years	20 Years
Executive	19.4	23.0	29.0	37.0
Management	12.3	16.7	21.7	30.2
Exempt, (Non-Management)	n/a	n/a	n/a	n/a
Nonexempt	n/a	n/a	n/a	n/a

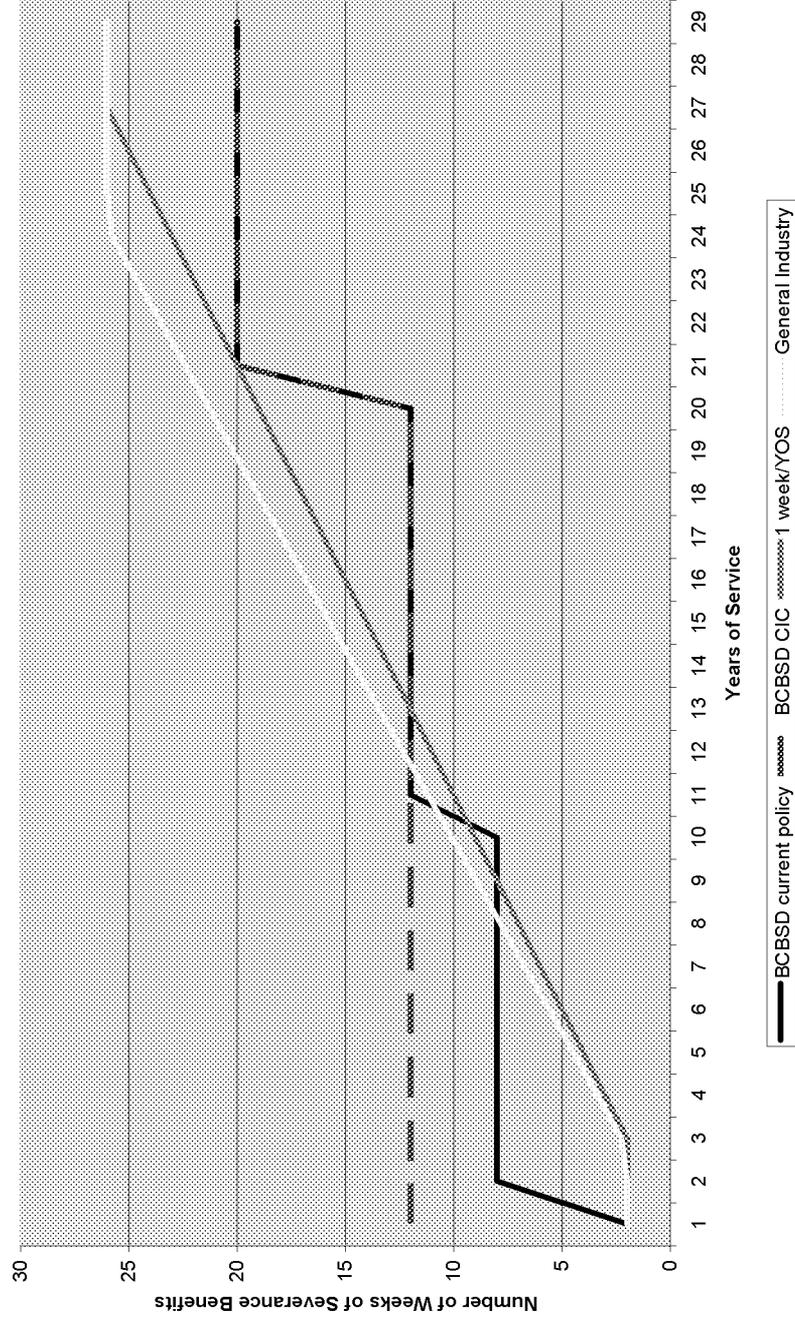
Source: Watson Wyatt, Survey Report on Compensation Policies and Practices 2007/2008

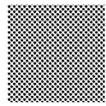


Appendix: Illustrative Design Sample Payout Formula – Non-Exempt Employees

1 week for each year of service for with a minimum of 2 weeks and a maximum of 26 weeks

Illustrative Design - Pay-out Formula for Severance Benefits
Non-exempt Employees (Career Bands I and II)



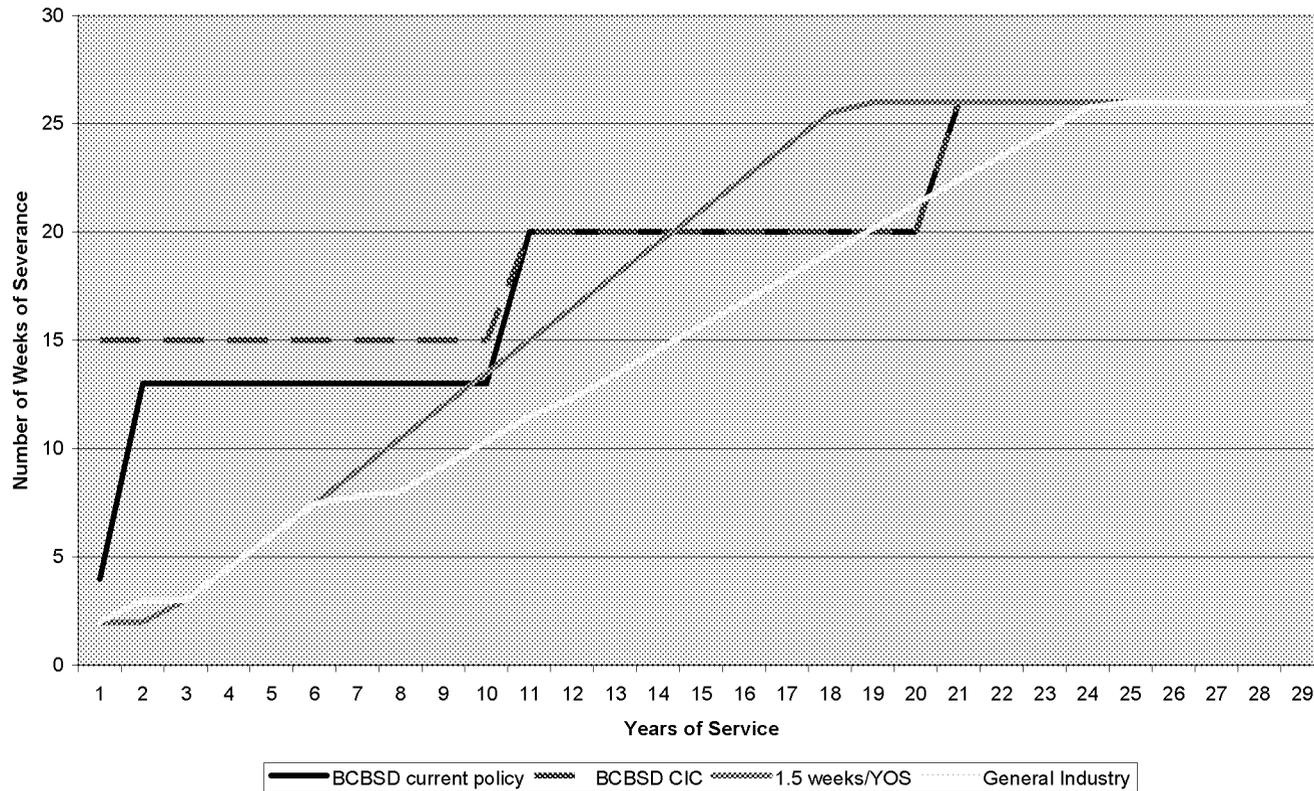


Appendix: Illustrative Design

Sample Payout Formula – Exempt Employees

1.5 weeks for each year of service for with a minimum of 4 weeks and a maximum of 26 weeks

Illustrative Design - Pay-out formula for Severance Benefits
Exempt Employees

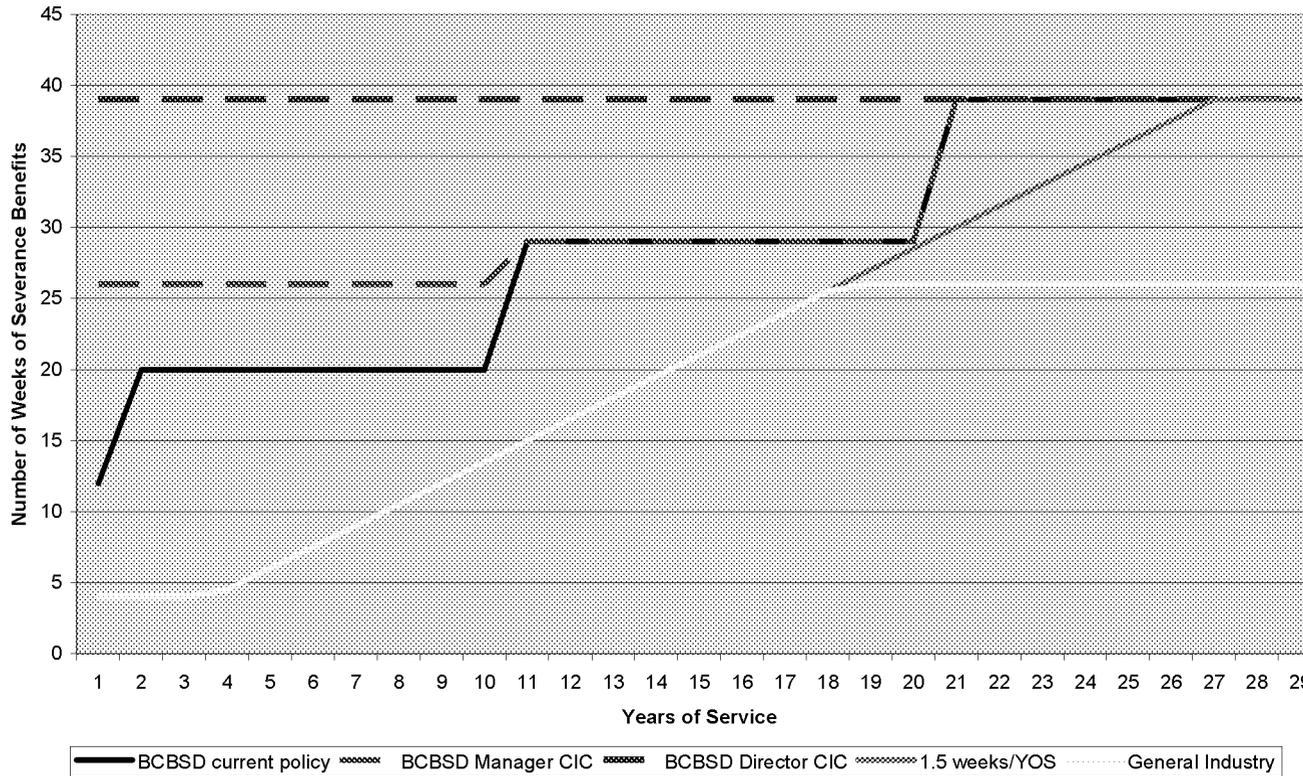


Appendix: Illustrative Design

Sample Payout Formula - Management

2 weeks for each year of service for with a minimum of 4 weeks
a maximum of 39 weeks

Illustrative Design - Pay-out Formula for Severance Benefits
Managers / Directors (Career Bands B and C)

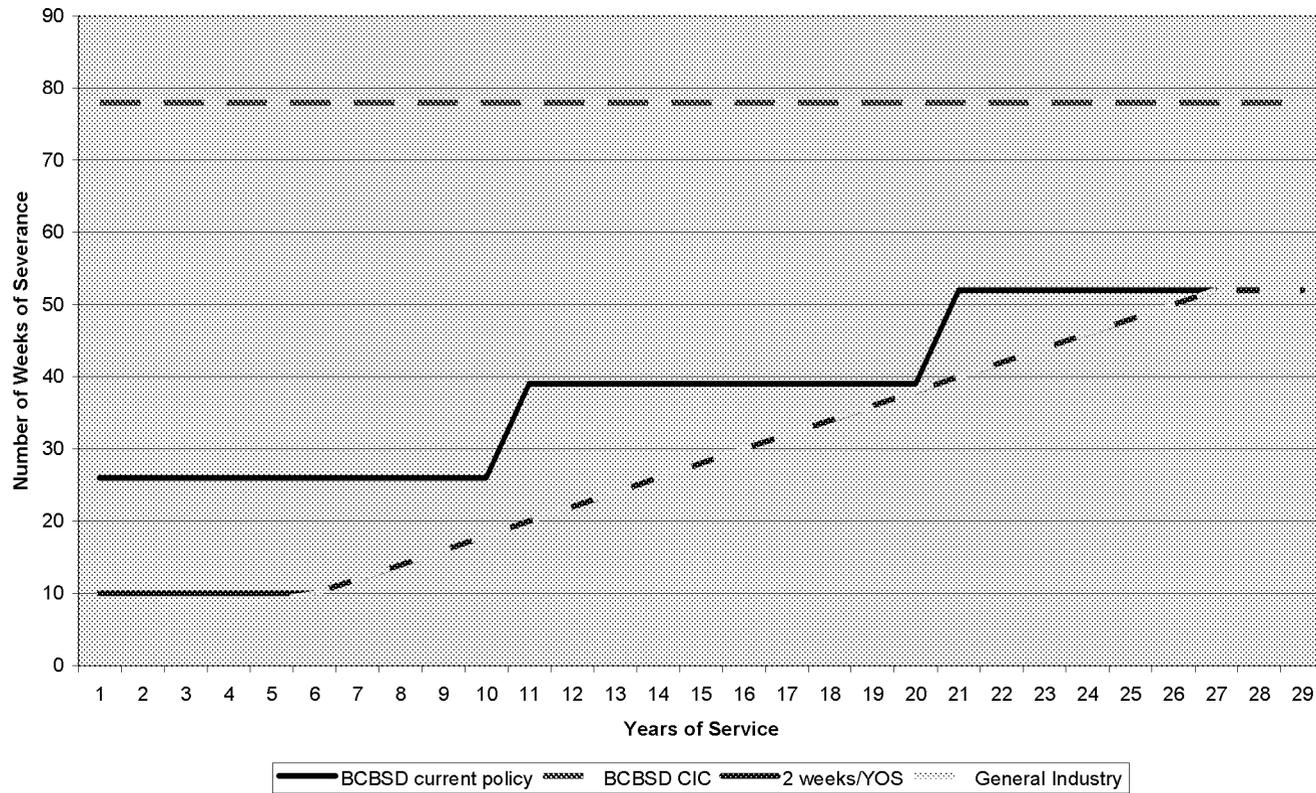


Appendix: Illustrative Design

Sample Payout Formula - Executives

2 weeks for each year of service for with a minimum of 10 weeks and a maximum of 52 weeks

Illustrative Design - Pay-out Formula for Severance Benefits Executives (Career Band X)



MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

**RESPONSES TO
DELAWARE DEPARTMENT OF JUSTICE
REQUEST FOR INFORMATION AND DOCUMENTS**

REQUEST NO. 1 – Identify and produce all documents referring or relating to historical economic data supporting the propriety of conversion, including a copy of the 2008 report prepared by Deloitte, LLP referenced in the October 7, 2010 letter from David Swayze to Ian McConnel.

BCBSD RESPONSE:

BCBSD asserts that the proposed transaction is not a conversion, and will generally refer to the transaction as an Affiliation. BCBSD has already provided the Attorney General with GAAP audited financials for the years 2000 through 2009. In its response to Request 3, BCBSD will produce all reports presented to BCBSD's Board of Directors including the report of Deloitte, LLP (and the most recent update thereof) by consultants and advisors retained by the company in connection with affiliation issues. BCBSD believes these documents are responsive to the Attorney General's request and will best aid the Attorney General in his review. BCBSD would welcome the opportunity to discuss the nature and scope of this request with the Attorney General in order to identify what further documents might be helpful to the Attorney General.

REQUEST NO. 2 – Identify and produce all documents referring or relating to BCBSD's reserves and Highmark's intentions with respect to disposition of the BCBSD reserves.

BCBSD RESPONSE:

Assuming that "reserves" for purposes of this response is a reference to total reserves on a GAAP basis, or unassigned funds (surplus) on a SAP basis, production of all BCBSD documents relating to such reserves, even since 2006, would implicate the production of thousands of documents having no relevance whatsoever to the Affiliation. As noted, BCBSD has already produced to the Attorney General ten years of audited financial statements that identify BCBSD's reserves for each year in question. Moreover, Exhibit 9 to the Affiliation Statement, filed on January 14, 2011, also contains information respecting BCBSD reserves. BCBSD would welcome a dialog with the Attorney General regarding what further information may be helpful to the Attorney General's review. As to the "disposition of reserves," this question has been thoroughly addressed in the October 7, 2010 letter from Mr. Swayze to Mr. McConnel (the "October 7 Swayze Letter"), Mr. Swayze's October 29, 2010 letter to Mr. McConnel, Mr. Campbell's December 29, 2010 letter to Tim Mullaney and in Highmark's response to this information request. BCBSD would welcome the opportunity to discuss the nature and scope of this request further with the Attorney General.

REQUEST NO. 3 – Identify and produce all documents referring or relating to due diligence conducted by either Highmark, BCBSD or their agents or advisors, in connection with the proposed Affiliation, including:

- a. **Minutes of meetings of the BCBSD and Highmark Boards of Directors relating to the Affiliation.**

- b. **Minutes of meetings of the BCBSD Board of Directors regarding the need to enter an affiliation (or similar) transaction, including minutes of meetings where other potential partners were considered or discussed.**

BCBSD RESPONSE:

Produced herewith are all BCBSD board meeting minutes containing substantive discussions of its potential affiliation partners, beginning with the extensive planning process in late 2006 following the CareFirst disaffiliation which is described in detail in BCBSD's response to Request 15. Also produced herewith are all reports presented to the BCBSD Board of Directors by consultants and advisors retained by the company in connection with its consideration of affiliation partners, including the report of Deloitte, LLP (and the most recent update thereto). BCBSD believes that these documents are most responsive to this request; however, the number of documents that could potentially be produced under this request is voluminous. BCBSD would welcome the opportunity to discuss the nature and scope of this request further with the Attorney General.

REQUEST NO. 4 – Identify and describe all members of the BCBSD board of directors who voted on the question of whether to enter into the Affiliation with Highmark.

BCBSD RESPONSE:

At a vote taken at a meeting of the BCBSD board of directors on June 21, 2010 all of BCBSD's directors voted unanimously to approve the proposed Affiliation and to authorize management and its advisors to finalize and execute the necessary transaction documents. Each of these directors is a prominent member of the Delaware community, and many have served on the BCBSD board for many years and have extensive knowledge of BCBSD and the marketplace in which the Company operates. A biographical sketch of each director follows:

Max S. Bell, Jr., Esq., was first elected to the Board of Directors of Blue Cross Blue Shield of Delaware in 1971 and has served as Chairman since 1982. Mr. Bell also serves as a member of the *BluePrints for the Community* Advisory Council for the donor-advised fund of BCBSD, Inc.

As an attorney, Mr. Bell practiced law with Richards, Layton & Finger in Wilmington, Delaware for almost 40 years until his retirement in 1996. His principal fields of practice were in real estate, insurance, and employment law. He served as outside counsel for Blue Cross Blue Shield of Delaware beginning in 1961. Mr. Bell also served as Vice Chairman and Chairman of the Mediation Committee of the Blue Cross and Blue Shield Association, having previously served on the committee that drafted the compulsory mediation system that is currently in place.

Mr. Bell's public service includes four years as Chairman of the State Human Relations Commission (appointed by former Delaware Governor Russell Peterson) and another 15 years as a member of the Commission. He was a Deputy Attorney General of Delaware from 1959 to 1961. Mr. Bell also has been active in the Delaware affiliate of the

American Civil Liberties Union, serving as its President for ten years; he also served on its national board.

Mr. Bell has also been active in governance of the Episcopal Church, holding positions at the parish, diocese and national levels for over 40 years.

Ben Corballis, M.D., has been a Director of the Board of Blue Cross Blue Shield of Delaware since April 1975, serving as its Vice Chairman since March 2000. Dr. Corballis also chairs the *BluePrints for the Community* Advisory Council for the donor-advised fund of BCBSD, Inc.

Dr. Corballis has been a practicing physician since 1960. He was a founding Chairman of the Department of Emergency Medicine at the Christiana Care Health System in Newark, Delaware, where he developed its residency program in Emergency Medicine in 1981.

In 1969, Dr. Corballis founded Doctors for Emergency Services, Inc. and held the position of President and Chairman before his retirement in December 2002.

Dr. Corballis is currently Chairman Emeritus of the Department of Emergency Medicine at the Christiana Care Health System.

Thomas E. Archie has been a Director of the Board of Blue Cross Blue Shield of Delaware since January 1978.

Mr. Archie is a retired Business Manager of the Laborers International Union of North America, Local 199 (Wilmington, Delaware) with 47 years of service.

He is currently an active member of Laborers Local 199, A. Phillip Randolph Institute, Coalition of Black Trades Unionist, and Mount Joy Methodist Church (Delaware).

Positions formerly held by Mr. Archie are Chairman of Locals 199 and 847 Benefit Funds, where he assisted with the coordination of their training programs; member of the Board of the Henrietta Johnson Medical Center; appointee of the State Apprenticeship and Training Council under Governor Thomas Carper; Secretary of the Delaware Building Trades Council; and member of the Board of the Delaware AFL-CIO.

Bernard J. Daney, CPA, has been a Director of the Board of Blue Cross Blue Shield of Delaware since January 1976.

Mr. Daney is a practicing certified public accountant and business consultant. He is a former partner of McBride, Shopa & Co., P.A., in Wilmington, Delaware, and was a co-founder and former faculty member of Brandywine College (Wilmington, Delaware).

He serves as Chairman of the Delaware Thoroughbred Racing Commission, a member of the Delaware Higher Education Commission, a member of the Finance and Investment Committee of the Catholic Diocese of Wilmington, a member of the Board of Directors

of the Association of Racing Commissioners International, a member of the Board of Fair Hill Races, Secretary/ Treasurer of the National Racing Compact, and a member of the Board of Trustees of Christiana Care Health System (Newark, Delaware).

Robert F. Rider has been a Director of the Board of Blue Cross Blue Shield of Delaware since March 1990.

Mr. Rider is Chairman and CEO of O. A. Newton & Son Co. (Bridgeville, Delaware), a manufacturer of material handling systems. He is a past member of the Board of Governors of the United States Postal Service from 1995 until his retirement in 2005, where he served as Vice Chairman from 1999 to 2001 and as Chairman from 2001 to 2003. His other past directorships include Chesapeake Utilities, Eastern Shore Natural Gas Co., Dover Exploration Co., Bell Atlantic-Delaware, PNC Bank, Burris Foods, The Baltimore Trust Co. (now Mercantile Bank), the Winterthur Corporate Council, Nanticoke Memorial Hospital, Christiana Care Health System, Board of Professional Responsibility of the Supreme Court of Delaware, and Council on State Planning of Delaware. He was formerly a member of the Agricultural Committee of the Delaware Bankers Association, the Delaware Council of Farm Organizations, and the Delaware Business Roundtable.

Mr. Rider is currently a Trustee Emeritus of the University of Delaware and a Director of the Delaware State Fair (serving as President from 1976 to 1989).

David P. Roselle, Ph.D., has been a Director of the Board of Blue Cross Blue Shield of Delaware since April 2007. Dr. Roselle also serves on the *BluePrints for the Community* Advisory Council for the donor-advised fund of BCBSD, Inc.

Dr. Roselle is currently the Director of Winterthur Museum and Country Estate in Wilmington, Delaware. Dr. Roselle previously served as President of the University of Delaware (1990 – 2007), and was named President Emeritus and Professor Emeritus of Mathematics. At Virginia Tech, he was appointed Dean of the Graduate School in 1979, Dean of Research and Graduate Studies in 1981, and Provost in 1983 – a position he held until assuming the presidency at the University of Kentucky in 1987.

Dr. Roselle is Past President of the Southeastern University Research Association and the Consortium for Mathematics and Its Applications. He is also on the board of Tower Hill School, Soka University USA, and VTLS, Inc. (a library software vendor). Dr. Roselle also serves on the Board of Trustees of the OCLC, a not-for-profit library cooperative, and is involved in numerous community activities.

Frances M. West, Esq., has been a Director of the Board of Blue Cross Blue Shield of Delaware since May 1974. She also serves on the *BluePrints for the Community* Advisory Council of the donor-advised fund of BCBSD, Inc.

Mrs. West served in Delaware Government as a Highway Commissioner, Director of Consumer Affairs, and Secretary of Community Affairs under Governors Peterson,

Tribbitt, du Pont, and Castle from 1970 - 1991. She taught English and Biology in Delaware and New Jersey high schools prior to 1970. She practiced law from 1991 to 1994 and is a member of the Delaware and Pennsylvania State Bars. Mrs. West was President of the Better Business Bureau of Delaware from 1994 to 2002. Mrs. West served as a member of Covance's Institutional Review Board from 1973 to 2007.

She is past President of the Delaware Safety Council, the Rotary Club of Wilmington West, and the Darley Society. Mrs. West is also Vice President of the Del-Mar-Va Boy Scouts Council, Vice President of the Civic League of New Castle County, a Trustee of Salesianum High School in Wilmington, Delaware, and member of the Wilmapco (Wilmington Area Planning Council) Advisory Committee. She is past Chair of Women Executives in State Government, former Vice President of the National Association of Consumer Affairs Directors, and former President of the Council of Civic Organizations of Brandywine Hundred. She has also been an officer in many state and national professional and charitable organizations.

William H. Willis, Jr., has been a Director of the Board of Blue Cross Blue Shield of Delaware since April 2007. He also serves on the *BluePrints for the Community* Advisory Council of the donor-advised fund of BCBSD, Inc.

Mr. Willis is President of Willis Chevrolet, Inc., a General Motors Dealership representing Chevrolet, Buick, Pontiac, and Willis Ford, Inc., in Smyrna and Middletown Chevrolet, Inc. in Middletown, Delaware. He was named General Manager in 1975 and President and Dealer in 1985.

Mr. Willis has been an active member of the Delaware Automobile & Truck Dealers Association (DATDA) for 37 years and currently serves as the NADA (National Automobile Dealers Association) Director from Delaware. Having chaired the Dealer Operations Committee for NADA, he is currently on the Government Relations Committee, NADA Insurance Trust Board of Directors, NADA Guide Book Company Board of Advisors, NADA Charitable Foundation Board of Trustee and GM Dealer Council. He served as DATDA President, Chairman of the Insurance Trust and DEAC Committee. A frequent participant on industry Dealer Councils, Mr. Willis has been presented with numerous sales and service awards throughout his career, including the Chevrolet Supremacy Award, presented to Willis Chevrolet Inc. He is past chairman of the national Automobile Dealers Association Twenty Group, Chevrolet V, of which Willis Chevrolet, Inc. is a charter member.

Mr. Willis is an active member of the Asbury United Methodist Church, past member of the Board of Directors of PNC Bank Delaware, member and past Chairman of the Kent County Ducks Unlimited, member of harmony Lodge #13, and a member of the West Virginia Wesleyan College National President's Advisory Council.

REQUEST NO. 5 – Identify and describe BCBSD's intentions with respect to the Line of Credit that Highmark intends to provide to BCBSD in connection with the Affiliation, and

explain why BCBSD needs a Line of Credit to complete the transition to Highmark's systems.

BCBSD RESPONSE:

BCBSD and Highmark anticipate that the cost of transitioning BCBSD to Highmark's information technology systems and other capabilities will be approximately \$35 million. This represents the costs involved with the acquisition and deployment of necessary software and hardware, and reimbursement for costs incurred by Highmark in connection with the transition. These costs do not contemplate any profit to be earned by Highmark in connection with the transition, and are a fraction of the \$88 – \$140 million projected by Deloitte, LLP for capabilities upgrades required for BCBSD on an independent basis. Strictly speaking, BCBSD does not need the Line of Credit and does not anticipate that it will need to draw upon it. However the availability of this Line of Credit will give BCBSD the flexibility to attenuate the financial impact of the transition and migration costs should this be necessary. Whether and the extent to which BCBSD will utilize the Line of Credit will not be known until the time the transition costs are incurred.

REQUEST NO. 6 – Identify and describe Highmark and BCBSD's intentions or plans to maintain BCBSD's not-for-profit purpose after the closing of the Affiliation, and identify and describe any provision in the BCBSD-Highmark bylaws that are consistent with this objective.

BCBSD RESPONSE:

Both BCSD and Highmark have every intention of maintaining BCBSD's not-for-profit purpose after the affiliation closes. Accordingly, the Certificate of Incorporation of BCBSD to be used following closing provides the following language in Article FOURTH:

The Corporation shall be a membership corporation, operated as a private not-for-profit corporation, and shall not have authority to issue capital stock.

And this in Article TENTH:

In the event of dissolution of the Corporation, after the payment of all debts, the Directors shall cause any remaining assets of the Corporation to be distributed to or for the use of one or more corporations, trusts, community chests, funds or foundations, which at the time of distribution are qualified as a corporation described in Section 501 (c) (3) or Section 501 (c) (4) of the U. S. Internal Revenue Code of 1986 (or the corresponding provision of any future U. S. Internal Revenue Law). The Directors shall have absolute discretion as to which qualified organization or organizations shall receive the distribution.

Similarly, the BCBSD Bylaws that will become effective following closing provide the following at Section 3.1:

ORGANIZATION. The Corporation shall be a membership corporation, operated as a private not-for-profit corporation, and shall not have the authority to issue capital stock.

REQUEST NO. 7 – Identify, describe and produce all property assessments, appraisals and valuations that have been conducted or will be conducted either by BCBSD or Highmark in connection with the Affiliation.

BCBSD RESPONSE:

BCBSD has not conducted a “property assessment, appraisal or valuation” in connection with the Affiliation. Although not prepared in connection with the Affiliation, provided in the October 7 Swayze Letter was a copy of the valuation report of BCBSD performed by Ellin & Tucker in 2009. Louis Pavia of CareCompanion, a consultant to BCBSD, presented to the BCBSD board of directors a brief summary and update of the information presented in the Ellin & Tucker report on July 21, 2010. A copy of this document is provided in BCBSD’s response to Request 3.

REQUEST NO. 8 – Identify and describe any present or anticipated pre or post-Affiliation employment restructuring plans, including but not limited to any intention of Highmark to outsource jobs currently held by BCBSD employees in Delaware overseas or to a State other than Delaware, or any present or anticipated future intention to eliminate such positions.

BCBSD RESPONSE:

BCBSD and Highmark have just initiated a comprehensive affiliation planning process. This process will continue for a number of months and it is premature at this point to attempt to identify what impact the Affiliation will have on employment levels in Delaware. It is probable that a number of positions at BCBSD will be eliminated over time as a result of migration to Highmark information technology systems and other capabilities – indeed, this is necessary in order to benefit from the economies of scale that can potentially be achieved through the Affiliation. However, the likely reduction in positions in certain functional areas does not necessarily mean that overall employment levels at BCBSD will ultimately be lower than their present levels. Indeed, if membership growth occurs, as was the case during the BCBSD’s affiliation with CareFirst, and has been the case with Highmark’s affiliation with the West Virginia Blue Cross Blue Shield plan, employment levels may well increase.

REQUEST NO. 9 – Explain the characterization of the BCBSD-Highmark post-Affiliation relationship in the transaction documents as an “independent contractor relationship.”¹

BCBSD RESPONSE:

The term “independent contractor relationship” is located in Article V.B. of the proposed Administrative Services Agreement between BCBSD and Highmark (Appendix F to the Affiliation Agreement) and is a standard characterization of a relationship between a purchaser and a provider of services. The purpose of this characterization is to define the parties’

¹ While the Request of 1/4/11 used the term “joint venture” rather than “independent contractor,” Mr. McConnell corrected this referenced term in his e-mail to Mr. Teichman of 1/7/11.)

relationship such that neither party is construed to be the agent or employee of the other, thus addressing the power of one party to bind the other and their respective responsibilities with respect to such matters as payroll taxes and workers compensation coverage. Accordingly, to the extent that Highmark employees or personnel are involved in the providing of the various services to BCBSD, they do so as employees of Highmark and not of BCBSD, and BCBSD shall have none of the obligations towards such personnel that are normally associated with "employees."

REQUEST NO. 10 – Identify and describe all provisions of the Affiliation Agreement relating to BCBSD’s reserves and the ability of BCBSD or Highmark to transfer or dispose of the reserves.

BCBSD RESPONSE: Please refer to BCSD’s response to Request 2

REQUEST NO. 11 – Explain whether and how a future decision by Highmark to convert to for-profit status would potentially trigger a disaffiliation, and identify and describe all provisions in the Affiliation Agreement and other transactions documents relating to BCBSD’s ability to obtain its license back from Highmark in the event of a disaffiliation.

BCBSD RESPONSE:

It is agreed at Section 7.8(a) of the Affiliation Agreement that if a "Triggering Event" occurs at any time after closing, BCBSD has the right at any time within 60 days of the receipt of notice from Highmark of the occurrence of such Triggering Event to require Highmark to withdraw as the sole member of BCBSD and to consent to the reestablishment of BCBSD as the primary licensee of the Blue Cross and Blue Shield Association marks (the "BCBSA Marks") for the State of Delaware. By Section 7.8 (a) Highmark is contractually obligated to give BCBSD notice within 30 days of the occurrence of a Triggering Event. Pursuant to Section 7.8(a) Triggering Events are those defined in Article XIII of the proposed Bylaws of BCBSD as set forth in Appendix C to the Affiliation Agreement. One such Triggering Event is "*the conversion of Highmark to a for-profit corporation under the laws of its State of incorporation.*"

Within 10 days of BCBSD’s receipt of notice of a Triggering Event, Section 13.1 of Article XIII of the Bylaws requires BCBSD to send a copy of the notice to each of BCBSD’s Class A Directors by mail. Any one of the Class A Directors can then call a special meeting of the Class A Directors, written notice of which must be given to the Class A Directors by the corporate secretary of BCBSD at least two business days before the date of the meeting. At the special meeting, a majority of the Class A Directors then in office constitutes a quorum, and under Article XIII of the Bylaws the acts of a majority of the Class A Directors then in office shall be the acts of the Class A Directors for all purposes. At such special meeting the Class A Directors may authorize BCBSD to exercise its rights under the Affiliation Agreement to terminate the affiliation with Highmark because of the occurrence of the Triggering Event. If the Class A Directors elect to exercise BCBSD’s right to terminate the affiliation they must then give notice of their decision to BCBSD’s corporate Secretary, who must then "deliver" notice of the termination to Highmark as BCBSD’s Sole Member. The foregoing is prescribed by Article

XIII, Section 13.1 of the Bylaws, and it tracks the procedure set forth at Section 7.8(a) of the Affiliation Agreement.

Section 7.8(a) of the Affiliation Agreement then provides that BCBSD, after the notice of termination is delivered to Highmark, may make a request to the Blue Cross and Blue Shield Association (“BCSBA”), to which Highmark is contractually obligated to consent, for the surrender by Highmark of the right to use the BCBSA Marks in the State of Delaware and the grant to BCBSD of the right to use those marks in the State of Delaware as the primary licensee.

By Section 7.8 (c) of the Affiliation Agreement it is contemplated that Highmark’s withdrawal as BCBSD’s sole member and the reestablishment of BCBSD as the primary licensee of the BCBSA Marks in the State of Delaware will become effective on the same date, to be known as the “Reestablishment Date.” On or before the Reestablishment Date Highmark is obligated by Section 7.8(b) to execute a consent as the Sole Member of BCBSD adopting and directing for filing an amended and restated certificate of incorporation for BCBSD, in form and content satisfactory to the Class A Directors of BCBSD, which identifies the person or persons other than Highmark who will succeed Highmark as the member or members of BCBSD. As a condition to Highmark’s obligation to do so, under Section 7.8(c)(i) BCBSD, either prior to or on the Reestablishment Date, must pay Highmark all principal and other amounts due under and with respect to the Line of Credit Agreement, and any and all other lines of credit or credit facilities then outstanding by Highmark in favor of BCBSD, as well as any and all other amounts due and owing Highmark under any other intercompany agreements or arrangements with respect to intercompany payables. Under Section 7.8(c) (ii) the Class A Directors must also cause BCBSD to release Highmark, and to reimburse, indemnify and hold Highmark harmless, from and against certain future liabilities.

Also, under Section 7.8(c)(iii), on the Reestablishment Date BCBSD must have obtained any and all required approvals of the Delaware Department of Insurance to the withdrawal of Highmark as the Sole Member of BCBSD. And, BSBSD must have entered into a new primary license agreement with the BCBSA for the use of the BCBSA Marks in Delaware, and the BCBSA must have confirmed that no termination fees are payable by Highmark with respect to the termination of its status as primary licensee, or have waived payment of such fees, or BCBSD shall have paid the same. Finally, BCBSD shall have surrendered to Highmark all rights to use the name “Highmark” and any derivation thereof, and any and all related marks.

After the transition on the Reestablishment Date BCBSD is required by Section 7.8(d) of the Affiliation Agreement to keep in force and effect any Bylaw or certificate or incorporation provision then existing that provides for indemnification and immunity from monetary liability for the persons who served as Class B Directors immediately before the Reestablishment Date, and, in addition, for a period of not less than three years following the Reestablishment date BCBSD must maintain in effect liability insurance against claims asserted based on acts or omissions occurring prior to the Reestablishment Date by persons who served as Class B Directors on coverage terms as favorable as the terms of any such insurance coverage existing on the Reestablishment Date.

It is important to note that the proposed BCBSD Bylaw provisions making Highmark’s conversion to for-profit status a “Triggering Event” may not be amended, pursuant to Article

THIRTEENTH of the proposed BCBSD Certificate of Incorporation, without a majority vote of both the Class A and Class B directors. As for a return of the BCBSA Marks following disaffiliation, it must be noted that the BCBSA controls the BCBSA Marks, and it alone will decide which entity will have the right to use them. However, BCBSD gained experience with respect to this process during the 2006 disaffiliation from CareFirst, when CareFirst surrendered the primary license to use the BCBSA Marks and BCBSD requested and was awarded this primary license. Based on this experience, BCBSD has a high degree of confidence that, if Highmark surrenders the BCBSA Marks as a result of a Triggering Event, and BCBSD otherwise qualifies for primary licensee status, BCBSA will ultimately award the primary license to use the BCBSA Marks to BCBSD.

REQUEST NO. 12 – Identify and describe all compensation or incentives provided or promised to BCBSD officers, directors, or employees as a result of the Affiliation, including but not limited to:

- a. stock options in any Highmark subsidiary**
- b. pension, retirement and profit-sharing plans**
- c. performance bonuses**
- d. corporate loans**
- e. golden parachute provisions**
- f. executive salaries**
- g. side letters and arrangements for officers, directors and employees.**

BCBSD RESPONSE:

This request calls for identification and description of compensation or incentives provided or promised to BCBSD officers, directors, or employees “as a result of” the Affiliation. First, there is no such compensation or incentive applicable to BCBSD directors. Additionally, except with respect to the “BCBSD, Inc. Key Associate Retention Bonus Plan” discussed below, there is no compensation or incentive that has been promised or provided to any BCBSD officer or employee as a direct result of the Affiliation.

However, for certain BCBSD officers or employees, various forms of compensation or benefits could potentially be paid or owed in connection with or following a Change in Control, as provided in various employment agreements or benefit plan documents. The proposed transaction with Highmark, if consummated, would constitute a Change in Control for purposes of these agreements and plan documents.

Severance Provisions of Certain BCBSD Officer Employment Agreements

Seven BSBSD executives (the President/CEO and six Vice Presidents) have employment agreements predating the Affiliation Agreement that provide severance benefits. These severance benefits are based either upon the length of time remaining on the executive's contract when a termination of employment occurs or upon a specified period; the maximum severance period is two years for five of the executives and one year for the other two executives. Upon a Change in Control, the term of each agreement for the six Vice Presidents is extended to the maximum original term or for a specified period, up to a maximum of two years. This term extension provision is not included in the President/CEO's contract. Severance benefits generally include the executive's base salary, incentive compensation, and medical benefits, which would be paid for the remainder of the contract term or a specified period, not to exceed two years. Severance benefits become payable if (1) the executive's employment is terminated without "Cause" (which would be the case regardless of whether a Change in Control has occurred), or (2) the executive submits his or her resignation following a specified material negative change in employment constituting "Good Reason" after a Change in Control has occurred and the Good Reason event is not corrected after notice of such event is provided by the executive.

If the executive becomes entitled to severance benefits, the amount of the benefits is generally the same regardless of whether a Change in Control has occurred, except that base salary continuation payments and incentive payments are paid in a lump sum, reduced to present value, within sixty days of the termination if the termination occurs within two years following the Change in Control. Otherwise, severance amounts are paid at the times they would have been payable if the executive's employment had not been terminated following a Change of Control.

In the cases of three executives who are provided nonqualified deferred compensation pursuant to their employment agreements, upon a termination of employment without cause, or for Good Reason following a Change in Control, the executives are entitled to additional credited service for the remaining term of their agreements, for purposes of calculating the nonqualified benefit. Two of the three executives are also provided accelerated vesting of all unvested but accrued nonqualified deferred compensation benefits upon a termination of employment without cause or for Good Reason following a Change in Control. If the executive is younger than age 55, the amount payable will be reduced to the present value of the amount payable at age 55.

BCBSD, Inc. Key Associate Retention Bonus Plan

Eight of BCBSD's non-executive employees participate in the BCBSD Key Associate Retention Bonus Plan (the "Retention Plan"), which was adopted to retain key non-executive employees through the period surrounding a potential affiliation with Highmark. The retention bonus may be paid in two equal installments, the first installment within ten days of a Change in Control and the second installment taking place six months after a Change in Control. The participant must be employed by BCBSD on the date of the Change in Control in order to receive the first installment. The participant must be employed by BCBSD on the six-month anniversary of the Change in Control to receive the second installment, unless the participant was terminated without "Cause" or resigned for "Good Reason" (as such terms are defined in the Retention Plan). The total of potential payments under this plan, if all eight employees received both installments, is estimated to be under \$260,000.

Grandfathering of Certain Retirement and Welfare Benefits

The final category of items is not limited to the seven officers or the eight key associates as described above, but is applicable to a broad segment of BCBSD employees and retirees who had certain existing employee benefits “grandfathered” against adverse future changes pursuant to the Affiliation Agreement between BCBSD and CareFirst, Inc., dated December 23, 1998 (the “1998 CareFirst Agreement”). The 1998 CareFirst Agreement is provided herewith. The protection of certain benefits is described in Section 7.5; these are primarily retirement, retiree medical and retiree life benefits. Classification as a grandfathered employee was based on age and years of service as of March 31, 1999. There are several hundred active employees and retirees who have “grandfathered” status for one or more of these benefits.

Since the CareFirst closing in March 2000, BCBSD has carefully honored the benefit protections as provided in the 1998 CareFirst Agreement. However, these benefit obligations had generally not been incorporated into the applicable benefit plan documents until 2010, when they were so incorporated, to be effective upon a Change in Control. Although some or all of the benefit protections could be enforceable under the terms of the 1998 CareFirst Agreement after the Affiliation, even in the absence of the plan amendments, the amendments will provide clarity and certainty in this regard. With one exception, the occurrence of the Change in Control will not change the substance of the protected benefits or the number of employees and retirees protected, but will simply memorialize the protections from the 1998 CareFirst Agreement in the formal plan documents. The exception is the Retiree Medical Plan, which will be amended to provide participation for approximately 15 non-executive employees who: (i) were BCBSD employees at the time of the CareFirst closing but were not “grandfathered”; (ii) who subsequently remained employed by BCBSD; (iii) who retired between January 1, 2003 and the signing of the Highmark agreement on August 19, 2010; and (iv) who are at least age 55 and have at least ten years of service under the Retirement Plan on the date of retirement.

Other Compensation or Incentives

In general, there are no other such items provided or promised to officers, directors or employees as a result of the Affiliation. In response to the specific matters referred to in Request No. 12, please be advised as follows:

- a. Stock options in any Highmark subsidiary: None
- b. Pension, retirement and profit-sharing plans: Please refer to items discussed above concerning pension and retirement plans. In addition, the Blue Cross Blue Shield of Delaware 401(k) Plan is considered a profit-sharing plan under the Internal Revenue Code. (Please note that a 401(k) plan is required to be classified as either a profit-sharing or a stock bonus plan.) However, except as discussed above the Affiliation will not have any direct effect on the pension, retirement or 401(k) plans. There are no other BCBSD profit-sharing plans.
- c. Performance bonuses: There are no bonuses or similar payments that are contingent upon the Affiliation.
- d. Corporate loans: None

- e. Golden parachute provisions: In the cases of three executives, benefits under their employment agreements that could potentially be payable in the event of a termination of employment in connection with a Change in Control could cause negative tax treatment under Section 280G of the Internal Revenue Code if such payments were made in full. However, each of these executives' agreements provides that the amount of benefits paid under the agreement will be reduced to the extent necessary to remain below the Section 280G threshold.
- f. Executive salaries: No changes to executive salaries have been promised or proposed as a result of the Affiliation.
- g. Side letters and arrangements for officers, directors and employees: There are no side letters or arrangements for directors or non-officer employees in connection with the Affiliation. One officer has a letter regarding calculation of final average earnings for retirement purposes, and one officer has a letter regarding the company contribution toward retiree medical premiums prior to age 62; these are not related to or contingent on the Affiliation.

REQUEST NO. 13 – Identify and describe whether and how the cost savings resulting from the “economies of scale” expected to result from the Affiliation will be passed on to BCBSD or Highmark customers.

BCBSD RESPONSE:

The benefits of economies of scale that BCBSD anticipates are reflected in the relative savings in capital expenditures and in selling, general and administrative expense (“SG&A”) detailed in Exhibit 9 to the Affiliation Statement filed with the Delaware Insurance Department on January 14, 2011. These savings will allow BCBSD to continue to operate well into the future without the rate increases that would otherwise be justified by the expenditures involved in making stand-alone capabilities improvements, and by continued operation as a small, independent, health insurer. Moreover, market pressures from both competing health insurers and large employer and self insured ASO groups such as the State of Delaware will prevent BCBSD from imposing rate structures that are inconsistent with its loss experience, SG&A and other overhead. Stated differently, BCBSD’s customers and competition demand that BCBSD design its products, and price them, as competitively as possible. The cost savings achieved through the Affiliation will allow BCBSD to continue to do this.

REQUEST NO. 14 – Explain your contention that BCBSD is too small as a standalone entity to function in the current health insurance market and identify, describe and produce all documents relating to this contention.

BCBSD RESPONSE:

Many documents that provide information fully answering this request are produced in response to Request 3.

REQUEST NO. 15 – Identify and describe all potential affiliation (or merger, joint venture or other similar transaction) partners considered by BCBSD after the disaffiliation from CareFirst, and describe the process utilized by BCBSD to consider any potential affiliation (or other similar transaction) partners. Produce all documents relating to this request.

BCBSD RESPONSE:

Following its disaffiliation from CareFirst, Inc. (CFI) in late 2006, BCBSD's Board of Directors and management engaged in an extensive planning process in order to address the challenge of maintaining BCBSD's strength and stability over the long term. The BCBSD Board of Directors held a retreat in February 2007 to discuss the implications of disaffiliation and the strategy for going forward. Participants included the Board, senior management and industry experts. After presentations by the experts and extensive discussion, the board directed management to conduct a strategic planning process to determine the future course for BCBSD.

BCBSD retained Louis Pavia, President of CareCompanion, who has provided strategic consulting services to BCBSD at various times over almost 20 years, and Robert C. Cole, Jr., BCBSD's former President and CEO, to provide advice and guidance. Over the course of the next year, the management team, with the advice of experts, conducted research and held a series of strategy sessions where they:

- Analyzed trends and issues facing health insurers
- Assessed the Delaware market
- Identified critical challenges and opportunities for BCBSD
- Undertook a Scenario Planning exercise
- Established key requirements for success
- Defined a number of strategic alternatives

The Board, working with management and their advisors, determined that given the competitive environment in which BCBSD must operate, and the need for systems and capabilities upgrades, the best option for BCBSD was to collaborate with a strong partner. Over the next several months, the team detailed BCBSD's market and organizational requirements and analyzed its potential strategic value to a partner. Out of this process, over 30 potential partners were identified and assessed. Six, including adjacent regional and multi-state Blue Cross Blue Shield plans, were determined best suited to meet the requirements of BCBSD. Detailed evaluation criteria were established and further due diligence of these six was conducted and discussed with the Board.

In July 2007 each of the six target partners received a Partnership Memorandum requesting a confidential proposal for establishing a long-term strategic partnership. During the remainder of 2007 and the first quarter of 2008, these proposals were analyzed, additional information was requested and evaluated and the executives of each of the six were invited to make a presentation to the BCBSD management team to discuss their proposal in more detail.

Deloitte, an international consulting firm, also conducted an update of a capabilities assessment it originally prepared in 2004. This assessment compared BCBSD capabilities against market requirements and industry competitors and projected future capital requirements and priorities. Their report recommended addressing a series of critical gaps and estimated the capital investment requirement to be approximately \$88 – \$140 million.

After thorough analysis and evaluation, the potential partner target list was narrowed to three organizations for further consideration and evaluation. Although Highmark had made a strong presentation to BCBSD's management team, it was not one of the three organizations invited to present to the BCBSD Board at this time, largely due to BCBSD's concern that Highmark's then-pending proposed merger with Independence Blue Cross would impede its ability to focus on affiliating with BCBSD.

The leadership of the three organizations each made a presentation to the BCBSD Board describing their proposed business relationship, their rationale for partnering with BCBSD and the benefits of the relationship to BCBSD, its members, accounts, providers, employees and the residents of the state of Delaware.

The target partner list was then narrowed to two organizations. Further due diligence including site visits to affiliation partners of both organizations and an independent expert assessment of their infrastructure and technological capabilities was conducted and the implications of affiliation were further analyzed. The potential partners also conducted additional due diligence on BCBSD. In the fall of 2008 each potential partner submitted a letter of intent describing the features and characteristics of their proposed relationship. Based on a comparative analysis of the offers and the organizations' ability to meet the requirements of BCBSD, one partner was selected for exclusive negotiations.

While these negotiations were ongoing, national healthcare reform was being debated, the economy was deteriorating and conditions were changing for BCBSD, its selected partner and other potential partners. By summer of 2009 it became apparent that BCBSD and the potential partner would not be able to negotiate a mutually satisfactory agreement. As a result of these factors, during the summer of 2009 management updated its evaluation of the six previously identified potential partners and, based on the findings of this analysis, reissued an updated Partnership Memorandum to two of these potential partners. Discussions were held with these partners and further due diligence was performed. These two opportunities were evaluated and, by year end 2009, the Board decided to engage in exclusive negotiations with Highmark, which by this time had abandoned its proposed transaction with Independence Blue Cross.

Since early 2010 BCBSD has been working exclusively with Highmark to establish a mutually rewarding partnership. This has included extensive due diligence by both parties, a presentation by Highmark's leadership to the BCBSD Board, a site visit to Highmark's affiliate in West Virginia, an independent assessment of Highmark's technology and infrastructure, numerous meetings and discussions with Highmark's senior leadership, and careful and considered contract negotiations. In July both the BCBSD and Highmark boards approved the Affiliation Agreement.

Many of the documents responsive to this request are provided in response to Request 3. BCBSD welcomes the opportunity to open a dialog with the Attorney General regarding the nature and scope of this request and the information it may find most helpful.

BCBSD 2008 Capabilities Assessment Report to the Board of Directors

June 17, 2008

Confidential

Deloitte.

EXHIBIT
JOINT-47.1

Contents

Executive Summary

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Key Findings and Recommendations

Executive Summary

This section summarizes Deloitte's findings and changes that have occurred since 2004.

Background and Objectives

- As part of the strategic planning process, Blue Cross Blue Shield of Delaware (BCBSD) asked Deloitte to assist with refreshing a 2004 assessment of operational capabilities.
- The objectives of this assessment are to:
 - Understand how BCBSD compares against future market requirements
 - Analyze how BCBSD compares against local and national competitors
 - Determine future capital requirements, priorities and high-level investment costs
- These objectives were achieved through a series of analyses, including an operational and technology capabilities assessment and a review of local and national best practices.
- The BCBSD team played an integral part in the assessment providing primary and secondary data for the capabilities assessment. Interviews and working sessions with the BCBSD executive team and department level managers were critical in understanding the current state baseline for BCBSD.
- What follows is an executive summary which contains a brief market overview and a summary of key strengths, areas of opportunity and high-level recommendations, an overview of the engagement, and key findings and recommendations.

Service Area Demographics and Population Growth

The population of the counties which comprise BCBSD's service area is expected to surpass 1 million by 2025, which is a 17% growth.



Population Growth

- BCBSD services 3 counties: New Castle, Kent and Sussex. Sussex County is projected to have the largest population growth by 2025 at 31%, compared to Delaware state's 17% growth.
- Delaware's population is expected to grow 9.8% over the next 10 years and 22% by 2030.
- Delaware's senior population, age 65 and older, is expected to increase by 22% by 2015 and by 61% by 2025.
- More Delaware residents commute to another state for work than those residents who commute within the state of Delaware. Individuals who commute out of state are not part of BCBSD's potential market which is confined to the three counties in Delaware.
 - In 2006, 87% of the Delaware labor force worked within the state and 13% (approximately 56,000) worked outside of their state of residency.
 - Today, an estimated 31,000 people commute into Delaware from other states. It is expected that 51,000 will commute outside of Delaware for work in 2020.
- The uninsured population comprises 12% of the state population, which is below the national average of 15.8% in 2006.

	2000	2006	% Change ¹	Comments
Population	783,600	853,476	8.9%	<ul style="list-style-type: none"> ▪ The U.S. population grew at 6.2% between 2000-2006. ▪ The insurable population (age 18-64) in Delaware has experienced a 9.8% growth between 2000-2006 with a significant increase in the senior population ages 60-64.
# of Firms	20,167	21,069 ²	4.5%	<ul style="list-style-type: none"> ▪ Approximately 45% of Delaware companies have 1-4 employees, which is very close to the U.S. statistic of 47% of companies.
# of Delaware Residents in the Labor Force	401,152	434,952	8.4%	<ul style="list-style-type: none"> ▪ This includes individuals ages 16 and over who are in the labor force. ▪ The U.S. labor force has increased 4.7% between 2000-2006.

Source: U.S. Census Bureau; State of Delaware website; BCBSD 2007 Environmental Assessment with Implications for 2008; University of Delaware Population Study; Deloitte Analysis
 Note: ¹ Data only available for years 2000 and 2006 for Delaware; ² Number of firms is from 2005 data

BCBSD Competitors and Market Share

BCBSD has increased market share despite the emergence of several national competitors attempting to gain market share through acquisitions. Most of BCBSD's membership growth has been through existing groups rather than acquisition of new groups.

	Market Share (2003)	Market Share (2007)	Comments
BCBSD	38%	49%	<ul style="list-style-type: none"> ▪ Grew significantly in 2007 during open enrollment for the State of Delaware account. Approximately 75% of former Coventry members chose BCBSD over Aetna, resulting in a net gain of roughly 20,000 members for BCBSD ▪ Maintains dominant market share in the small and large group market segments
Aetna	14%	15%	<ul style="list-style-type: none"> ▪ Acquired Schaller Anderson in 2007, one of Delaware's Medicaid carriers that increased Aetna's overall market share in the state
Coventry	14%	6%	<ul style="list-style-type: none"> ▪ Coventry lost the State of Delaware account, which resulted in a loss of roughly 45,000 members
United	3%	6%	<ul style="list-style-type: none"> ▪ Acquired MAMSI in 2003
Other	31%	24%	<ul style="list-style-type: none"> ▪ Other players in 2007 include but are not limited to CIGNA, Amerihealth and Military

Source: BCBSD: Market Segments 2007 Update; Competition 2007; Summary of BCBSD 2007 Environmental Assessment; BCBSD Interviews; 2004 Deloitte Capabilities Assessment

Top 10 Accounts¹



	2003	% of Total Plan	2007	% of Total Plan	Risk Level	Key Findings
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

Stable
 Some Risk
 At Risk

Source: 2007 Top 20 Accounts; 2003 Top 20 Accounts; BCBSD interviews

Note:

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Summary of Findings: Key Strengths

Since 2004, BCBSD continues to be the dominant player with strong brand recognition in the Delaware market. Key accomplishments over the past four years include:

- Established the company as an independent Blues plan from CareFirst
- Increased market share 11%*
- Grew total membership 19%*
- Increased revenues 57%*
- Contributed a total of \$5.5 M in corporate charitable giving and community investments between 2005-2007
- Developed a consumer-driven health (CDH) product and experienced membership growth in the individual, large group, and CDH product segments
- Implemented several new technologies including:
 - An imaging / optical character recognition (OCR) solution
 - BenefitFocus for the employer and broker portal
 - An integrated care management application (MEDecision's CarePlanner)

Source: BCBSD 2004 and 2007 Financial Statements; Market Segments 2003 and 2007; Membership - Data Collection Tab; 2003-2007 Adminis Expense Analysis; Deloitte analysis
Note: * Data is for 2003-2007 unless otherwise stated

Summary of Findings: Areas of Opportunity

As part of the assessment, we identified several high priority areas of opportunity for BCBSD.

- A number of functional and technology areas were identified as critical to address so that BCBSD begins to lay the groundwork for the future.
- Address administrative cost structure
- Information technology has the potential to play a significant role in increasing the efficiency of operations.
- Alignment of the leadership team around the organization's strategic goals and objectives will be important. Decision-making processes and consensus-building will require the appropriate level of balance to avoid missed opportunities to innovate in the marketplace.

Summary of Findings: Recommendations

BCBSD should assess all the current gaps estimated at an investment of \$100M to \$129M. Our recommendations to address those gaps are below.

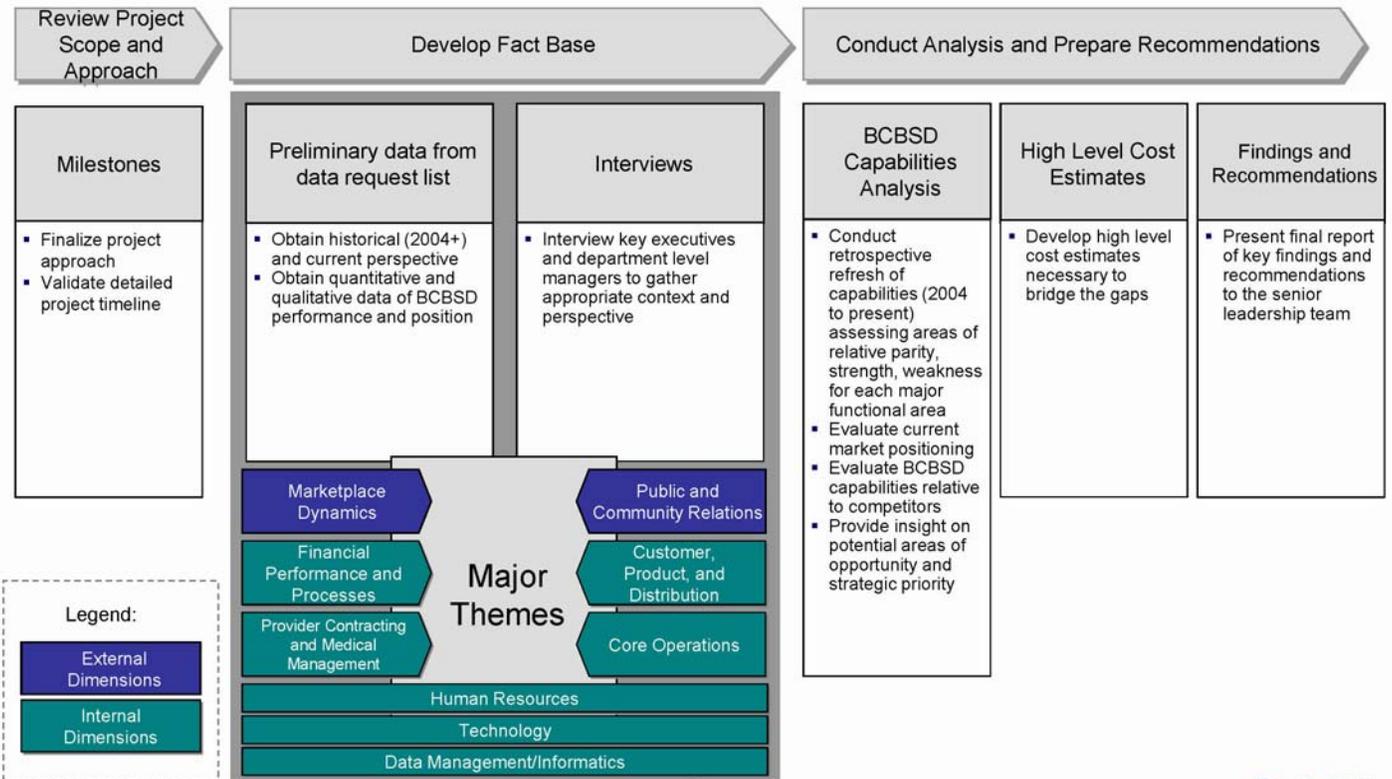
- Implement an **enterprise executive management dashboard and management reporting strategy**
- Formalize a **product development process** to add consumer 'voice' into products
- Implement a **rating technology** to automate pricing and underwriting processes
- Establish more sophisticated **Marketing and Sales capabilities**
- Implement a **commission tracking and payment system** and re-evaluate the **broker commission structure**
- Improve member tools for CDH and **integrate CDH administration** with other operations
- Establish **online billing and payment capabilities**
- Modernize/replace the **core administration system**
- Streamline or outsource the **BlueCard process**
- Build and execute a **succession plan**
- Enhance **web portal capabilities**
- Establish an **enterprise data warehouse** to improve data management, reporting, and profitability and trend analyses.

Overview of Deloitte Engagement

This section provides the background and objectives, scope and approach, and methodology for the Deloitte engagement.

Project Scope and Approach

Our project approach focused on developing a fact base, conducting strategic analyses and identifying potential areas of opportunity and strategic priority.



Data Collection: Other Sources

Key data elements and deliverables* were reviewed to conduct a preliminary assessment of BCBSD's past, present and future position.

<p>Mission and Corporate Strategy</p> <ul style="list-style-type: none"> ▪ Mission and vision statements ▪ Annual reports ▪ Relevant marketing collateral ▪ Business, financial and incentive plan 	<p>Financial</p> <ul style="list-style-type: none"> ▪ Financial statements ▪ Operating/Administrative expense ▪ Loss ratio, expense ratio ▪ Top accounts ▪ Operating results by product line 	<p>Operations</p> <ul style="list-style-type: none"> ▪ MTM, FEP and BlueCard scores ▪ Electronic claims % ▪ BlueCard claims % ▪ First call resolution ▪ ID card production volume ▪ Claims first pass rate, financial and processing accuracy
<p>Market</p> <ul style="list-style-type: none"> ▪ Market share ▪ Membership ▪ Key account wins/losses ▪ Retention rates ▪ Competitor profiles ▪ Average price changes ▪ Market environment 	<p>Sales, Product and Distribution</p> <ul style="list-style-type: none"> ▪ Sales target and performance ▪ Incentive plans ▪ Broker, member, provider and employer survey results ▪ Brand performance survey results ▪ Current product listing 	<p>Network and Medical Management</p> <ul style="list-style-type: none"> ▪ Number of providers/hospitals contracted and coverage ▪ Pharmacy utilization and trend ▪ Inpatient utilization trends ▪ Average reimbursement increases
<p>Employees</p> <ul style="list-style-type: none"> ▪ Organizational structure ▪ Employee survey results ▪ Employee demographics ▪ Employee turnover rate ▪ Employee to member ratio 	<p>Technology</p> <ul style="list-style-type: none"> ▪ IT investment budget / capital investments ▪ Corporate initiatives ▪ Technological improvements ▪ Web strategy ▪ Application listing 	<p>Public Image</p> <ul style="list-style-type: none"> ▪ Newspaper headlines and articles ▪ National accreditation ▪ Community initiatives ▪ Budget for corporate donations ▪ Working Well Report

Note: *The list provided is not exhaustive but is intended to provide an overview of key data elements

2008 Capabilities Assessment Approach

- Company performance was evaluated across two external and seven internal dimensions.
- External dimensions were assessed on favorability relative to current position and future outlook.
 - Unfavorable ● Neutral ● Favorable
- Internal dimension evaluations included two components:
 - BCBSD performance relative to current industry standard capabilities
 - BCBSD strategy and planned investments/initiatives relative to future market requirements
- Each internal dimension was provided an overall rating:



- Within each internal dimension, individual capabilities were given a rating based on the market.



Key Findings and Recommendations

This section summarizes Deloitte's overall findings and conclusions.

2008 Strategic Assessment: External Dimensions

External Dimensions	Overall Favorability Rating	Rationale
Marketplace	[Redacted Content]	
Public/Community Relations		

● Unfavorable
 ● Neutral
 ● Favorable

2008 Strategic Assessment: Internal Dimensions

Internal Dimensions		Overall Capability Rating	Rationale
Financial	Performance	[REDACTED]	[REDACTED]
	Processes		
Product, Pricing and Distribution	Product		
	Pricing/ Underwriting		
	Sales and Marketing		
Network Management and Medical Management			

Confidential

2008 Strategic Assessment: Internal Dimensions

Internal Dimensions		Overall Capability Rating	Rationale
Operational Performance	Membership and Billing		
	Claims		
	Customer and Provider Service		
	BlueCard		
Human Resources			
Information Technology			
Informatics: Data Management and Reporting			

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Gaps and High-Level Cost Estimates

BCBSD has a number of capability needs that will require significant investment over the next several years.

Area	Capability	Cost Range
Financial	Financial Processes	\$3M - \$5M
Product, Pricing and Distribution	Product	~\$250K
	Pricing/Underwriting	\$2M - \$5M
	Sales and Marketing	\$4M - \$8M
	Commissions	\$300K - \$500K
Network and Medical Management	Network and Medical Management	\$5M - \$10M
Operational Performance	Membership and Billing	\$1.5M - \$3M
	BlueCard	\$3M - \$5M*
Human Resources	Human Resources	\$2M - \$3M
Information Technology	Core Administration – TBS (Claims, Enrollment, Billing, Provider)	\$35M - \$50M (for full replacement)
	Web Portals and tools to support CDH	\$11M - \$15M
	Infrastructure (Service Oriented Architecture)	\$3M - \$5M
	IT Operations	\$1.5M-\$2.5M
Informatics: Data Management and Reporting	Document Management	\$500K - \$2M
	Informatics	\$8M - \$12M
	External Client Reporting	\$3-5M

Note: * Based off of benchmarks from other plans; would require negotiation with NASCO

Next Steps

- Integrate recommendations from the capabilities assessment into the strategic planning process to determine priorities
- Develop an overall information technology strategy that supports the strategic plan
- Determine whether BCBSD will make investments to meet the market requirements or affiliate with another health plan to meet the needs

**BCBSD 2010 Revised Capability Gap Closure Costing
Discussion Document DRAFT**

December 08, 2010

**EXHIBIT
JOINT-48**

High-Level Solution Cost Estimates

Area	Description	One Time Cost Range	Duration	Ongoing Cost Range
Pricing/ Underwriting Workflow and Rating Engine	<ul style="list-style-type: none"> Implement workflow system Implement rating engine to automate pricing and underwriting processes 	\$2M - \$5M	9-15 months	System Maintenance 18%
Sales and Marketing	<ul style="list-style-type: none"> Implement CRM System (vendor-provided software) <ul style="list-style-type: none"> Marketing (Marketing Resource Management, Campaign Management) Sales Force Automation (Lead / Opportunity Management) 	\$4M - \$8M	12-30 months	System Maintenance / Ongoing Administration (1-2 FTEs) 18%
Network and Medical Management	<ul style="list-style-type: none"> Implement a provider profiling system and pay-for-performance capabilities and integrate with new core admin system Fully integrate iExchange with new core admin system to automate pre-authorizations 	\$4M - \$8M	18-24 months	System Maintenance 18%
Web Portals	<ul style="list-style-type: none"> Enhance or replace member / plan sponsor / broker / provider portals (e.g., CDH member tools, transactional capabilities) 	\$8M - \$10M	18-24 months	System Maintenance 18%
Health Care Reform and Compliance	<ul style="list-style-type: none"> <i>ICD-10 Remediation</i> 	\$10M - \$15M	36 months	System Maintenance 18%
	<ul style="list-style-type: none"> <i>ACO / Payment Reform Administrative Capabilities</i> 	\$2M - \$5M	12-18 mos	System Maintenance 18%
	<ul style="list-style-type: none"> <i>Implement Health Insurance Exchange Integration</i> 	\$3M - \$6M	24-36 months	System Maintenance 18% - Ops TBD
	<ul style="list-style-type: none"> <i>MLR Reporting / Pool Management / Rebate Administration Capabilities</i> 	\$1M - \$3m	9-15 months	System Maintenance 18% - New Ops Function

Gaps and High-Level Cost Estimates (cont'd)

Area	Description	One Time Cost Range	Duration	Ongoing Cost Range
Core Administration Replacement	<ul style="list-style-type: none"> Perform full core administrative system replacement (TBS to third party software package replacement) impacting all core operations areas (i.e., Claims, Membership, case installation, billing, provider, accounts receivable, service) Migrate CDH products to the future core administration system and build more advanced CDH tools <i>Support Health Care Reform Administrative Simplification Compliance mandates</i> 	\$35M - \$50M	24-48 months	System Maintenance and Config 18%
Membership and Billing	<ul style="list-style-type: none"> Implement online bill presentment and payment (for group and individual) 	\$2M - \$3M	12-18 months	System Maintenance 18%
Service Oriented Architecture (SOA) / Enterprise Service Bus	<ul style="list-style-type: none"> Build out TIBCO integration / workflow / SOA infrastructure and deploy capabilities Leverage integration infrastructure to support core administration platform replacement 	\$3M - \$5M	12-24 months	System Maintenance 18%
Informatics / Data Warehousing	<ul style="list-style-type: none"> Implement an Enterprise Data Warehouse: Establish an enterprise data warehouse (EDW), ETL, ODS, Analytics. Operational and Mgmt Reporting, and Ad Hoc Reporting 	\$9M - \$13M	24-36 months	System Maintenance 18% Operational Support TBD
	<ul style="list-style-type: none"> Implement External Client Reporting: Implement interactive and robust plan sponsor reporting capabilities 	\$3-5M	12 months	System Maintenance 18%
	<ul style="list-style-type: none"> Implement a management decision support information system (EIS / Dashboards) 	\$2M - \$4M	12-18 months	System Maintenance 18%