WHY NOT ACQUIRE ANOTHER NON-PROFIT PLAN?

In all likelihood, Chesapeake would be unable to raise s[illegible]fficient debt capital to acquire another non-profit plan.

- Assumes Chesapeake (i) remains a non-stock corporati[illegible]n and is limited to raising money in the debt markets; (ii) remains an investment grade credit; and (ii[illegible] can issue debt based on the consolidated credit profile of Chesapeake and the target company.

	Target Company				
	Highmark	B[illegible]	[illegible]SNC	Horizon	IBC
Estimated Purchase Price	$1,500	$[illegible]	[illegible]0	$1,100	$1,000
Pro Forma:					
Maximum Debt Capacity	$400 (1)	$[illegible]	[illegible]0	$400	$400
Less: Existing Debt	(281)		[illegible]1)	(31)	(91)
Incremental Debt Capacity	$119	$[illegible]	[illegible]9	$369	$309
Capital Shortfall	**$1,381**	$[illegible]	[illegible]1	**$731**	**$691**
Credit Statistics:					
EBITDA / Interest Expense	6.2x	[illegible]	9x	5.1x	4.4x
Debt / Total EBITDA	1.8x		3x	2.2x	2.5x
Total Debt / Total Capital	40.1%	4[illegible]	1%	40.1%	40.1%

(1) Assumes no creation of negative goodwill.

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HOW DOES THIS RELATE TO OUR STRATEGIC GOALS?

To realize its strategic goals, Chesapeake not only nee ls to fund substantial infrastructure requirements, but it must move quickly to solidify its position as the leading hea h insurance provider in its core markets.

Strategic Goals

1. $8-$11 billion in revenues producing 15%-22% annual revenue growth between 1999 and 2003 and serving 4.2-6.1 million members
2. Minimum capital of $500M - $600M and $1,000M in excess and contingency capital resulting in a total capital base of $1,500M - $1,700M; underwriting margins of 1%-2%
3. The top market position in key consumer segments with a diversified portfolio and three times the relative market share of the next competitor in the core service area

Strategic Requirements

eCommerce	$30–$50
New Products	170–250
Information Management Systems	80–120
Sub-Total ("Infrastructure")	200–420
Mergers	800–900
Total	$1,080–$1,320

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WHY CHANGE TO FOR-PROFIT OR PUBLIC STRUCTURE?

As the demands of the marketplace change over time, C esapeake must be willing to adapt to the new environment → ultimately, strategy must drive corporate structure.

- If Chesapeake's operations are not financially healthy a d self sustaining, the Company will be unable to meet any of its strategic, financial or social objectives
- Without adequate access to capital both now and in the uture, Chesapeake will be unable to fund critical infrastructure and strategic initiatives
- Under the current structure, Chesapeake is very limited n its ability to access the capital markets and to redeploy capital freely among its operating subsidiaries restricting management's ability to operate the business effectively
- Moreover, as a not-for-profit entity, regulators may requ e distribution of excess reserves, further weakening Chesapeake's ability to fund its capital need
- The impact of switching to a for-profit or public structur is mitigated by the fact that Chesapeake's most important operating subsidiaries are already operated a for-profit entities
- Chesapeake could have a substantially greater impact o the health care needs of underserved populations by funding a charitable Foundation as part f a strategic transaction
- Our mission remains the same regardless of corporate structure: "To be a leading health company recognized for excelling at satisfying consumer needs"

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SELECTION CRITERIA

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SELECTION CRITERIA

DLJ's initial screen of potential merger candidates was l sed on the following general criteria:

- Blue Cross and Blue Shield Association ("BCBSA") lice sure requirements
  - Current BCBSA licensee; or
  - Business can be converted under Chesapeake license (*e.g.* n mbers mostly within current service areas); and
  - Does not threaten Chesapeake BCBSA licensee status (*e.g.* wnership limitations)
- Geographic proximity
  - Build share in existing Chesapeake markets; or
  - Build regional presence through expansion into geographica y contiguous markets; or
  - Provides significant opportunity for "leapfrog and backfill" rategy
- Substantial size
  - Significant addition to existing Chesapeake business
  - Realize operational economies of scale
  - Maintain and enhance local market leadership

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SUMMARY OF POTENTIAL PARTNERS

Our initial screening criteria yielded the following list of potential strategic partners:

Plan	Members (MM)	Primary Service Area	Rationale
WellPoint	7.3	CA, GA (Pending)(1)	Largest BCBS plan; actively pursuing national expansion strategy; Cerulean acquisition provides toehold in Southeastern and Mid-Atlantic region; BCBS licensee
Anthem	6.9	CO,CT, IN, KY, ME, NV, NH, OH	Aggressively building national presence through BCBS acquisitions; BCBS licensee
Health Care Services Corp. ("HCSC")	6.4	TX, IL, NM (Pending)	BCBS licensee
Highmark	5.7(2)	PA, WV	Contiguous presence offers synergies; creates regional market leader; BCBS licensee
Independence Blue Cross ("IBC")	2.8	PA	Contiguous presence offers synergies; creates regional market leader; BCBS licensee
BCBS of Florida	2.5	FL	Enter rapidly growing Florida market; BCBS licensee
Horizon	2.3	NJ	Contiguous presence offers synergies; creates regional market leader; BCBS licensee
BCBS of North Carolina	2.0	NC	"Leapfrog and backfill" consolidation strategy; BCBS licensee
Trigon	1.9	VA	Contiguous presence offers synergies; creates regional market leader; BCBS licensee
Mid-Atlantic Medical Services, Inc. ("MAMSI")	1.8	MD, DE, DC(3)	Home market consolidation; potential to "Blue brand" significant portion of business
Coventry	1.4	MO, PA(4)	Geographically contiguous operations
BCBS of South Carolina	1.2	SC	BCBS licensee
Kaiser Mid-Atlantic	0.6	DC	Home market consolidation; potential to "Blue brand" business

Source: Company and/or other public information.

(1) Other markets consist of Texas, Illinois, Indiana and Ohio

(2) Based on BCBS Association data.

(3) Other markets consist of Virginia, West Virginia, North Carolina and Pennsylvania.

(4) Other markets consist of North Carolina, Delaware, Georgia, Illinois, Iowa, Louisiana, Nebr[illegible]ca, Kansas, Ohio, Virginia and West Virginia.

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SUMMARY EVALUATION OF POTENTIAL PARTNERS

The results of our initial screen were further evaluated based on eleven key criteria.

Criteria	Trigon	Highmark	MAMSI	IBC	BCBS NC	WellPoint	Kaiser	Horizon	Anthem	BCBS SC	Coventry	HCSC	BCBS FL
Geographic Proximity	●	◐	●	◐	◐	○	●	○	○	○	○	○	○
Access to Capital	●	○	●	○	○	●	○	○	◐	○	●	○	○
Deal Doability	●	●	○	○	●	◐	◐	◐	○	○	○	○	○
BCBS Licensee	●	●	◐	◐	●	●	◐	●	●	●	○	●	●
Size	◐	●	○	◐	◐	●	○	◐	●	○	○	●	◐
Control	◐	○	●	◐	◐	○	●	◐	○	●	●	○	◐
Market Penetration	●	●	○	◐	●	●	○	●	●	●	◐	●	●
Information Technology	◐	●	○	◐	◐	●	○	●	◐	●	●	○	○
Quality of Membership	●	◐	◐	◐	◐	◐	◐	○	◐	●	◐	●	◐
Customer Preference	●	◐	●	◐	◐	◐	●	○	◐	◐	○	◐	◐
Network Quality	●	●	◐	◐	○	◐	●	●	○	◐	◐	◐	◐

○ Low ◐ Medium ● High

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SUMMARY EVALUATION OF POTENTIAL PARTNERS (CONT'D)

Each of the eleven key criteria was weighted according to importance.

Criteria	Weight
Geographic Proximity	25%
Access to Capital	15
Deal Doability	15
BCBS Licensee	10
Size	10
Control	10
Market Penetration	5
Information Technology	2.5
Membership Quality	2.5
Customer Preference	2.5
Network Quality	2.5
	100%

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