HOW COULD A TRANSACTION WITH HIGHMARK BE STRUCTURED?

Since Highmark is a non-stock corporation, a transaction would involve either (i) an affiliation agreement; (ii) a simultaneous merger with conversion of both entities; or (iii) an acquisition for cash of one party by the other.

Affiliation Agreement

- While an affiliation agreement may offer access to capital, it is subject to uncertain regulatory approvals and significant structural impediments, including:
  - Need to satisfy an increasing number of regulatory bodies
  - Difficult to unwind or restructure in the future
  - Regulatory limitations on capital movements among entities
  - Limited ability to achieve operational synergies typical in a mergers and acquisitions transaction

Simultaneous Merger with Conversion

- Under this structure, both Chesapeake and Highmark would convert to stock corporations and enter into a strategic merger
- As part of the conversion, the stock of both Chesapeake and Highmark would be contributed to foundations in MD, DE, DC and PA to fund various charitable purposes (such as providing health insurance coverage to underserved populations)
- Subsequently, the combined entity would likely (i) issue publicly traded stock to provide liquidity to the foundation; or (ii) enter into a merger with a publicly traded company

Acquisition for Cash

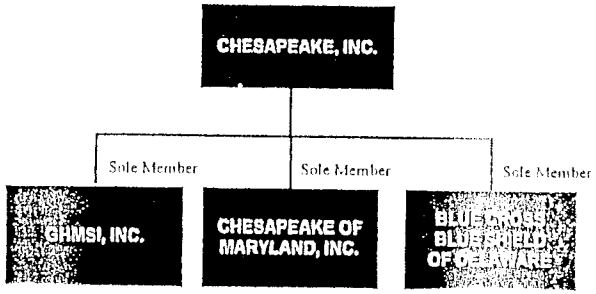
- Not feasible since the combined entity cannot borrow enough money to pay an adequate price for either entity

OCC 015108

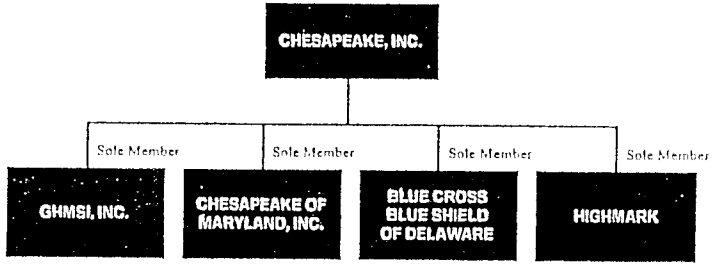
HOW COULD A TRANSACTION WITH HIGHMARK BE STRUCTURED? (CONT'D)

Affiliation Agreement

Current Structure

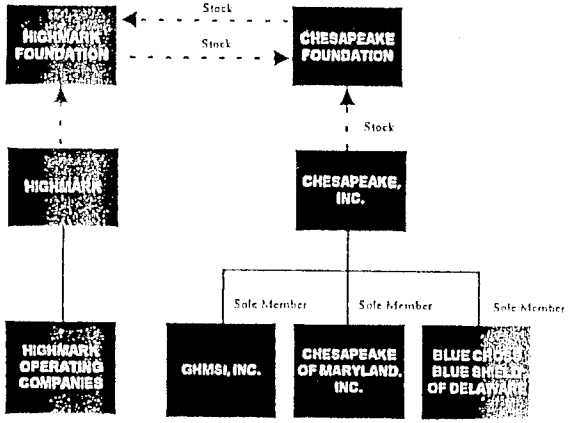


Post-Affiliation

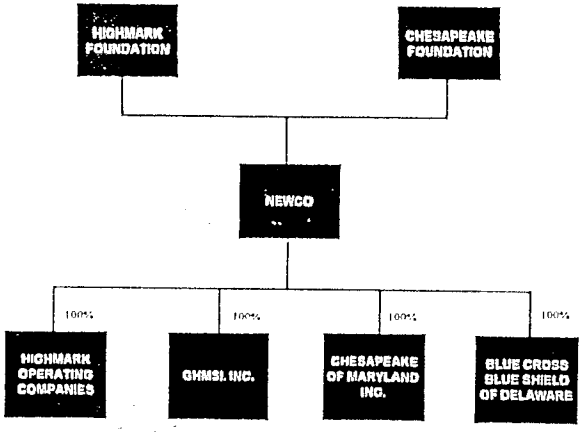


Simultaneous Merger With Conversion

Current Structure



Post-Merger



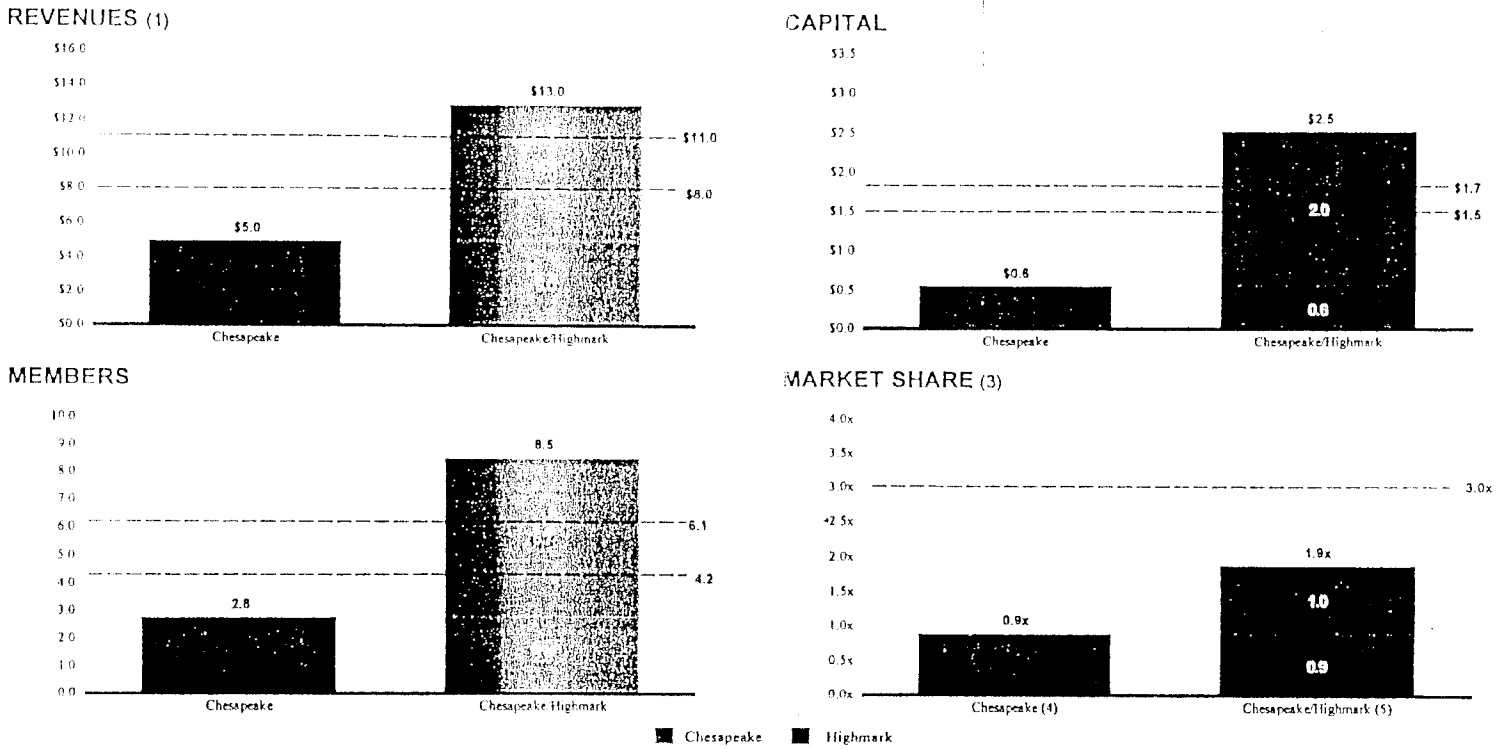
Note: A single Chesapeake Foundation is used by way of example. Most likely structure would entail the use of existing or newly-formed foundations in MD, DC and DE.

OCC 015109

WHAT WOULD THE COMBINED ENTITY LOOK LIKE?

The new entity would be positioned as one of the largest CBS in the region.

($ in billions and members in millions)



Note: Dotted lines represent target.

(1) Based on premium equivalents.

(2) Based on statutory amounts.

(3) Comprised of MD, DE, DC, VA and PA. Source: NRC data.

(4) Represents market share as a multiple of its next largest competitor (Highmark)

(5) Represents market share as a multiple of its next largest competitor (Aetna).

OCC 015110

WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF A TRANSACTION WITH HIGHMARK

A combination with Highmark would create a regional leader in the northern Mid-Atlantic marketplace.

Advantages

- ▲ Combination would create the leading BCBS plan in the northern Mid-Atlantic region
- ▲ Rumored to be considering conversion to for-profit status
- ▲ Strong small employer focus (combined billing for health, dental, vision, life and disability coverage, etc.)
- ▲ BCBSA licensee

Disadvantages

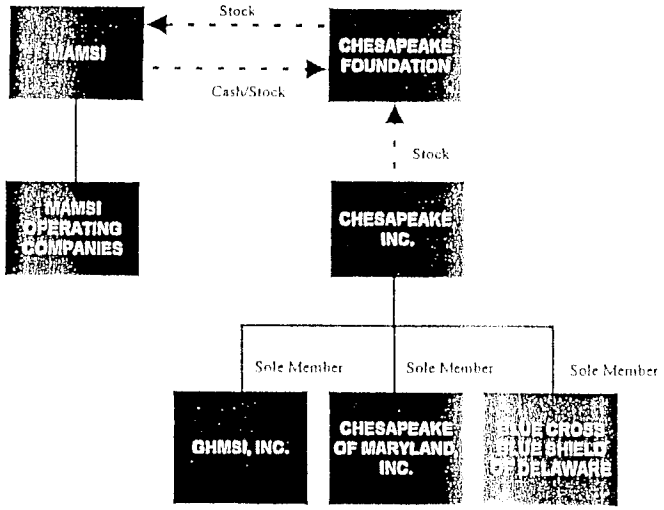
- ▼ Limited access to capital markets
- ▼ Significant size implies that Chesapeake management and Board of Directors would have only modest control
- ▼ Limited opportunity for near-term marketing and operational synergies
- ▼ Potential for very large combined Board of Directors may limit decision execution (Highmark currently has 35 Directors)

OCC 015111

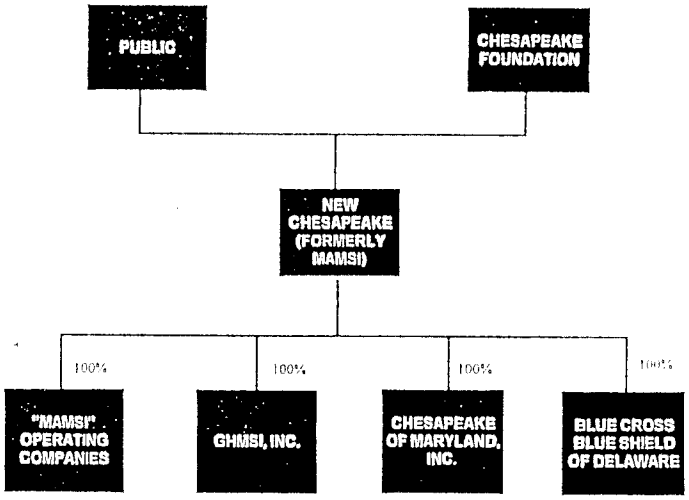
HOW COULD A TRANSACTION WITH MAMSI BE STRUCTURED?

A transaction with MAMSI would most likely involve a sim iltaneous conversion to a stock corporation and a reverse merger with Chesapeake whereby Chesapeake's manage: ient and Board of Directors would control the resulting, publicly traded entity.

Current Structure



Post-Merger



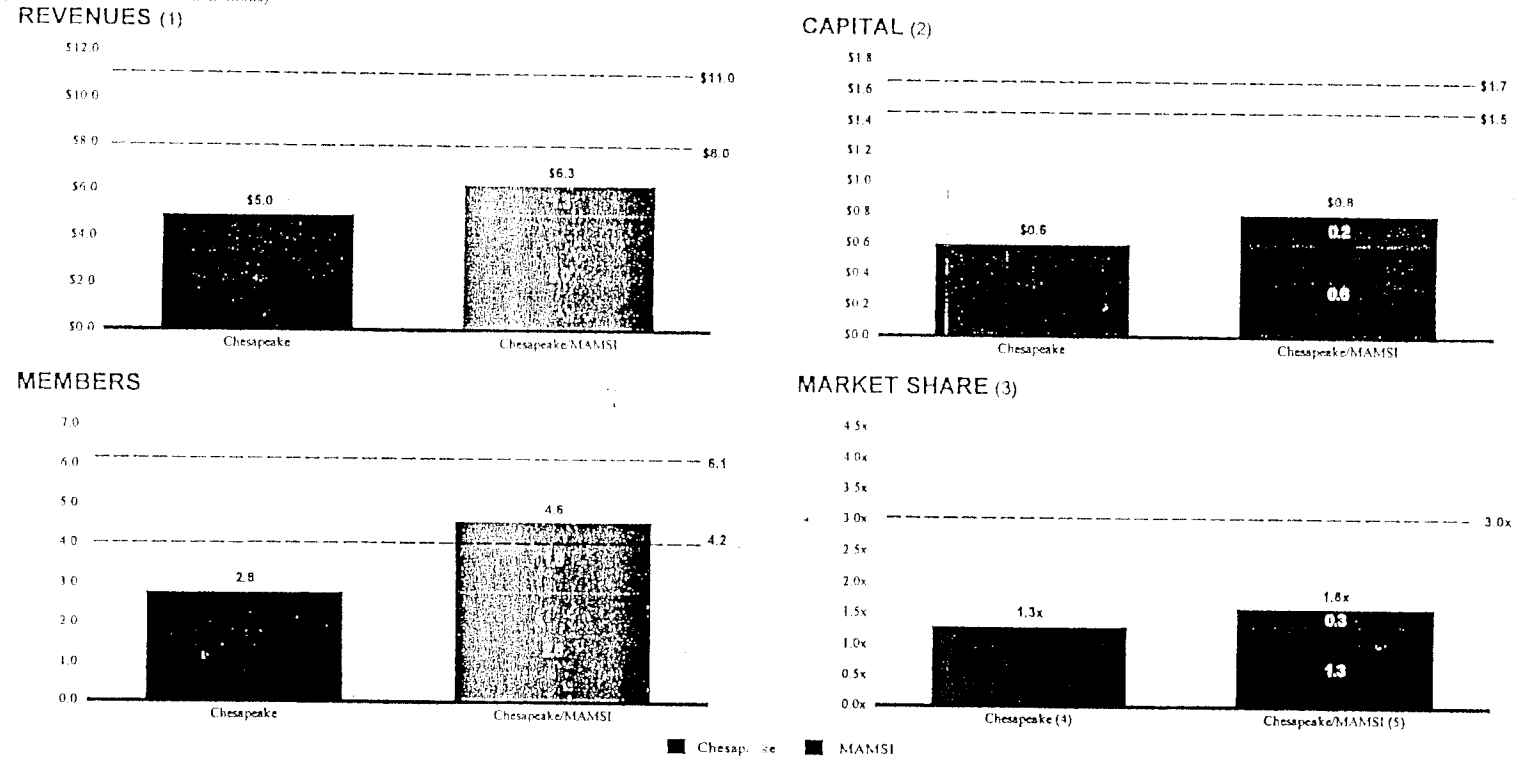
Note: A single Chesapeake Foundation is used by way of example. Most likely structure would en: l the use of existing or newly-formed foundations in MD, DC and DE.

OCC 015112

WHAT WOULD THE COMBINED ENTITY LOOK LIKE?

A combination with MAMSI would be a defensive intermediate step that leaves Chesapeake short of its key strategic goals.

($ in billions and members in millions)



Note: Dotted lines represent target.
(1) Based on premium equivalents.
(2) Based on statutory amounts.
(3) Comprised of MD, DE, DC and VA. Source: NRC data.
(4) Represents market share as a multiple of its next largest competitor (Trigon).
(5) Represents market share as a multiple of its next largest competitor (Trigon).

OCC 015113

WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF A TRANSACTION WITH MAMSI

A combination with MAMSI would offer Chesapeake a de nsive strategy focusing on deepening Chesapeake's market share in its core markets.

Advantages

- ▲ Opportunity to deepen market share in core Baltimore and DC marketplaces
- ▲ One of the largest managed care company in the Baltimore/Washington D.C. area.
- ▲ Public company access to capital
- ▲ Reverse merger would effectively represent an IPO of Chesapeake
- ▲ Opportunity to "Blue" brand a significant portion of MAMSI's membership
- ▲ Chesapeake management and Board of Directors would have significant control over new entity
- ▲ Opportunity for significant marketing and administrative synergies
- ▲ Smaller size makes transaction relatively more manageable

Disadvantages

- Management unwillingness to do a transaction
- An intermediate step which would likely require additional future transactions
- Does not expand presence regionally
- Potential market concentration issues
- Recent financial turnaround raises risk level
- Fails to address strategic objectives

OCC 015114

WHAT TRANSACTION ISSUES WILL WE ENCOUNTER?

Several critical transaction hurdles must be overcome b fore a transaction can be consummated.

Issue		Comment
Social Issues	ς Composition of Board of Directors	d senior management team of combined entity
Conversion Requirements	ς Chesapeake will most likely need t	onvert to a stock corporation in the Trigon scenario
Foundation	ς If a conversion is required, formatic	and/or funding of a charitable foundation will be required
Regulatory Approvals	ς Length of time to receive and condi	ons relating to regulatory approvals in multiple jurisdictions
Legislative Requirements	ς Enabling legislation needs to be in p	ace in all jurisdictions prior to transaction closing
Elections	ς Given its political sensitivity, it may considered by regulators prior to st	e unlikely that a conversion/merger transaction will be e elections
Attorney General	ς Need to achieve "buy-in" early in tl	process (*i.e.* avoid the Empire BCBS timeline)
Transaction Structure	ς Trigon combination would likely ta	the form of a private/public company stock swap
Consumer Group Impact	ς Need to pre-empt concerns which c	ld significantly slow down and/or jeopardize process
Politics Management	ς Relatively minor transaction issues decisively	n often become significant if not handled promptly and
Capital Requirements	ς Depending on transaction structure,	hesapeake may require access to significant outside capital

OCC 015115