# ACCRETION/DILUTION ANALYSIS

**The following analysis sensitizes accretion or dilution to Trigon's EPS by varying synergies and stock price.**

## SYNERGY SENSITIVITY

($ in millions except price per share)

**2000 EPS Accretion/(Dilution)**

| % of Combined Op. Expenses | % of CareFirst Synergies Op. Expenses | | Purchase Price $900 | $1,000 | $1,100 | $1,200 | $1,300 | $1,400 |
|---|---|---|---|---|---|---|---|---|
| 0.0% | 0.0% | $0 | (1.7%) | (5.2%) | (8.6%) | (11.7%) | (14.5%) | (17.3%) |
| (1.1%) | (2.1%) | 10 | 3.4% | (0.3%) | (3.8%) | (7.1%) | (10.1%) | (13.0%) |
| (2.1%) | (4.2%) | 20 | 8.6% | 4.6% | 1.0% | (2.5%) | (5.7%) | (8.6%) |
| (3.2%) | (6.3%) | 30 | 13.7% | 9.5% | 5.7% | 2.1% | (1.2%) | (4.3%) |
| (4.2%) | (8.4%) | 40 | 18.8% | 14.5% | 10.5% | 6.7% | 3.2% | (0.0%) |
| (5.3%) | (10.5%) | 50 | 23.9% | 19.4% | 15.2% | 11.3% | 7.7% | 4.3% |
| (6.4%) | (12.6%) | 60 | 29.0% | 24.3% | 20.0% | 15.9% | 12.1% | 8.6% |
| (7.4%) | (14.7%) | 70 | 34.1% | 29.3% | 24.7% | 20.5% | 16.6% | 12.9% |
| (8.5%) | (16.8%) | 80 | 39.3% | 34.2% | 29.5% | 25.1% | 21.0% | 17.2% |

**2001 EPS Accretion/(Dilution)**

| % of Combined Op. Expenses | % of CareFirst Synergies Op. Expenses | | Purchase Price $900 | $1,000 | $1,100 | $1,200 | $1,300 | $1,400 |
|---|---|---|---|---|---|---|---|---|
| 0.0% | 0.0% | $0 | 9.1% | 5.2% | 1.5% | (1.9%) | (5.1%) | (8.1%) |
| (1.1%) | (2.1%) | 10 | 13.5% | 9.4% | 5.6% | 2.0% | (1.3%) | (4.4%) |
| (2.1%) | (4.2%) | 20 | 17.9% | 13.6% | 9.7% | 6.0% | 2.5% | (0.7%) |
| (3.2%) | (6.3%) | 30 | 22.3% | 17.8% | 13.7% | 9.9% | 6.3% | 3.0% |
| (4.2%) | (8.4%) | 40 | 26.6% | 22.1% | 17.8% | 13.8% | 10.1% | 6.6% |
| (5.3%) | (10.5%) | 50 | 31.0% | 26.3% | 21.9% | 17.8% | 13.9% | 10.3% |
| (6.4%) | (12.6%) | 60 | 35.4% | 30.5% | 26.0% | 21.7% | 17.7% | 14.0% |
| (7.4%) | (14.7%) | 70 | 39.8% | 34.7% | 30.0% | 25.6% | 21.6% | 17.7% |
| (8.5%) | (16.8%) | 80 | 44.2% | 39.0% | 34.1% | 29.6% | 25.4% | 21.4% |

## STOCK PRICE SENSITIVITY (1)

**2000 EPS Accretion/(Dilution)**

| | | Purchase Price $900 | $1,000 | $1,100 | $1,200 | $1,300 | $1,400 |
|---|---|---|---|---|---|---|---|
| Trigon Stock Price | $45.00 | 19.4% | 13.7% | 8.6% | 3.9% | (0.4%) | (4.4%) |
| | 47.50 | 20.3% | 14.8% | 9.8% | 5.3% | 1.1% | (2.8%) |
| | 50.00 | 21.0% | 15.8% | 11.0% | 6.5% | 2.4% | (1.4%) |
| | 52.50 | 21.7% | 16.7% | 12.0% | 7.7% | 3.7% | (0.0%) |
| | 55.00 | 22.4% | 17.5% | 13.0% | 8.8% | 4.9% | 1.3% |
| | 57.50 | 23.0% | 18.3% | 13.9% | 9.8% | 6.0% | 2.4% |
| | 60.00 | 23.6% | 19.0% | 14.7% | 10.7% | 7.0% | 3.6% |
| | 62.50 | 24.1% | 19.6% | 15.5% | 11.6% | 8.0% | 4.6% |
| | 65.00 | 24.6% | 20.2% | 16.2% | 12.4% | 8.9% | 5.6% |

**2001 EPS Accretion/(Dilution)**

| | | Purchase Price $900 | $1,000 | $1,100 | $1,200 | $1,300 | $1,400 |
|---|---|---|---|---|---|---|---|
| Trigon Stock Price | $45.00 | 26.3% | 20.3% | 14.9% | 9.9% | 5.4% | 1.2% |
| | 47.50 | 27.2% | 21.4% | 16.2% | 11.4% | 7.0% | 2.9% |
| | 50.00 | 28.0% | 22.5% | 17.4% | 12.7% | 8.4% | 4.4% |
| | 52.50 | 28.7% | 23.4% | 18.5% | 13.9% | 9.7% | 5.8% |
| | 55.00 | 29.4% | 24.3% | 19.5% | 15.1% | 11.0% | 7.2% |
| | 57.50 | 30.1% | 25.1% | 20.4% | 16.1% | 12.1% | 8.4% |
| | 60.00 | 30.7% | 25.8% | 21.3% | 17.1% | 13.2% | 9.6% |
| | 62.50 | 31.2% | 26.5% | 22.1% | 18.1% | 14.3% | 10.7% |
| | 65.00 | 31.7% | 27.2% | 22.9% | 18.9% | 15.2% | 11.7% |

(1) Represents synergies as a percent of combined 1999 operating expenses.
(2) Assumes $50 million in synergies.
(3) Note: As of September 21, 2000, Trigon's stock price was $51.53.

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# MANAGEMENT BIOGRAPHIES

**The following table highlights the key executive officers of Trigon.**

| Name | Experience |
|---|---|
| Thomas G. Snead, Jr.<br>*Chairman of the Board, President and Chief Executive Officer* | Staff of public accounting firm KPMG LLP ; financial executive for several small firms in the Richmond area |
| Thomas Byrd<br>*Senior Vice President and Chief Financial Officer* | Senior Manager with the public accounting firm KPMG LLP |
| J. Christopher Wiltshire<br>*Senior Vice President, General Counsel and Corporate Secretary* | McGuire, Woods, Battle & Boothe for 17 years, the last nine as partner |
| Timothy Nolan<br>*Senior Vice President of Marketing and Corporate Development* | McKinsey & Company, Inc., Washington, D.C., as a general management consultant focused on turnaround strategies, acquisitions and post-merger management. Previously in venture capital and investment banking |
| William P. Bracciodieta, M.D.<br>*Senior Vice President and Chief Medical Officer* | Humana, Inc., in its south Florida market as Vice President and Chief Medical Director, Medical Affairs; Chief Executive Officer of FHP Hospital, Fountain Valley, California; and Vice President for health care delivery, FHP International Corp. Practiced Neurology privately for 15 years and is an associate professor of clinical Neurology at the University of Southern California School of Medicine |
| Ralph T. Bullock, Jr.<br>*Senior Vice President and Chief Information Officer* | Commonwealth of Virginia and Philip Morris USA |
| James W. Copley, Jr.<br>*Senior Vice President and Chief Investment Officer* | President, Consolidated Investment Corporation |

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# POTENTIAL TRANSACTIONS ISSUES

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# POTENTIAL INTEGRATION ISSUES

**As a next step, DLJ would suggest that CareFirst begin to analyze the deeper impact of a transaction with Trigon or an affiliation with Highmark, as each level of the organizational structure faces its own set of integration issues.**

| Holding Company | Operating Company |
|---|---|
| Governance structure | Account management |
| Profit vs. Not for profit | Culture match |
| Access to capital | Board representation |
| Board representation | Controls by holding company |
| Regulatory restrictions on upstream control | Asset consolidation |
| BCBSA licensing and control | State licensing and regulatory |
| Management structure | Operating structure |
| Public advocacy groups | Employment |
| Financial structure | Government business |
| | Conversion and foundation (applies only to Trigon) |
| | Antitrust |

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# POTENTIAL TRANSACTION ISSUES

**In addition to the integration issues, several critical transaction hurdles must be overcome before a transaction can be consummated.**

| ISSUE | COMMENT |
|---|---|
| Regulatory Approvals | • Length of time to receive and conditions relating to regulatory approvals in multiple jurisdictions |
| Attorney General | • Need to achieve "buy-in" early in the process (*i.e.*, avoid the Empire BCBS timeline) (applies only to Trigon) |
| Governance and Transaction Structure | • Composition of Board of Directors and senior management team of combined entity |
| Consumer Group Impact | • Need to pre-empt concerns which could significantly slow down and/or jeopardize process |
| Politics Management | • Relatively minor transaction issues can often become significant if not handled promptly and decisively |
| Capital Requirements | • Depending on transaction structure, the combined entity may require access to significant outside capital |

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# DIRECT DECISION MAKERS

**The following persons and political entities will have a direct impact on the decision making process.**

| ENTITY | ACTION |
|---|---|
| Congress | • Will need to pass a Bill either repealing GHMSI's charter or amending it to allow conversion to a for-profit company (applies only to Trigon) |
| DC Insurance Commissioner | • Approves any transaction involving GHMSI |
| Virginia Insurance Commissioner | • Approves any transaction involving GHMSI |
| DC Corporation Counsel | • Approves any transaction involving GHMSI (applies only to Trigon)<br>• Determines size of DC charitable Foundation and beneficiaries (applies only to Trigon) |
| Maryland Insurance Commissioner | • Approves any transaction involving CFI and CFMI<br>• Determines size of MD charitable contribution<br>• Existing law requires proceeds must be contributed to Maryland Health Care Foundation<br>• Sets ground rules for required subscriber vote |
| Delaware Insurance Commissioner | • Approves any transaction involving BCBSD under the Holding Company Act<br>• Currently, there is no specific DE conversion statute in place<br>• Determines size of charitable contribution and beneficiaries |
| Maryland Subscribers | • Would have to approve any transaction by a 2/3 vote pursuant to a plan approved by Maryland Insurance Commissioner (applies only to Trigon) |
| Blue Cross Blue Shield Association ("BCBSA") | • Approval of BCBSA license transfer<br>• Approval subject to ownership and control limitations if form of consideration includes stock |

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# DECISION INFLUENCERS

**In addition to these with direct decision making responsibility, the following will play a role in determining any course of action. The involvement of the various influencers will vary, depending on the partner selected.**

| DECISION INFLUENCERS | |
|---|---|
| Maryland | ς Attorney General<br>ς Governor<br>ς Lieutenant Governor |
| District of Columbia | ς Mayor<br>ς City Council Chair<br>ς City Council Insurance and Health Committee Chairs |
| Delaware | ς Attorney General<br>ς Governor<br>ς Gubernatorial Candidates<br>ς Legislative Leadership |
| Consumer Groups | ς Fair Care<br>ς Consumer Catalyst<br>ς Consumers Union |
| Press | ς Washington Post<br>ς Baltimore Sun<br>ς Daily Record<br>ς Baltimore Business Journal<br>ς Washington Business Journal |

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