

COURSE: GROUP HEALTH – COMPANY SPONSORED PERSPECTIVE

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I. INTRODUCTION

This case study starts with general information followed by internal and external correspondences which includes more specific information.

All numbers found in this case study are for illustration only and may not be representative of true costs or actual relationships. Any similarities with actual company results are purely coincidental.

II. A TALE OF TWO COMPANIES

Great Expectations Insurance Company

Great Expectations Insurance Company (Great Expectations) is a large insurance company operating exclusively in the United States. The company's corporate vision is to be a leader in the insurance industry, to earn a competitive return for its stockholders, to offer a good value to its policy holders while operating in a financially sustainable way, and to attract and retain valuable employees.

Great Expectations has several divisions including a managed care organization, Barnaby Rudge Inc. (BRI), operating in a single location.

Great Expectations currently offers a full line of products, including but not limited to:

- Indemnity and preferred provider organization (PPO) group medical benefits, including high-deductible health plans (HDHPs)
- Group life,
- Group long-term-disability, and
- Specialty products.

Great Expectations has 5,000 employees supporting four primary business divisions:

- Administrative Services Only (ASO),
- Medical Division (including all Indemnity, PPO, and Managed Care areas),
- Group Life and Disability (GLD), and
- Ancillary Products.

Great Expectations has a strong reputation in the self-insured and fully insured group major medical market. The company has spent considerable resources in developing its own preferred provider networks across the country. As a result, Great Expectations is strongly positioned nationally as a provider of ASO and fully insured group insurance products.

Copperfield Insurance Company

Copperfield Insurance Company (Copperfield) is a large insurance company operating exclusively in Canada. Its corporate vision is the same as Great Expectations: to be a leader in the insurance industry, to earn a competitive return for its stockholders, to offer a good value to its policy holders while operating in a financially sustainable way, and to attract and retain valuable employees.

Copperfield's primary product offerings include:

- Supplemental medical benefits,
- Group life,
- Disability insurance, and
- Ancillary products, including dental and vision.

Copperfield employs 2,000 people throughout Canada.

Copperfield also has a strong reputation in their markets. However, it is interested in growing into other markets and possibly internationally.

III. PROSPECTIVE CLIENT

Dombey and Sons, Inc. (Dombey) is a manufacturing and financial services conglomerate. They currently operate exclusively in the United States but want to expand into Canada. They employ approximately 1,057 union employees and 512 non-union employees. Their consultant has approached Great Expectations about providing a number of employee benefit plans, including medical, group life, and long-term disability.

From: Charles Dickens <cdickens@greatexp.com>
To: You
Sent: March 3, 2011
Subject: Welcome Aboard

Hello. I hope you have enjoyed your initial few days here.

While I know you are busy with your day-to-day work, there are two major initiatives with which I need you to take a lead role.

First, as you know, we currently offer only group insurance. Due to market pressures and the recent political activity, the Board and I are very keen on expanding into all lines of individual insurance. However, we have little experience in the individual market place. We would like you to lead a group of senior executives to explore this expansion. In particular, we'd like your team's review to include (but not be limited to) how our current expertise in group products may overlap with the individual marketplace, potential marketing approaches, and any financial concerns about this initiative.

Second, and possibly more significantly, I have been approached by the CEO of Copperfield Insurance Company, located in Canada, for a possible merger. They are interested in expanding into the U.S. and we could gain from their product expertise.

As you can imagine, this potential merger is highly confidential. You will be joining me as Great Expectations' representatives through the due diligence and, if necessary, negotiations of this possible merger. I have attached Copperfield's financial information for your review.

Again, welcome aboard. This is certainly an exciting time to be at Great Expectations.

- Charles

Copperfield Insurance Company
2010 Annual Report

Consolidated Statement of Operations

(In millions, except per share data)

| | December 31 | | |
|--|--------------------|------------------|------------------|
| | 2010 | 2009 | 2008 |
| <u>Revenues</u> | | | |
| Premium Income | | | |
| Supplemental Medical | \$ 4,023 | \$ 3,784 | \$ 3,129 |
| Group Life | 5,888 | 6,071 | 6,211 |
| Disability | 2,572 | 3,420 | 5,280 |
| Ancillary Products | 1,234 | 967 | 957 |
| Total | \$ 13,717 | \$ 14,242 | \$ 15,577 |
| Fee Income | 2,553 | 3,118 | 3,011 |
| Other revenue | - | - | - |
| Total operating revenue | 16,270 | 17,360 | 18,588 |
| Net investment income | 3,178 | 5,348 | 5,707 |
| Other realized (losses) gains | - | - | - |
| Total non-operating revenue | 3,178 | 5,348 | 5,707 |
| Total revenues | \$ 19,448 | \$ 22,708 | \$ 24,295 |
| <u>Policy Benefits and Expenses</u> | | | |
| Payments to Policyholders | | | |
| Supplemental Medical | \$ 3,359 | \$ 3,123 | \$ 2,583 |
| Group Life | 3,592 | 3,946 | 3,913 |
| Disability | 1,517 | 2,120 | 3,326 |
| Ancillary Products | 963 | 725 | 794 |
| Total | \$ 9,431 | \$ 9,915 | \$ 10,617 |
| Commissions | 1,941 | 2,233 | 2,671 |
| Operating Expenses | 4,084 | 4,315 | 4,859 |
| Premium Taxes | 274 | 285 | 312 |
| Interest expense | 350 | 323 | 345 |
| Amortization of other intangible assets | 265 | 274 | 260 |
| Total expenses | \$ 16,345 | \$ 17,344 | \$ 19,063 |
| Income before income tax expense | 3,103 | 5,364 | 5,232 |
| Income tax expense | 621 | 1,073 | 1,046 |
| <u>Net income</u> | \$ 2,482 | \$ 4,291 | \$ 4,185 |
| <u>Net income per share</u> | | | |
| Basic | \$ 2.66 | \$ 4.33 | \$ 3.73 |
| Diluted | \$ 2.70 | \$ 4.73 | \$ 3.84 |
| <u>Average Exchange Rates*</u> | | | |
| U.S. dollars | 0.81 | 0.83 | 1.07 |
| U.K. pounds | 1.74 | 1.96 | 2.15 |

* e.g., on 12/31/2007, \$1 Can = \$1.07 US

Copperfield Insurance Company
2010 Annual Report

Consolidated Balance Sheet

(In millions, except share data)

| | December 31 | |
|--|----------------------|----------------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| <i>Current assets:</i> | | |
| Cash and cash equivalents | \$ 9,880 | \$ 8,770 |
| Premium Receivables | 8 | 8 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 1,169 | 1,097 |
| Equity securities | 256 | 242 |
| Other invested assets, current | 693 | 722 |
| Other receivables | 827 | 745 |
| Income taxes receivable | 53 | 54 |
| Net due from subsidiaries | 867 | 1,197 |
| Securities lending collateral | 583 | 854 |
| Deferred tax assets, net | 250 | 248 |
| Other current assets | 1 | 1 |
| Total current assets | \$ 14,587 | \$ 13,938 |
| <i>Long-term investments available-for-sale, at fair value:</i> | | |
| Fixed maturity securities | 534 | 234 |
| Equity securities | 6 | 7 |
| Other invested assets, long-term | 456 | 495 |
| Property and equipment, net | 4 | 3 |
| Deferred tax assets, net, non-current | 234 | 227 |
| Investment in subsidiaries | 5,544 | 3,456 |
| Other noncurrent assets | 114 | 37 |
| Total Long Term Assets | \$ 6,892 | \$ 4,459 |
| Total assets | \$ 21,479 | \$ 18,397 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Actuarial and Policy Liabilities | 8,230 | 7,564 |
| Amounts on deposit | 678 | 876 |
| Deferred Gains | 4 | 5 |
| Long-term debt | 345 | 456 |
| Other Liabilities | 795 | 856 |
| Total liabilities | 10,052 | 9,757 |
| Shareholders equity | | |
| Preferred stock | - | - |
| Common stock | 5 | 5 |
| Additional paid-in capital | 326 | 109 |
| Retained earnings | 1,865 | 1,777 |
| Accumulated Income | 9,231 | 6,749 |
| Total shareholders equity | 11,427 | 8,640 |
| Total liabilities and shareholders equity | \$ 21,479 | \$ 18,397 |

From: Candy Cruncher <ccrunche@greatexp.com>
To: You
Sent: March 3, 2011
Subject: Great Expectations Financial Information

Hello.

I am your administrative assistant. Per Mr. Dickens's request, I have attached our latest financial information and Statement of Actuarial Opinion for this past year from our consulting actuary.

Please let me know if you need anything else or need help finding anything.

Candy

Attached:

- Great Expectations Income Statement
- Great Expectations Balance Sheet
- Great Expectations Selected Experience Data

Great Expectations Insurance Company
10-K
02/22/2011

Income Statement

(In millions, except per share data)

| | December 31 | | |
|---|--------------------|--------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| <u>Revenues</u> | | | |
| Premiums | \$ 51,474 | \$ 49,719 | \$ 46,745 |
| Administrative fees | 3,497 | 3,455 | 3,100 |
| Other revenue | 561 | 562 | 530 |
| Total operating revenue | 55,532 | 53,736 | 50,375 |
| Net investment income | (1,098) | 929 | 790 |
| Other realized (losses) gains | - | - | - |
| Total non-operating revenue | (1,098) | 929 | 790 |
| Total revenues | \$ 54,434 | \$ 54,665 | \$ 51,165 |
| <u>Expenses</u> | | | |
| Benefit expense | 43,408 | 41,478 | 38,895 |
| Selling expense | 2,581 | 2,478 | 2,309 |
| General and administrative expense | 6,865 | 6,559 | 6,035 |
| Total operating expenses | 52,854 | 50,515 | 47,239 |
| Other Expenses | 440 | 389 | 397 |
| Interest expense | 435 | 406 | 365 |
| Amortization of other intangible assets | 265 | 274 | 260 |
| Impairment of intangible assets | 131 | - | - |
| Total non-operating expenses | 1,271 | 1,069 | 1,022 |
| Total expenses | \$ 54,125 | \$ 51,584 | \$ 48,261 |
| Income before income tax expense | 309 | 3,081 | 2,904 |
| Income tax expense at 35% | 108 | 1,078 | 1,016 |
| <u>Net income</u> | \$ 201 | \$ 2,003 | \$ 1,888 |
| <u>Net income per share</u> | | | |
| Basic | \$ 0.45 | \$ 4.02 | \$ 3.44 |
| Diluted | \$ 0.44 | \$ 4.18 | \$ 3.34 |
| <u>Shares Outstanding</u> | | | |
| Common/Preferred | 444,902,956 | 498,009,660 | 548,302,081 |
| <u>Tax Rate:</u> | 35.0% | | |

Great Expectations Insurance Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|------------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| <i>Current assets:</i> | | |
| Cash and cash equivalents | \$ 5,327 | \$ 5,258 |
| Premium Receivables | 7 | 2 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 16 | 49 |
| Equity securities | 39 | 306 |
| Other invested assets, current | 7 | 8 |
| Other receivables | 10 | 14 |
| Income taxes receivable | 161 | 67 |
| Net due from subsidiaries | 1,011 | 356 |
| Securities lending collateral | 17 | 188 |
| Deferred tax assets, net | 24 | 3 |
| Other current assets | 76 | 95 |
| Total current assets | \$ 6,695 | \$ 6,346 |
| <i>Long-term investments available-for-sale, at fair value:</i> | | |
| Fixed maturity securities | 223 | 1,449 |
| Equity securities | 6 | 7 |
| Other invested assets, long-term | 299 | 400 |
| Property and equipment, net | 5 | 5 |
| Deferred tax assets, net, non-current | 356 | 332 |
| Investment in subsidiaries | 20,477 | 21,379 |
| Other noncurrent assets | 114 | 37 |
| Total Long Term Assets | \$ 21,480 | \$ 23,609 |
| Total assets | \$ 28,175 | \$ 29,955 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| <i>Current liabilities:</i> | | |
| Accounts payable and accrued expenses | 206 | - |
| Securities lending payable | 17 | 192 |
| Current portion of long-term debt | 820 | - |
| Other current liabilities | 150 | 95 |
| Total current liabilities | 1,193 | 287 |
| Long-term debt | 6,616 | 7,759 |
| Other noncurrent liabilities | 218 | 759 |
| Total liabilities | 8,027 | 8,805 |
| Shareholders equity | | |
| Preferred stock | - | - |
| Common stock | 5 | 5 |
| Additional paid-in capital | 17,014 | 17,014 |
| Retained earnings | 2,879 | 3,805 |
| Accumulated Income | 250 | 326 |
| Total shareholders equity | 20,148 | 21,150 |
| Total liabilities and shareholders equity | \$ 28,175 | \$ 29,955 |

Great Expectations Insurance Company
10-K
02/22/2011

Selected Experience Data

Enrollment *

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In thousands) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 6,837 | 7,167 | 7,234 |
| Small Group (2 - 50 employees) | 2,339 | 2,553 | 2,759 |
| <u>Group Life</u> | 5,074 | 5,037 | 4,921 |
| <u>Group LTD</u> | 779 | 702 | 662 |
| <u>Specialty Products</u> | | | |
| Dental | 5,598 | 5,607 | 5,648 |
| Vision | 4,332 | 4,785 | 5,002 |
| Specific Disease | 2,001 | 1,865 | 1,773 |
| <u>Self Funded Membership</u> | 10,427 | 10,817 | 10,191 |

* Membership is defined as all covered individuals (i.e., all employees plus dependents)

Premium

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 33,494 | 32,510 | 30,383 |
| Small Group (2 - 50 employees) | 12,803 | 12,259 | 11,621 |
| <u>Group Life</u> | 280 | 264 | 246 |
| <u>Group LTD</u> | 449 | 386 | 346 |
| <u>Specialty Products</u> | | | |
| Dental | 3,734 | 3,562 | 3,417 |
| Vision | 607 | 638 | 635 |
| Specific Disease | 107 | 101 | 97 |
| <u>Self Insured Membership</u> | 3,497 | 3,455 | 3,100 |

Claims

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 27,304 | 26,360 | 24,616 |
| Small Group (2 - 50 employees) | 12,035 | 11,155 | 10,459 |
| <u>Group Life</u> | 224 | 216 | 202 |
| <u>Group LTD</u> | 341 | 301 | 267 |
| <u>Specialty Products</u> | | | |
| Dental | 2,983 | 2,914 | 2,812 |
| Vision | 446 | 459 | 476 |
| Specific Disease | 74 | 73 | 63 |

Commissions

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 656 | 625 | 557 |
| Small Group (2 - 50 employees) | 640 | 613 | 581 |
| <u>Group Life</u> | 8 | 8 | 7 |
| <u>Group LTD</u> | 13 | 12 | 10 |
| <u>Specialty Products</u> | | | |
| Dental | 187 | 178 | 171 |
| Vision | 36 | 38 | 38 |
| Specific Disease | 11 | 10 | 10 |

Premium Taxes

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 670 | 650 | 608 |
| Small Group (2 - 50 employees) | 256 | 245 | 232 |
| <u>Group Life</u> | 6 | 5 | 5 |
| <u>Group LTD</u> | 9 | 8 | 7 |
| <u>Specialty Products</u> | | | |
| Dental | 75 | 71 | 68 |
| Vision | 12 | 13 | 13 |
| Specific Disease | 2 | 2 | 2 |

General Administration

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 2,465 | 2,351 | 2,063 |
| Small Group (2 - 50 employees) | 1,024 | 981 | 930 |
| <u>Group Life</u> | 28 | 26 | 25 |
| <u>Group LTD</u> | 45 | 39 | 35 |
| <u>Specialty Products</u> | | | |
| Dental | 560 | 534 | 513 |
| Vision | 91 | 96 | 95 |
| Specific Disease | 16 | 15 | 15 |

Claims Administration

| | December 31 | | |
|--|-------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| (In millions) | | | |
| <u>Insured Medical Membership</u> | | | |
| Large Group (>50 employees) | 1,606 | 1,551 | 1,448 |
| Small Group (2 - 50 employees) | 752 | 697 | 654 |
| <u>Group Life</u> | 17 | 17 | 16 |
| <u>Group LTD</u> | 26 | 23 | 21 |
| <u>Specialty Products</u> | | | |
| Dental | 199 | 194 | 187 |
| Vision | 30 | 31 | 32 |
| Specific Disease | 5 | 5 | 4 |

From: Ebenezer Scrooge <escrooge@greatexp.com>
To: You
Sent: March 3, 2011
Subject: Actuarial Questions

I'm the CFO, Mr. Scrooge. People call me Mr. Scrooge.

I'm concerned about some questions our auditors have been asking about our year-end reserves for Barnaby Rudge, Inc. (BRI). I've attached our former consulting actuary's statement of opinion for your information.

My expectation is that you will review and get back to me – soon!

Barnaby Rudge, Inc.
Actuarial Statement of Opinion

I, Mr. Fagin, FSA, MAAA am associated with Sowerberry's Consulting Firm. I am a member of the American Academy of Actuaries and have been retained by Barnaby Rudge, Inc. (BRI) with regard to their aggregate reserves.

I have examined the actuarial assumptions and actuarial methods used in determining the contract reserves as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 2010.

Aggregate Reserve for Accident and Health Contracts: \$151,979,000

In forming my opinion on BRI's reserves, I evaluated that data for reasonableness and consistency. I also reconciled that data to the Company's current annual statement. In other respects, my examination included such review of the actuarial assumptions and actuarial methods used and such tests of the calculations as I considered necessary.

In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

- A. Are computed in accordance with commonly accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,
- B. Are based on actuarial assumptions which are in accordance with or stronger than those called for in contract provisions,
- C. Meet the requirements of the insurance laws of (state of domicile),
- D. Make a good and sufficient provision for all unmatured obligations of the Company guaranteed under the terms of its contracts,
- E. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year end, and
- F. Include provision for all actuarial reserves and related statement items which ought to be established.

Actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

From: Kate Nickleby <knickleb@greatexp.com>
To: You
Sent: March 4, 2011
Subject: Reserving Information

Hello.

I am one of your actuarial students. Per your request to my supervisor, I am providing you some additional information on Barnaby Rudge's (BRI) Incurred but not Paid (IBNP) reserves. As of December 31, 2010, the IBNP was \$151,979,000 (previously \$192,180,000 as of December 31, 2009). For clarity, these reserves include due and unpaid claims, IBNR, and claims in course of settlement. I calculated these using the combined medical and pharmacy claims data and all product types.

Please let me know if you have any additional questions. Note, though, that I am out Tuesdays and Thursdays studying for exams.

Kate

Barnaby Rudge, Inc.

| Summary Output | | | | |
|--------------------------------|--------------------------------------|--|---------------------------|--------------------------------|
| 6-month Average Factors | | | | |
| Month | Claims Paid (in \$1,000s) | Incurred & Paid (in \$1,000s) | Completion Factors | Members (in 1,000s) |
| Jan-08 | | \$45,500 | 1.0000 | 930 |
| Feb-08 | | \$41,400 | 1.0000 | 943 |
| Mar-08 | | \$46,900 | 1.0000 | 944 |
| Apr-08 | | \$46,700 | 1.0000 | 945 |
| May-08 | | \$43,700 | 1.0000 | 944 |
| Jun-08 | | \$43,500 | 1.0000 | 944 |
| Jul-08 | | \$43,700 | 1.0000 | 943 |
| Aug-08 | | \$42,000 | 1.0000 | 939 |
| Sep-08 | | \$42,500 | 1.0000 | 934 |
| Oct-08 | | \$46,900 | 1.0000 | 933 |
| Nov-08 | | \$43,500 | 1.0000 | 936 |
| Dec-08 | | \$47,800 | 1.0000 | 937 |
| Jan-09 | \$51,600 | \$48,100 | 1.0000 | 937 |
| Feb-09 | \$43,100 | \$44,100 | 1.0000 | 940 |
| Mar-09 | \$46,200 | \$48,800 | 1.0000 | 942 |
| Apr-09 | \$44,000 | \$48,900 | 1.0000 | 942 |
| May-09 | \$55,700 | \$46,800 | 1.0000 | 940 |
| Jun-09 | \$43,800 | \$49,500 | 1.0000 | 939 |
| Jul-09 | \$58,300 | \$50,700 | 1.0000 | 943 |
| Aug-09 | \$45,000 | \$48,500 | 1.0000 | 939 |
| Sep-09 | \$44,000 | \$49,500 | 1.0000 | 937 |
| Oct-09 | \$55,000 | \$52,200 | 1.0000 | 945 |
| Nov-09 | \$45,100 | \$50,200 | 1.0000 | 945 |
| Dec-09 | \$56,600 | \$54,300 | 1.0000 | 945 |
| Jan-10 | \$48,700 | \$51,200 | 1.0000 | 945 |
| Feb-10 | \$46,700 | \$49,700 | 1.0000 | 966 |
| Mar-10 | \$50,400 | \$57,600 | 1.0000 | 964 |
| Apr-10 | \$64,900 | \$54,100 | 1.0000 | 968 |
| May-10 | \$49,400 | \$52,400 | 1.0000 | 967 |
| Jun-10 | \$49,500 | \$54,800 | 1.0000 | 968 |
| Jul-10 | \$60,900 | \$55,000 | 0.9494 | 969 |
| Aug-10 | \$53,800 | \$55,100 | 0.9270 | 974 |
| Sep-10 | \$53,100 | \$53,300 | 0.8830 | 974 |
| Oct-10 | \$72,100 | \$49,300 | 0.8022 | 976 |
| Nov-10 | \$51,400 | \$39,200 | 0.5934 | 980 |
| Dec-10 | \$68,500 | \$8,100 | 0.0759 | 979 |

Barnaby Rudge, Inc.

| Summary Output - Copay Plans 6-month Average Factors | | | | |
|---|--|--|-------------------------------|--------------------------------|
| Month | Claims Paid (in \$1,000s) | Incurred & Paid (in \$1,000s) | Completion Factors | Members (in 1,000s) |
| Jan-08 | | \$34,580 | 1.0000 | 698 |
| Feb-08 | | \$31,257 | 1.0000 | 688 |
| Mar-08 | | \$35,175 | 1.0000 | 678 |
| Apr-08 | | \$34,792 | 1.0000 | 668 |
| May-08 | | \$32,338 | 1.0000 | 658 |
| Jun-08 | | \$31,973 | 1.0000 | 648 |
| Jul-08 | | \$31,901 | 1.0000 | 638 |
| Aug-08 | | \$30,450 | 1.0000 | 628 |
| Sep-08 | | \$30,600 | 1.0000 | 618 |
| Oct-08 | | \$33,534 | 1.0000 | 608 |
| Nov-08 | | \$30,885 | 1.0000 | 598 |
| Dec-08 | | \$33,699 | 1.0000 | 588 |
| Jan-09 | \$36,120 | \$33,670 | 1.0000 | 578 |
| Feb-09 | \$29,955 | \$30,650 | 1.0000 | 568 |
| Mar-09 | \$31,878 | \$33,672 | 1.0000 | 558 |
| Apr-09 | \$30,140 | \$33,497 | 1.0000 | 548 |
| May-09 | \$37,876 | \$31,824 | 1.0000 | 538 |
| Jun-09 | \$29,565 | \$33,413 | 1.0000 | 528 |
| Jul-09 | \$39,061 | \$33,969 | 1.0000 | 518 |
| Aug-09 | \$29,925 | \$32,253 | 1.0000 | 508 |
| Sep-09 | \$29,040 | \$32,670 | 1.0000 | 498 |
| Oct-09 | \$36,025 | \$34,191 | 1.0000 | 488 |
| Nov-09 | \$29,315 | \$32,630 | 1.0000 | 478 |
| Dec-09 | \$36,507 | \$35,024 | 1.0000 | 468 |
| Jan-10 | \$31,168 | \$32,768 | 1.0000 | 458 |
| Feb-10 | \$29,655 | \$31,560 | 1.0000 | 448 |
| Mar-10 | \$31,752 | \$36,288 | 1.0000 | 438 |
| Apr-10 | \$40,563 | \$33,813 | 1.0000 | 428 |
| May-10 | \$30,628 | \$32,488 | 1.0000 | 418 |
| Jun-10 | \$30,443 | \$33,702 | 1.0000 | 408 |
| Jul-10 | \$37,149 | \$33,550 | 0.9690 | 398 |
| Aug-10 | \$32,549 | \$33,336 | 0.9456 | 388 |
| Sep-10 | \$31,860 | \$31,980 | 0.8948 | 378 |
| Oct-10 | \$42,900 | \$29,334 | 0.8234 | 368 |
| Nov-10 | \$30,326 | \$23,128 | 0.6176 | 358 |
| Dec-10 | \$40,073 | \$4,739 | 0.1049 | 348 |

Barnaby Rudge, Inc.

| Summary Output - High Deductible Plans 6-month Average Factors | | | | |
|---|--|--|-------------------------------|--------------------------------|
| Month | Claims Paid (in \$1,000s) | Incurred & Paid (in \$1,000s) | Completion Factors | Members (in 1,000s) |
| Jan-08 | | \$10,920 | 1.0000 | 233 |
| Feb-08 | | \$10,143 | 1.0000 | 256 |
| Mar-08 | | \$11,725 | 1.0000 | 267 |
| Apr-08 | | \$11,909 | 1.0000 | 278 |
| May-08 | | \$11,362 | 1.0000 | 287 |
| Jun-08 | | \$11,528 | 1.0000 | 297 |
| Jul-08 | | \$11,799 | 1.0000 | 306 |
| Aug-08 | | \$11,550 | 1.0000 | 312 |
| Sep-08 | | \$11,900 | 1.0000 | 317 |
| Oct-08 | | \$13,367 | 1.0000 | 326 |
| Nov-08 | | \$12,615 | 1.0000 | 339 |
| Dec-08 | | \$14,101 | 1.0000 | 350 |
| Jan-09 | \$15,480 | \$14,430 | 1.0000 | 360 |
| Feb-09 | \$13,146 | \$13,451 | 1.0000 | 373 |
| Mar-09 | \$14,322 | \$15,128 | 1.0000 | 385 |
| Apr-09 | \$13,860 | \$15,404 | 1.0000 | 395 |
| May-09 | \$17,824 | \$14,976 | 1.0000 | 403 |
| Jun-09 | \$14,235 | \$16,088 | 1.0000 | 412 |
| Jul-09 | \$19,239 | \$16,731 | 1.0000 | 426 |
| Aug-09 | \$15,075 | \$16,248 | 1.0000 | 432 |
| Sep-09 | \$14,960 | \$16,830 | 1.0000 | 440 |
| Oct-09 | \$18,975 | \$18,009 | 1.0000 | 458 |
| Nov-09 | \$15,785 | \$17,570 | 1.0000 | 468 |
| Dec-09 | \$20,093 | \$19,277 | 1.0000 | 478 |
| Jan-10 | \$17,532 | \$18,432 | 1.0000 | 488 |
| Feb-10 | \$17,046 | \$18,141 | 1.0000 | 519 |
| Mar-10 | \$18,648 | \$21,312 | 1.0000 | 527 |
| Apr-10 | \$24,338 | \$20,288 | 1.0000 | 541 |
| May-10 | \$18,772 | \$19,912 | 1.0000 | 550 |
| Jun-10 | \$19,058 | \$21,098 | 1.0000 | 561 |
| Jul-10 | \$23,751 | \$21,450 | 0.9234 | 572 |
| Aug-10 | \$21,251 | \$21,765 | 0.8972 | 587 |
| Sep-10 | \$21,240 | \$21,320 | 0.8546 | 597 |
| Oct-10 | \$29,201 | \$19,967 | 0.7856 | 609 |
| Nov-10 | \$21,074 | \$16,072 | 0.5332 | 623 |
| Dec-10 | \$28,428 | \$3,362 | 0.0343 | 632 |

From: Dr. Alexander Manette <amanette@greatexp.com>
To: You
Sent: March 3, 2011
Subject: Medical Management Help

Hello and welcome aboard.

Let me introduce myself. I'm Dr. Alexander Manette, but please call me Alex. I am VP of our Medical Management area.

We currently are split up into two primary areas: disease management and case management. We have begun gathering various metrics that we hope will help us better serve our patients. I have attached some information we have gathered regarding 2010 experience.

I understand you have some experience in this area and I'd like to talk with you further about it. I'll set up some time so we can speak.

Regards - Alex

| Benefit | Utilization Per 1,000 Members | Average Allowed Cost per Unit |
|----------------------------------|--|--|
| <u>Inpatient Costs</u> | | |
| Medical | 48.6 admits | \$6,190.36 |
| Surgical | 18.8 admits | \$13,826.00 |
| Psychiatric | 5.7 admits | \$1,796.09 |
| Alcohol & Drug Abuse | 3.0 admits | \$1,075.81 |
| Maternity | 11.1 admits | \$5,340.42 |
| Skilled Nursing Facility | 1.1 admits | \$1,011.60 |
| Inpatient Facility - Subtotal | 88.3 admits | \$7,186.24 |
| <u>Outpatient Costs</u> | | |
| Emergency Room | 223 cases | \$2,354.49 |
| Surgery | 165 cases | \$6,594.76 |
| Radiology | 317 cases | \$949.21 |
| Pathology | 584 cases | \$340.53 |
| Pharmacy | 239 cases | \$1,735.61 |
| Cardiovascular | 44 cases | \$1,655.53 |
| Physical Therapy | 113 cases | \$382.75 |
| Psychiatric | 45 cases | \$476.61 |
| Alcohol & Drug Abuse | 25 cases | \$366.21 |
| Other | 371.0 cases | \$794.41 |
| Outpatient Facility - Subtotal | 2,126.0 cases | \$1,396.70 |
| <u>Physician Costs</u> | | |
| Inpatient Surgery | 111.6 proced | \$1,626.03 |
| Maternity | 83.9 proced | \$1,422.95 |
| Outpatient Surgery | 937.1 proced | \$611.05 |
| Inpatient Visits | 235.0 visits | \$328.96 |
| Office/Home Visits | 4,986.9 visits | \$112.24 |
| Immunizations | 1,219.3 proced | \$52.36 |
| Physical Exams | 685.8 visits | \$151.92 |
| Vision/Hearing/Speech Exams | 459.8 visits | \$157.76 |
| Physical Therapy | 1,343.2 visits | \$149.79 |
| Cardiovascular | 347.6 proced | \$233.22 |
| Radiology | 1,514.7 visits | \$238.85 |
| Pathology | 6,762.3 visits | \$86.49 |
| Chiropractor | 496.6 visits | \$58.39 |
| Outpatient Psychiatric | 898.4 visits | \$150.84 |
| Outpatient Alcohol & Drug Abuse | 49.3 visits | \$140.37 |
| Physician Total | 20,131.3 services | \$156.54 |
| <u>Prescription Drugs</u> | 12,811 scripts | \$107.18 |

From: Charles Dickens <cdickens@greatexp.com>
To: You
Sent: March 15, 2011
Subject: RE: 2011 Financial Projections

I don't know if you've had the pleasure to meet our VP of marketing. In any case, please review the following e-mails.

The first is from me to Mr Twist and was based on the projections your predecessor performed. The second is from Oliver asking for some rate concessions.

Once you have had time to read and digest the information give me a call so we can discuss further.

CD

From: Oliver Twist <otwist@greatexp.com>
To: Charles Dickens
Sent: March 4, 2011
Subject: Re: 2011 Financial Projections

Chuck,

As you know, we've had troubles across the board selling our products. I feel like our actuaries are trying to pick our pockets by keeping the rates so high!!

In talking with our brokers and sales staff, the consensus is that for the upcoming year, we can live with the large group increases but need some serious relief in the small group area. The proposed 15% increase will severely hurt sales prospects, and could put us at risk of losing existing customers. We believe the market is looking for rates that are at most 5% more than where we are today. If we can deliver rates at the market expectation, then we think we can grow our medical enrolment by 15%, offsetting the decreased premium.

Our top producer in Region 1, Arthur Dodger, has been particularly vociferous in his comments. I'd hate to lose Artie as a broker. However, he is concerned about his ability to sell our products. I've been thinking – he and his staff are experts in the individual and retiree health arena. Is it possible to team up with him in developing new products in these areas?

Regarding the premium issue – I think we're really going to need some relief in the coming year – especially with the changes in the market due to healthcare reform.

With all do respect – please, sir, we want some more.

Ollie

From: Charles Dickens <cdickens@greatexp.com>
To: Oliver Twist
Sent: March 2, 2011
Subject: 2011 Financial Projections

Ollie,

The actuaries have completed the financial projections for 2011. Their suggested rate increases were selected to bring our profitability back in line with the board of director's expectations of 3% of premiums. The following assumptions were used in the 2011 financial projection:

Large group average rate increase 10%
Large group claims trend 11%
Large group commissions 2%
Large group administrative expenses \$15 per member per month **

Small group average rate increase 15%
Small group medical claims trend 13%
Small group commissions 5%
Small group administrative expenses \$20 per member per month **

** Administrative expenses include claims administration, premium administration, legal, accounting.

Premium Taxes are 2% across all insured lines.
Membership for 2011 is the same as 2010.

CD

From: Paul Dombey <pdombey@dombey.com>
To: Oliver Twist
Sent: April 1, 2011
Subject: Product design

Mr. Twist,

Thank you for your recent visit to discuss the possibility of Great Expectations providing some of our employee benefits. As you know our benefit consultant, Mr. Uriah Heep, enthusiastically recommended your company to us. He believes you can provide better service as well as a better price. As you requested, I am enclosing a copy of our current medical plan for your review.

Mr. Heep also suggested that your company may be interested in acquiring a financial services company. It so happens that we are considering divesting ourselves of one of our subsidiaries, Dombey Securities Management Inc (DSM). DSM has some life and annuity business on its books as well as a host of mutual funds. We have decided this company is too far from our core competencies' and have decided to sell the company. I have attached a copy of DSM's income statement from our recent 10K. Please be so kind as to forward to Mr. Dickens or any other member of your management team as appropriate.

Once you have had to time to review the attached documents let me know and we can discuss further.

Best Regards,
Paul Dombey Sr.

**Dombey and Sons, Inc
Plan Summary**

| | Union Plan - PPO | | Non-Union Plan - HSA | |
|--|-------------------------|-----------------------|-----------------------------|-----------------------|
| | <u>In Network</u> | <u>Out of Network</u> | <u>In Network</u> | <u>Out of Network</u> |
| <u>Deductible</u> | | | | |
| Single | \$250 | \$500 | \$4,000 | \$7,000 |
| Family | \$750 | \$1,500 | \$12,000 | \$21,000 |
| Coinsurance | 20% | 30% | 0% | 30% |
| <u>Annual Maximum Out-of-Pocket</u> | | | | |
| Single | \$2,000 | \$4,000 | \$4,000 | \$10,000 |
| Family | \$4,000 | \$8,000 | \$11,900 | \$25,000 |
| Lifetime Benefit Maximum | \$5 million | | \$5 million | |
| Inpatient Services | 20% after deductible | 30% after deductible | 0% after deductible | 30% after deductible |
| Outpatient Services | 20% after deductible | 30% after deductible | 0% after deductible | 30% after deductible |
| Emergency Room | \$75 Copay | \$125 Copay | 0% after deductible | 30% after deductible |
| Office Visit Copay | \$25 | \$40 | \$25 | \$40 |
| Preventive Services | 20% - deductible waived | not covered | 0% after deductible | not covered |
| <u>Mental Health</u> | | | | |
| Inpatient | 20% after deductible | 30% after deductible | 0% after deductible | 30% after deductible |
| Outpatient | 50% after deductible | not covered | 0% after deductible | not covered |
| Skilled Nursing Facility | \$50 Copay | \$150 Copay | 0% after deductible | 30% after deductible |
| Physical, Speech, and Occupational Therapy | 20% after deductible | 30% after deductible | 0% after deductible | not covered |
| Prescription Drug Benefit | \$10 Generic/\$20 Brand | not covered | \$10 Generic/\$20 Brand | not covered |
| <u>HSA Contribution</u> | | | | |
| Single | na | na | \$1,200 | |
| Family | na | na | \$3,600 | |

I. PLAN YEAR

Plan Year: Jan 1st – Dec 31st of each calendar year

II. DEFINITIONS

PRE-EXISTING CONDITION-A disease or condition for which the person received from a Doctor:

1. Medical advice;
 2. Diagnosis;
 3. Prescription Drugs;
 4. Recommended or actual care or treatment; within a 6-month period preceding the earlier of:
 - a. The Covered Person's Effective Date; or
 - b. The First day of any applicable Waiting Period.
-
1. Genetic information in the absence of a diagnosis; and
 2. Pregnancy; will not be treated as a Pre-Existing Condition.

Expenses incurred by a Covered Person for treatment of a Pre-existing Condition within 12 months following the Covered Person's Effective Date will be excluded from coverage under this Plan.

PREFERRED PROVIDER-A provider (Doctor, Hospital, or other facility) that has contracted with the Preferred Provider Organization listed on the Covered Person's I.D. card to:

1. Provide medical care at set fee levels; and
2. Comply with the utilization review program.

ELIGIBLE DEPENDENT- A Covered Employee's:

1. Spouse, if not legally separated; or
2. Unmarried children (whether natural, adopted or stepchildren) under age 19; or
3. Unmarried children under age 23 who are:
 - a. Chiefly dependent upon the Covered Employee for their support; and
 - b. Attending an accredited college or university on a full-time basis; or
4. Unmarried children of any age who are not able to support themselves due to mental retardation or physical handicap or who are medically certified as disabled and dependent. Proof of this condition must be furnished within 31 days after the date the child's coverage would have otherwise ended due to age, and annually thereafter; or
5. Child that he has been ordered to provide medical support for under an order issued pursuant to Section 1.01, Subchapter A, Chapter 231 of the Texas Family Code; or
6. Child under the age of 19 that he is seeking to adopt through an appropriate legal action before a court of competent jurisdiction over matters of adoption; or
7. Grandchild who is:
 - a. Born to his dependent child; and
 - b. A dependent of the Covered Employee for federal income tax purposes.

ELIGIBLE EMPLOYEE- An Employee who usually works on a full-time basis at least 30 hours a week for the Employer. The term includes a sole proprietor, a partner, and an independent contractor, if the sole proprietor, partner, or independent contractor is included as an Employee under the Employer Group's plan.

The term does not include:

1. an employee who works on a part-time, temporary, substitute or seasonal basis; or
2. an employee who is covered under:
 - a. another health benefit plan;
 - b. a self-funded or self-insured employee welfare benefit plan that provides health
 - c. benefits and that is established in accordance with the Employee Retirement
 - d. Income Security Act of 1974;
 - e. the Medicaid program if the employee elects not to be covered; or another federal program including CHAMPUS program or Medicare program, if the employee elects not to be covered; or
 - f. a benefit plan established in another country if the employee elects not to be covered under this Plan.

EMERGENCY CARE-Health care services provided in a hospital emergency facility or comparable facility to evaluate and stabilize medial conditions of a recent onset and severity, including but not limited to severe pain, that would lead a prudent layperson possessing an average knowledge of medicine and health to believe that the person's condition, sickness, or injury is of such a nature that failure to get immediate medical care could result in:

- a. placing the patient's health in serious jeopardy;
- b. serious impairment to bodily functions;
- c. serious dysfunction of any bodily organ or part;
- d. serious disfigurement; or
- e. in the case of a pregnant woman, serious jeopardy to the health of the fetus.

SKILLED NURSING FACILITY-A facility licensed to provide skilled nursing care to patients recovering from Injury or Illness, and providing:

1. Skilled nursing care to five or more inpatients on a 24-hour a day basis;
2. Full-time supervision by a Doctor or registered nurse (RN);
3. A complete medical record on each patient; and
4. Emergency medical care by a Doctor.

Each patient must be under the care of a Doctor.

The term "Skilled Nursing Facility" does not include an institution, or part thereof, which is primarily a place for:

1. Rest;
2. Custodial care;
3. Care of the aged; or
4. Treatment of drug abuse or dependency or alcoholism.

III. INITIAL NOTICE OF PRE-EXISTING CONDITION LIMITATION AND SPECIAL ENROLLMENT PERIODS

Employee Eligibility. Employees will be considered eligible for coverage 120 days after becoming a full-time employee (scheduled to work 32 hours per week)

Pre-Existing Condition Defined. A pre-existing condition is any condition, whether physical or mental, regardless of the cause of the condition, for which medical advice, diagnosis, prescription drugs, care or treatment was recommended or received within the 6-month period ending on the employee's "Enrollment Date" in the Plan. (Under HIPAA, the employee's "Enrollment Date" is the earlier of the effective date of coverage or, if there is a waiting period, the first day of any waiting period specified by the Plan.)

For How Long is Coverage for Pre-Existing Condition Excluded? The Plan excludes coverage for the Covered Person's pre-existing conditions for 12 months after the Covered Person's "Enrollment Date".

How Long Before the Covered Person's Coverage Begins? The Covered Person's coverage will become effective on first of the month following his/her "Enrollment Date". While coverage will not begin until that date, satisfaction of any applicable pre-existing condition limitation will begin on the Covered Person's "Enrollment Date".

Prior Periods of Coverage May Shorten or Even Eliminate the Plan's 12-Month Pre-Existing Condition Limitation Period. In general, the Covered Person will be given "credit" for all days on which he/she had qualifying health care coverage prior to joining the Plan. Days of prior coverage are "credited" by reducing, day-for-day, the 12-month pre-existing condition exclusion period the Covered Person would otherwise face under the Plan. More specifically, the Plan's 12-month Pre-Existing Condition Limitation period will be shortened one day for each day the Covered Person had "Creditable Coverage" under another health plan, provided that the Covered Person does not have more than a 63-day lapse in coverage immediately prior to the Covered Person's date of hire. (Some people elect COBRA coverage under their prior plan just to ensure they do not experience a lapse in coverage.) Creditable Coverage includes coverage under a group health plan, individual health insurance coverage, a State health benefit risk pool, Medicare, Medicaid, and certain other coverages. Coverage the Covered Person may have as a dependent -i.e., under the Covered Person's spouse's plan-will count for this purpose.

How to Show That The Covered Person Had Creditable Coverage Before Joining The Plan. In order for the 12-month Pre-Existing Condition Limitation period to be shortened as described above, the Covered Person must show that he/she had prior creditable coverage under another group health plan, a health insurance policy, a State health benefit risk pool, Medicare, Medicaid, etc. To demonstrate to the Plan that the Covered Person had other creditable coverage, the Covered Person should provide the Plan Sponsor with a "certificate of creditable coverage" from their prior health plan. Most group health plans, health insurers and HMOs automatically furnish these certificates to individuals when coverage is lost. In

addition, all plans, insurers and HMOs are required to provide these certificates upon request. This certificate will tell the Plan Sponsor how long the Covered Person had coverage under their prior plan and when it ended.

The Covered Person has the right to request a certificate from a prior plan, insurer, HMO or other entity through which he/she had Creditable Coverage. If after making reasonable efforts, the Covered Person has difficulty getting a certificate from his/her prior plan, insurer, HMO or other entity through which he/she had Creditable Coverage, please contact the Plan Sponsor for assistance.

VI. EXCLUSIONS AND LIMITATIONS

No benefits are payable for charges:

1. For charges in excess of the Reasonable and Customary charge; or
2. For which coverage is provided under any Workers' Compensation or similar law; or
3. Due to employment for wages or profit, whether during the performance of duties as an Employee, as an Employee of another company or during self-employment, except that this limitation will not apply to Dependents who work only part-time or are self-employed; or
4. Which results from war, whether or not declared; or
5. For which the Covered Person is not under the care of a Doctor (or, in a case of Dental Expense Benefits, a Dentist).
6. For any service or supply received from or in facilities owned or operated by the United States Government for a service-related Injury or Illness of a veteran of the armed forces; or
7. Which, in the absence of coverage, the Covered Person would not be required to pay, except for charges paid by Medicaid or incurred in a tax-supported institution for treatment of mental illness; or
8. For cosmetic surgery or treatment, unless such expenses are due to:
 - a. To correct damage for a covered injury; or
 - b. To repair a birth defect of a child born to the Covered Person and continuously covered under this Plan from its birth; or
 - c. For reconstructive surgery following a covered mastectomy; or
9. Not Medically Necessary for the diagnosis or treatment of an Illness or Injury. Examples are:
 - a. Physical examinations;
 - b. Tests;
 - c. Custodial care; or
10. For services that do not meet the plan's definition of Medical Necessity or Medically Necessary;
11. Professional services performed by someone who:
 - a. Resides in the Covered Person's household; or
 - b. Is related to the Covered Person as a spouse, parent, child, brother, or sister, whether by blood or marriage; or
12. For elective surgery which is:
 - a. Performed for the satisfaction of the Covered Person, and
 - b. Not a treatment of an Illness or Injury; or
13. For services and procedures (including surgery) which are:
 - a. Experimental; or
 - b. Performed for research; or
 - c. Not generally accepted medical practice; or
14. For surrogate expenses; or
15. For Growth hormone after age 15 years; or
16. For storage or preservation of sperms or eggs; or
17. For reversal of voluntary sterilization procedures; or
18. For services and supplies of common household use, including but not limited to exercise equipment, air conditioners, air purifiers, water purifiers, allergenic mattresses, blood pressure kits, water beds, swimming pools, hot tubs and any other clothing or equipment which could be used in the absence of an Illness or Injury, whether or not any such item is prescribed by any practitioner; or

19. For treatment of any form of obesity or weight reduction, including:
 - a. Surgery; or
 - b. Treatment at diet centers or similar facilities; or
 - c. Medication; or
20. For elective abortion, including abortion induced by medication; or
21. For removal of contraceptive devices; or
22. For the diagnosis or treatment of infertility; or
23. For prenatal genetic sex testing or diagnostic ultrasound for fetal age; or
24. For sex transformations which include surgery, implants, prescription drugs, and related hormone treatment; or
25. For chelation therapy, except for heavy metal toxic poisoning if diagnosed by blood test; or
26. For psychological vocation testing, evaluation or counseling; or
27. For the study of behavioral characteristics on a Covered Person; or
28. For marriage counseling; or
29. For health club memberships; or
30. For vitamins (except prenatal vitamins), minerals, food supplements or over the counter medication whether or not prescribed by a doctor; or
31. For services received, or supplies purchased, outside the United States or Canada, unless rendered on an emergency basis; or

Dombey Securities Management
10-K
As of February 2011

Income Statement

(In millions, except per share data)

| | December 31 | | |
|---|--------------------|--------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| <u>Revenues</u> | | | |
| Premium Income | \$ 6,355 | \$ 6,249 | \$ 5,123 |
| Income from Administrative fees | 9,926 | 10,528 | 9,214 |
| Other revenue | 438 | 473 | 477 |
| Total operating revenue | 16,719 | 17,250 | 14,813 |
| Net investment income | 123 | 255 | 665 |
| Other realized (losses) gains | - | - | - |
| Total non-operating revenue | 123 | 255 | 665 |
| Total revenues | \$ 16,842 | \$ 17,505 | \$ 15,478 |
| <u>Expenses</u> | | | |
| Benefit expense | 5,440 | 5,349 | 4,385 |
| Selling expense | 381 | 375 | 307 |
| General and administrative expense | 797 | 784 | 642 |
| Total operating expenses | 6,618 | 6,508 | 5,335 |
| Operating Expenses | 9,167 | 9,723 | 8,509 |
| Interest expense | 105 | 156 | 167 |
| Amortization of other intangible assets | 34 | 35 | 37 |
| Impairment of intangible assets | - | 88 | - |
| Total non-operating expenses | 9,306 | 10,002 | 8,713 |
| Total expenses | \$ 15,924 | \$ 16,510 | \$ 14,048 |
| Income before income tax expense | 918 | 995 | 1,430 |
| Income tax expense at 35% | 321 | 348 | 500 |
| <u>Net income</u> | \$ 597 | \$ 647 | \$ 929 |
| <u>Net income per share</u> | | | |
| Basic | \$ 1.34 | \$ 1.30 | \$ 1.69 |
| Diluted | \$ 1.30 | \$ 1.35 | \$ 1.65 |
| <u>Shares Outstanding</u> | | | |
| Common/Preferred | 444,902,956 | 498,009,660 | 548,302,081 |
| <u>Tax Rate:</u> | 35.0% | | |

From: Johannes Gutenberg <jgutenberg@greatexp.com>
To: You
Sent: March 3, 2011
Subject: Investment Opportunities

Hello.

I'm Johannes Gutenberg, but most people simply call me Jo. I am the Senior VP over Securities Investments.

I thought you might find the attached newsletter interesting. Prince Investments is a company we utilize on occasion and we have always found their analysis to be accurate and timely. Also attached is an email a friend of mine, John Yossarian shared with me. John actually works for one of the companies mentioned in the report and he had requested some additional information regarding the analytics used.

I know we are considering several acquisitions or mergers at this time. Perhaps there are some additional opportunities in this group.

Best Regards,

Jo

PRINCE INVESTMENT ADVISORS LLC



To: Clients
From: The Prince Investment Advisors LLC
Subject: Evaluation of Health Benefit Sector Companies

We have completed our monthly evaluation of possible investment opportunities in the Health Benefits sector. At this time we feel that the current state of health care reform does provide for some attractive opportunities, and others that should be avoided. Below is a summary of our recommendation, and some key facts and projections. Please consider this information in your investment decisions over the next month. If you would like personal financial advising please contact Ms. Catherine de'Medici, about setting up an appointment.

| | Company | Price Target | Beta | Current Price | Shares Outstanding |
|--------------------------|---------|--------------|------|---------------|--------------------|
| Recommended Investments: | CITR | \$60 | 1.1 | \$50 | 45,000,000 |
| | 100YOS | \$50 | 1.2 | \$35 | 60,000,000 |
| Neutral Investments: | TSAR | \$70 | 1.4 | \$67 | 36,500,000 |
| | LW | \$50 | 0.6 | \$45 | 22,500,000 |
| Not Advised Investments: | C&P | \$30 | 1.2 | \$35 | 45,000,000 |
| | LG | \$35 | 0.6 | \$45 | 60,000,000 |

Company Stock Symbols:

LG: Leaves of Grass Company
100YOS: 100 Years of Solitude Company
TSAR: The Sun Also Rises Company
LW: Little Women Company
C&P: Crime & Punishment Company
CITR: Catcher in the Rye Company

Attached you will find a brief synopsis of these companies and their balance sheets.

The Sun Also Rises Company

The Sun Also Rises Company (TSAR) is a large Pharmacy Benefits Management company operating exclusively in the United States. TSAR aims to provide clients with pharmacy benefit plans that provide cost effective means of delivering prescription medications to their employees. TSAR also offers a Medicare Part D Prescription drug plan for sale to individual members.

TSAR's most popular Employer Pharmacy Plan has the following design:

| Drug Type | Copay | Days Supply |
|---------------------|-------------------|---------------|
| Generic | \$20 | 30 day supply |
| Preferred Brand | \$40 | 30 day supply |
| Non-Preferred Brand | \$60 | 30 day supply |
| Non-Covered | Full Cost of Drug | N/A |

TSAR's only Medicare Part D Plan has the following design:

Deductible = \$200

Copays after the Deductible

| Drug Type | Copay | Days Supply |
|---------------------|-------|---------------|
| Generic | \$20 | 30 day supply |
| Preferred Brand | \$40 | 30 day supply |
| Non-Preferred Brand | \$60 | 30 day supply |

Member pays 100% after the Initial Coverage Limit

Member pays 5% after the True Out of Pocket Limit

TSAR also offers a mail order pharmacy service to their members. Members receive a 90 day supply of drugs, and pay 2.5 times the standard copay.

The Sun Also Rises Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|-----------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,130 | \$ 1,225 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 56 | 60 |
| Equity securities | 50 | 45 |
| Deferred tax assets, net | 12 | 11 |
| Other current assets | 32 | 34 |
| Total current assets | \$ 1,280 | \$ 1,375 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 55 | 90 |
| Property and equipment, net | 120 | 100 |
| Deferred tax assets, net, non-current | 32 | 30 |
| Investment in subsidiaries | 3,295 | 3,285 |
| Other noncurrent assets | 315 | 217 |
| Total Long Term Assets | \$ 3,817 | \$ 3,722 |
| Total assets | \$ 5,097 | \$ 5,097 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 645 | 564 |
| Long term debt due this year | 730 | 900 |
| Other current liabilities | 60 | 55 |
| Total current liabilities | 1,435 | 1,519 |
| Long-term debt | 1,545 | 900 |
| Other noncurrent liabilities | 300 | 225 |
| Total liabilities | 3,280 | 2,644 |
| Shareholders equity | | |
| Total shareholders equity | 1,817 | 2,453 |
| Total liabilities and shareholders equity | \$ 5,097 | \$ 5,097 |

Leaves of Grass Company

Leaves of Grass Company (LG) is a large Disability Insurance company operating in both the United States and Canada. LG aims to provide clients with insurance products for their fulltime employees. They do not currently sell individual disability products but are considering acquiring an individual disability insurer.

LG has created a new product which they will be marketing to prospective clients that has the following design. This plan is unique since LG does not currently offer plan designs that coordinate with government sponsored plans:

Elimination period: 1 week

| Length of Disability | Benefit |
|----------------------|-------------|
| Week 2 | 100% of Pay |
| Weeks 3 - 8 | 65% of Pay |
| Weeks 9 - 26 | 85% of Pay |

If the member qualifies for a government sponsored disability plan, the benefit will be reduced by 35% of Pay.

LG has a Long Term Disability plan design as follows:

Member receives 55% of pay beginning in the 27th week of disability. The member is considered disabled if they are unable to perform their own occupation.

Leaves of Grass Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|-----------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,750 | \$ 6,320 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 420 | 400 |
| Equity securities | 32 | 22 |
| Deferred tax assets, net | 550 | 550 |
| Other current assets | 230 | 200 |
| Total current assets | \$ 7,982 | \$ 7,492 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 600 | 550 |
| Property and equipment, net | 120 | 100 |
| Deferred tax assets, net, non-current | 32 | 33 |
| Investment in subsidiaries | 556 | 698 |
| Other noncurrent assets | 135 | 167 |
| Total Long Term Assets | \$ 1,443 | \$ 1,548 |
| Total assets | \$ 9,425 | \$ 9,040 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 845 | 956 |
| Long term debt due this year | 1,853 | 1,203 |
| Other current liabilities | 32 | 18 |
| Total current liabilities | 2,730 | 2,177 |
| Long-term debt | 4,582 | 4,888 |
| Other noncurrent liabilities | 320 | 250 |
| Total liabilities | 7,632 | 7,315 |
| Shareholders equity | | |
| Total shareholders equity | 1,793 | 1,725 |
| Total liabilities and shareholders equity | \$ 9,425 | \$ 9,040 |

Crime & Punishment Company

Crime & Punishment Company (C&P) is a company that sells high deductible health plans with Health Savings Accounts (HSAs). They operate only in the United States. C&P only sells products to individuals. Underwriting is performed to the extent it is allowed, based on the various jurisdictions they serve.

C&P offers two plan designs, the Sunset, and the Sunrise plan. They are as follows:

| | Sunset | Sunrise |
|---------------------|-----------------|----------------|
| Deductible | \$1,000 | \$2,000 |
| Out of Pocket Max | \$2,500 | \$4,000 |
| Pharmacy Benefits | Included | Excluded |
| Preventive Coverage | Covered at 100% | Covered at 85% |

Members may contribute to an HSA on a tax preferred basis.

Crime & Punishment Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|-----------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,420 | \$ 2,330 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 80 | 70 |
| Equity securities | 60 | 32 |
| Deferred tax assets, net | 85 | 95 |
| Other current assets | 44 | 34 |
| Total current assets | \$ 2,689 | \$ 2,561 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 145 | 125 |
| Property and equipment, net | 185 | 120 |
| Deferred tax assets, net, non-current | 10 | 10 |
| Investment in subsidiaries | 1,600 | 1,450 |
| Other noncurrent assets | 200 | 150 |
| Total Long Term Assets | \$ 2,140 | \$ 1,855 |
| Total assets | \$ 4,829 | \$ 4,416 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 450 | 350 |
| Long term debt due this year | 575 | 795 |
| Other current liabilities | 85 | 69 |
| Total current liabilities | 1,110 | 1,214 |
| Long-term debt | 1,403 | 1,560 |
| Other noncurrent liabilities | 120 | 145 |
| Total liabilities | 2,633 | 2,919 |
| Shareholders equity | | |
| Total shareholders equity | 2,196 | 1,497 |
| Total liabilities and shareholders equity | \$ 4,829 | \$ 4,416 |

100 Years of Solitude Company

100 Years of Solitude Company (100YOS) is a medium sized Pharmacy Benefits Management company operating exclusively in the United States. 100YOS offers both employer and individual pharmacy plan designs. They offer both Commercial and Medicare Part D plans. 100YOS aims to provide a high level of service to their members.

100YOS's most popular Commercial Pharmacy Plan has the following design:

| Drug Type | Coinsurance | Days Supply |
|---------------------|-------------------|---------------|
| Generic | 5% | 30 day supply |
| Preferred Brand | 25% | 30 day supply |
| Non-Preferred Brand | 65% | 30 day supply |
| Non-Covered | Full Cost of Drug | N/A |

100YOS's most popular Medicare Part D Plan has the following design:

Deductible = \$300

Coinsurance between the deductible and the True Out of Pocket Limit

| Drug Type | Coinsurance | Days Supply |
|---------------------|-------------|---------------|
| Generic | 5% | 30 day supply |
| Preferred Brand | 15% | 30 day supply |
| Non-Preferred Brand | 55% | 30 day supply |

Member pays 5% after the True Out of Pocket Limit

100YOS also offers a mail order pharmacy service to their members. Members receive a 90 day supply of drugs, and pay for a 60 day supply.

Recently, individual members have been complaining about the level of the deductible on the Medicare Part D plan.

100 Years of Solitude Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|---------------------|---------------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 300 | \$ 250 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 2 | 15 |
| Equity securities | 10 | 25 |
| Deferred tax assets, net | 8 | 3 |
| Other current assets | 42 | 30 |
| Total current assets | \$ 362 | \$ 323 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 95 | 74 |
| Property and equipment, net | 5 | 5 |
| Deferred tax assets, net, non-current | 120 | 145 |
| Investment in subsidiaries | 2,310 | 2,100 |
| Other noncurrent assets | 85 | 15 |
| Total Long Term Assets | \$ 2,615 | \$ 2,339 |
| Total assets | \$ 2,977 | \$ 2,662 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 206 | - |
| Long term debt due this year | 170 | 150 |
| Other current liabilities | 50 | 35 |
| Total current liabilities | 426 | 185 |
| Long-term debt | 1,150 | 845 |
| Other noncurrent liabilities | 218 | 350 |
| Total liabilities | 1,794 | 1,380 |
| Shareholders equity | | |
| Total shareholders equity | 1,183 | 1,282 |
| Total liabilities and shareholders equity | \$ 2,977 | \$ 2,662 |

Little Women Company

Little Women Company (LW) is a large Disability Insurance company operating in Canada and the United States. LW current offers both individual and group disability insurance products.

LW's most popular individual disability product is as follows:

Elimination period: 2 weeks

| Length of Disability | Benefit |
|----------------------|------------|
| Week 3 - 8 | 90% of Pay |
| Weeks 9 – 20 | 75% of Pay |
| Weeks 21 - 26 | 45% of Pay |

This plan does not currently coordinate with government sponsored disability plans.

LW's most popular group disability product is as follows:

Elimination period: 1 weeks

| Length of Disability | Benefit |
|----------------------|-------------|
| Week 2 - 8 | 100% of Pay |
| Weeks 9 – 20 | 75% of Pay |
| Weeks 21 - 26 | 65% of Pay |

If the member qualifies for a government sponsored disability plan, the benefit will be reduced by 30% of Pay.

LW has a Long Term Disability plan design as follows:

Member receives 55% of pay beginning in the 27th week of disability. The member is considered disabled if they are unable to perform their own occupation. After 2 years of disability, the member is considered disabled if they are unable to perform any occupation.

Little Women Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,850 | \$ 1,650 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 20 | 35 |
| Equity securities | 25 | 30 |
| Deferred tax assets, net | 35 | 65 |
| Other current assets | 41 | 32 |
| Total current assets | \$ 1,971 | \$ 1,812 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 20 | 44 |
| Property and equipment, net | 50 | 45 |
| Deferred tax assets, net, non-current | 55 | 65 |
| Investment in subsidiaries | 742 | 633 |
| Other noncurrent assets | 90 | 80 |
| Total Long Term Assets | \$ 957 | \$ 867 |
| Total assets | \$ 2,928 | \$ 2,679 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 185 | 174 |
| Long term debt due this year | 320 | 280 |
| Other current liabilities | 45 | 38 |
| Total current liabilities | 550 | 492 |
| Long-term debt | 463 | 421 |
| Other noncurrent liabilities | 78 | 85 |
| Total liabilities | 1,091 | 998 |
| Shareholders equity | | |
| Total shareholders equity | 1,837 | 1,681 |
| Total liabilities and shareholders equity | \$ 2,928 | \$ 2,679 |

Catcher in the Rye Company

Catcher in the Rye Company (CITR) is a company that sells high deductible health plans with Health Savings Accounts (HSAs). They operate only in the United States. CITR only sells products to individuals and groups.

CITR offers two group plan designs, the Moonbeam, and the Moonshine plan. They are as follows:

| | Moonbeam | Moonshine |
|---------------------|----------------|----------------|
| Deductible | \$1,000 | \$2,500 |
| Out of Pocket Max | \$2,500 | \$6,000 |
| Coinsurance | 80% | 60% |
| Pharmacy Benefits | Not Covered | Not Covered |
| Preventive Coverage | Covered at 95% | Covered at 95% |

Members may contribute to an HSA on a tax preferred basis.

CITR offers two individual plan designs, the Adventure, and the Escapade plan. They are as follows:

| | Adventure | Escapade |
|---------------------|----------------|----------------|
| Deductible | \$2,000 | \$5,000 |
| Out of Pocket Max | \$4,000 | \$12,500 |
| Coinsurance | 75% | 55% |
| Pharmacy Benefits | Not Covered | Not Covered |
| Preventive Coverage | Covered at 85% | Covered at 75% |

Members may contribute to an HSA on a tax preferred basis.

Catcher in the Rye Company
10-K
02/22/2011

Balance Sheet

(In millions, except share data)

| | December 31 | |
|---|--------------------|-----------------|
| | 2010 | 2009 |
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,750 | \$ 1,400 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 12 | 32 |
| Equity securities | 22 | 20 |
| Deferred tax assets, net | 2 | 5 |
| Other current assets | 13 | 15 |
| Total current assets | \$ 1,799 | \$ 1,472 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities | 25 | 30 |
| Property and equipment, net | 20 | 30 |
| Deferred tax assets, net, non-current | 55 | 75 |
| Investment in subsidiaries | 3,250 | 2,750 |
| Other noncurrent assets | 45 | 33 |
| Total Long Term Assets | \$ 3,395 | \$ 2,918 |
| Total assets | \$ 5,194 | \$ 4,390 |
| <u>Liabilities and shareholders equity</u> | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 377 | 265 |
| Long term debt due this year | 250 | 550 |
| Other current liabilities | 45 | 15 |
| Total current liabilities | 672 | 830 |
| Long-term debt | 1,750 | 1,250 |
| Other noncurrent liabilities | 150 | 265 |
| Total liabilities | 2,572 | 2,345 |
| Shareholders equity | | |
| Total shareholders equity | 2,622 | 2,045 |
| Total liabilities and shareholders equity | \$ 5,194 | \$ 4,390 |

From: Randle McMurphy
To: John Joseph Yossarian
Sent: March 1, 2011
Subject: RE: Data you requested

Mr. Yossarian,

I am attaching the information that you requested I compile for you.

| | Return on Treasury Bonds | Return on Stocks |
|-------------|-----------------------------|------------------|
| 3 Years Ago | 2.5% | 8.2% |
| 2 Years Ago | 3.0% | 8.7% |
| Last Year | 3.2% | 8.9% |

The prevailing interest rate on Government Bonds is 3.1%

The prevailing rate on Corporate Bonds is 5.5%

In addition to the above information, we did want to let you know of recent tax law changes which have set corporate tax rates at a flat 35%.

Please let me know if my firm can be of further assistance to you from a business financing perspective.

Randle McMurphy
Investment Banker
The Prince Investment Banking LLC