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PREMERA

Review of Form A Exhibit G-10 and Equity Incentive Plan

November 24, 2003

The Blackstone Group®

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Review of Form A Exhibit G-10 and Equity Incentive Plan

SUMMARY[1]

- The contents of this document summarize Blackstone's analysis of PREMERA's ("Premera" or the "Company") stock ownership plan that the Company plans to adopt in connection with its conversion to a publicly-traded for-profit company. Blackstone has reviewed the Company's Form A Exhibit G-10 and the equity incentive plan, submitted by the Company on October 17, 2003, (collectively, the "Plan").

- The percentage of total shares outstanding that Premera is proposing to offer officers, employees, and directors in total grants (7% of shares outstanding) is greater than the percentages included in selected BCBS precedent IPOs (e.g., WellPoint at 4.6%), although on average it is consistent with BCBS and other conversion transactions (average of 6.8% for selected BCBS prior conversions and 7.0% for all conversions, including both life demutualizations and BCBS conversions[2]).

- The Plan currently proposed by the Company enables Premera's officers and directors to be eligible for grants three months after the Conversion. WellChoice prohibited all stock options and grants to senior management for a period of one year after the IPO. Anthem did not allow any option grants for six months. In prior demutualizations, several companies were restricted from granting options for at least six months (e.g., AmerUS, Principal, StanCorp) and in many cases were restricted for one year (e.g., John Hancock, MetLife, MONY, Phoenix, Prudential). [3]

[1] Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

[2] Average based upon figures for selected BCBS companies, including Anthem, RightCHOICE, Trigon, WellChoice, and WellPoint, and selected prior demutualizations, including AmerUS, John Hancock, MetLife, MONY, Principal, Prudential, and StanCorp.

[3] John Hancock, Principal, Prudential and StanCorp's restrictions applied to senior officers and board members in general. Prudential allowed a one-time grant of 2% to non-executive employees.

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SUMMARY[1]

- Premera's Plan contemplates that up to 1.5% of shares would be available for a broad-based grant of options to non-executive employees following the IPO. While recent BCBS transactions have not included such a broad-based grant, selected life demutualizations (e.g., Principal, Prudential) have included such a provision.

- Premera's proposed limitations apply only for a period of 24 months, after which time an additional stock program could be implemented. This could be an issue to the Foundation, especially if the Foundation shareholder is not entitled to vote its shares on any new management equity compensation plans. As currently structured, Premera could issue up to 4.3% of the shares outstanding in the first year after the IPO and, under certain circumstances, issue up to 7.0% over the initial two years. Certain other transactions had a limit on the timing of grants. For example, MetLife provided annual limitations of its grants over a four-year period which stipulated no grants in year 1, 60% of total cumulative grants in year 2, 80% of total cumulative grants in year 3 and 100% of total cumulative grants in year 4.

- Premera's Plan does not indicate a level for maximum grants to individuals. Trigon, Cobalt, and WellPoint have restricted individual grants to 300,000, 250,000, and 150,000[2] shares, respectively, per year. RightCHOICE placed a limit of 20% on the aggregate authorized number of shares reserved. WellChoice limited annual individual grants to 300,000 shares. The Prudential, Phoenix, and MetLife agreements stipulated a maximum individual grant of 5% of total shares available under the plan over a five-year period.

- The Plan does not include any provision for elective stock programs. Blackstone believes it would be useful to review any elective stock investment programs that the Company plans to institute post-conversion.

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[1] Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

[2] WellPoint has indicated a maximum grant of 750,000 shares over a five-year period. The 150,000 share annual limitation has been calculated for comparative purposes.

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COMPARISON AGAINST SELECTED OTHER MANAGEMENT EQUITY COMPENSATION PLANS[1]

Blackstone has compared the Plan with the plans for six other BCBS companies and nine other life insurance demutualization transactions for benchmarking purposes.

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Shares Reserved (% of Total Shares Outstanding) (Exhibit G-10(1))	■ Not more than 7% during first 24 months after the conversion.	■ An average of five BCBS companies indicated 6.8% of total shares outstanding are reserved for equity compensation for management (low of 4.6% for WellPoint).[2] ■ For all conversion transactions including both life demutualizations and BCBS conversions, the average is 7.0% of total shares outstanding.[2]
Broad Based Grant (Exhibit G-10(3)(b)(i))	■ Not more than 1.5% for non-officers in a one-time option grant.	■ There has been precedent in prior life demutualizations for the establishment of a broad-based grant to employees who are not senior management or directors. Specifically, the Principal and Prudential conversions included a one-time broad-based stock option grant of 1% and 2%, respectively.
Prohibition on Issuance to Employees, Officers and Directors (Exhibit G-10(3))	■ No grants for three months. ■ Are allowed to make option grants up to 2.8% of total shares outstanding in the first year.	■ Three BCBS companies (Trigon, RightCHOICE, and Cobalt) had no restrictions on the first grant for officers and directors. ■ WellPoint's compensation plan was not instituted until one year after the offering and required the approval from shareholders and the California Department of Corporations. ■ Anthem's plan allowed the first grant after six months. ■ WellChoice was prohibited from issuing a plan for 1 year, which means that no employees, including officers and directors, could receive options for at least one year. ■ All prior life demutualizations analyzed did include a prohibition on the issuance of stock and options to officers and directors for at least a period of six months after the IPO. Many of these conversions (John Hancock, MetLife, MONY, Phoenix and Prudential) did not allow such grants for a period of one year after the IPO.

(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

(1) Average based upon figures for selected BCBS companies, including Anthem, RightCHOICE, Trigon, WellChoice, and WellPoint and selected prior demutualizations, including AmerUS, John Hancock, MetLife, MONY, Principal, Prudential, and StanCorp.

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COMPARISON AGAINST SELECTED OTHER MANAGEMENT EQUITY COMPENSATION PLANS (CONT'D)[1]

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Timing of Grants (Exhibit G-10(3))	■ Under current guidelines Premera could grant options representing up to 4.3% of total shares outstanding in the 1st year	■ MetLife provided annual limitations of its grants over a four-year period, stipulating no grants in year 1, 60% of total cumulative grants in year 2, 80% of total cumulative grants in year 3 and 100% of total cumulative grants in year 4. ■ Other plans did not include a timing limitation on grants.
Eligibility (Section 5(a) and 5(b))	■ Incentive stock options may only be granted to employees and other grants could be provided to officers, employees and non-employee directors	■ In general, Premera's proposed eligibility requirements are consistent with those in prior conversions.
Maximum Individual Grant (Section 5(a))	■ Not in guidelines	■ Trigon, Cobalt, and WellPoint have restricted individual grants to 300,000, 250,000, and 150,000[2] shares, respectively, per year. RightCHOICE placed a limit of 20% on the aggregate authorized number of shares reserved. ■ WellChoice limited annual individual grants to 300,000 shares.[3] ■ The Prudential, Phoenix, and MetLife agreements stipulated a maximum individual grant of 5% of total shares available under the plan over a five-year period.
Maximum Term (Section 6(a))	■ 10 years	■ This provision is in general consistent with prior conversions, including BCBS companies, which instituted a maximum term of 10 years for the equity compensation program grants. Cobalt had a term of 10 years for incentive stock options and 12 years for non-qualified stock options.

(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

(2) Average based upon figures for selected BCBS companies, including Anthem, RightCHOICE, Trigon, WellChoice, and WellPoint and selected prior demutualizations, including AmerUS, John Hancock, MetLife, MONY, Principal, Prudential, and StanCorp.

(3) WellChoice's individual restrictions were as follows: stock options and stock appreciation rights of 300,000 ; restricted stock awards or restricted stock units of 100,000; performance award limitation representing the lesser of (i) $3 million multiplied by the number of years in the performance period governing the award and (ii) $10 million; performance award limitation for annual incentive awards of $5 million; non-employee director benefits of 10,000; and an ownership limitation of 5%.

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COMPARISON AGAINST SELECTED OTHER MANAGEMENT EQUITY COMPENSATION PLANS (CONT'D)[1]

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Minimum Option Price (Section 6(b))	■ Exercise price shall not be less than 100% of the FMV[2] on the date of grant.	■ Premera's plan is consistent with most prior conversations. WellPoint and RightCHOICE also provided that owners holding a greater than a 10% interest in the companies would have their options priced at 110% of fair market value.
Payment for Share at Exercise (Section 6(e))	■ Either (i) in cash at the time the Option is exercised, (ii) by delivery of common stock or (iii) by "cashless" exercise (the latter two at the discretion of the compensation committee).	■ This provision is in general consistent with similar payment methods allowed under the equity compensation plans of prior conversions.
Repricing Options (Section 6(c))	■ In no event shall an option be repriced after the date of grant.	■ Blackstone believes that this provision is in general consistent with prior conversions and reflects the most appropriate approach.
Treatment of Options at Termination of Employment (Section 6(i))	■ Disability, Death or Retirement of Optionholder: options will be accelerated and become fully vested and may be exercised for the period ending the earlier of (i) the date in the grant agreement or (ii) twelve months after termination. ■ Other than Death, Disability or Retirement: may exercise vested/exercisable options for the period ending the earlier of (i) the date in the grant agreement or (ii) three months after termination.	■ While Premera's provisions in this matter are consistent in general with many other conversions, WellChoice, WellPoint and RightCHOICE essentially provided that the option agreements themselves and the companies' respective compensation committees would determine the appropriate treatment of options at termination of employment.

(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

(2) FMV represents fair market value.

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COMPARISON AGAINST SELECTED OTHER MANAGEMENT EQUITY COMPENSATION PLANS (CONT'D)[1]

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Treatment of Options upon a Change of Control (Section 15(b))	■ Prior to 2nd Anniversary of Conversion: option holder able to exercise to the extent the individual was entitled on such date. ■ After 2nd Anniversary of Conversion: options accelerate and become fully vested and exercisable.	■ Premera's position after the 2nd anniversary of the conversion is in-line with Anthem, Cobalt and WellChoice, who provide that options become fully vested and exercisable upon a change of control if these options are not assumed by the successor entity. ■ RightCHOICE and Trigon stipulated that these options could be accelerated as per the instructions of the Compensation Committee upon a change of control. ■ WellPoint's position indicated that such options upon a change of control that were not vested or exercisable would be terminated absent an agreement by the successor entity.
Elective Stock Investments	■ Not covered in guidelines.	■ Blackstone believes it would be useful to review any elective stock investment programs that the Company plans to implement. ■ Trigon and Anthem disclosed elective stock investment programs as part of their conversion. ■ In the prior conversions (excluding BCBS companies), Principal, StanCorp, and MONY instituted elective stock investment programs. Neither Principal nor StanCorp allowed senior officers to purchase stock under their respective stock purchase plans for six months after an IPO.

[1] Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.