Confidential

Premera Blue Cross

Updated Discussion Materials: Allocation between Washington and Alaska

March 30, 2004

The Blackstone Group®

EXHIBIT S-6
page 1 of 9

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Updated Discussion Materials

OVERVIEW

- These materials contain Blackstone's analysis of the appropriate split of proceeds between Washington and Alaska in the proposed conversion of Premera Blue Cross ("Premera" or the "Company") and represent an update to Blackstone's previous analysis of allocation matters ("Discussion Materials: Allocation between Washington and Alaska" dated August 1, 2003), which was filed as an attachment to a legal opinion prepared by Cantillo & Bennett, L.L.P. ("C&B") on this matter dated February 19, 2004.
- In preparing this report, Blackstone has utilized 2000 – 2002 historical data provided March 21, 2003 (E867) and updated financial information since Blackstone's last report. The updated data includes 2003 actual and 2004 budgeted data provided March 26, 2004 (E626), and 2005 – 2006 projected planning tool data provided October 17, 2003 (E590).[1]
- Blackstone has relied on Premera's judgment regarding the categorization of various lines of business in Washington and Alaska, respectively. Blackstone would note that the 2005 – 2006 projected planning tool data places FEP AK into the Washington totals, whereas the 2000 – 2003 historical and 2004 budgeted data place FEP AK into the Alaska totals. As a result, the 2005 - 2006 data may not be exactly comparable to previous years (both historical 2000 - 2003 and projected 2004).
- Blackstone analyzed the relative contribution of the Washington and Alaska operations on both a historical and projected basis for certain operating and financial metrics including members, revenues, underwriting margin, contribution margin, operating income and net income.
- The operating income and net income metrics include several allocations of fixed costs and therefore may be less reliable indicators of the allocation of value. In addition, with respect to the updated projections for 2005 and 2006, the Company has not prepared or provided information to determine net income for the Washington and Alaska operations. Blackstone has placed greater emphasis on members, revenues, underwriting margin and contribution margin given the lack of agreement among the Washington and Alaska actuaries regarding the allocation of administrative expenses between the Washington and Alaska operations.
- For purposes of this analysis, based on legal guidance from C&B, Blackstone has assumed that Premera Blue Cross Washington ("PBC-WA") and LifeWise Washington are included in Washington's share and Premera Blue Cross Alaska ("PBC-AK") is included in Alaska's share. The following entities have been excluded from the relative contribution analysis: LifeWise Oregon, NorthStar, WAGS, States West, LifeWise Health Plan of Arizona (f.k.a. MSC Life), and Calypso Healthcare Solutions.
- **Based on our analysis of the relative contributions of the Alaska and Washington operations as well as a consideration of the qualitative factors, Blackstone's range for Washington's share of the total conversion proceeds is 83% – 89%.**

[1] Blackstone has not prepared a sensitivity case on the new projections.

HISTORICAL AND PROJECTED FINANCIAL RESULTS BY STATE

Please note that the 2005 - 2006 data may not be exactly comparable to previous years (both historical 2000 - 2003 and projected 2004).

($ in thousands)	Actual				Budget	Projections[3]		CAGR		Cumulative
	2000[1]	2001[1]	2002[1]	2003[2]	2004[2]	2005	2006	'00 – '03	'03 – '06	'00 – '06
Members										
Washington	1,066,036	1,121,056	1,112,390	1,247,655	Proprietary Material Redacted			5.4%	Proprietary Material Redacted	
Alaska	98,525	110,228	111,488	115,212				5.4%		
Revenue										
Washington	$1,606,901	$1,867,428	$1,940,557	$2,114,958				9.6%		
Alaska	192,792	251,635	294,701	330,776				19.7%		
Underwriting Margin										
Washington	$249,181	$307,626	$325,937	$381,400				15.2%		
Alaska	33,203	38,886	52,655	47,986				13.1%		
Contribution Margin										
Washington	$196,074	$240,484	$255,438	$305,765				16.0%		
Alaska	26,824	29,980	42,671	37,335				11.7%		
Operating Income										
Washington	$1,755	$10,355	$7,031	$20,738				127.8%		
Alaska	11,728	11,089	19,494	11,737				0.0%		
Net Income[4]										
Washington	$20,571	$27,662	$22,441	$45,285				30.1%	NA	NA
Alaska	11,728	11,280	18,886	9,569				(6.6%)	NA	NA

(1) Premera historical financial performance provided March 21, 2003 in E867.
(2) Premera actual and budgeted data provided March 26, 2004 in E626.
(3) Premera Planning Tool provided October 17, 2003 in E590A.
(4) 2002 Net Income excludes $34.1 million (pre-tax) in investment impairment charges to Premera Blue Cross and $5.6 million (pre-tax) in conversion costs. 2003 and 2004 Net Income excludes conversion costs of $20.2 million (pre-tax) and [redacted] million (pre-tax), respectively.

SUMMARY OF FINANCIAL AND OPERATING RATIOS BY STATE

Please note that the 2005 - 2006 data may not be exactly comparable to previous years (both historical 2000 - 2003 and projected 2004).

	Actual				Budget	Projections[3]	
	2000[1]	2001[1]	2002[1]	2003[2]	2004[2]	2005	2006
Membership Growth							
Washington	-	5.2%	(0.8%)	12.2%			
Alaska	-	11.9%	1.1%	3.3%			
Revenue Growth							
Washington	-	16.2%	3.9%	9.0%			
Alaska	-	30.5%	17.1%	12.2%			
Medical Loss Ratio							
Washington	86.6%	85.1%	84.7%	84.5%			
Alaska	82.7%	85.3%	82.7%	86.0%			
Operating Income Margin							
Washington	0.1%	0.6%	0.4%	1.0%			
Alaska	6.1%	4.4%	6.6%	3.5%			
Operating Expense PMPM							
Washington	$15.78	$17.00	$18.70	$19.50			
Alaska	13.27	14.75	17.45	18.85			
Net Income Margin[4]							
Washington	1.3%	1.5%	1.2%	2.1%		NA	NA
Alaska	6.1%	4.5%	6.4%	2.9%		NA	NA

Proprietary Material Redacted

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Updated Discussion Materials

WASHINGTON AND ALASKA IMPLIED SHARE

Please note that the 2005 - 2006 data may not be exactly comparable to previous years (both historical 2000 - 2003 and projected 2004).

	Actual				Budget	Projections[3]		Cumulative		
	2000[1]	2001[1]	2002[1]	2003[2]	2004[2]	2005	2006	'00 – '03	'04 – '06	'00 – '06
Members										
Washington	91.5%	91.0%	90.9%	91.5%	Proprietary Material Redacted	Proprietary Material Redacted		91.3%	Proprietary Material Redacted	
Alaska	8.5%	9.0%	9.1%	8.5%				8.7%		
Revenue										
Washington	89.3%	88.1%	86.8%	86.5%				87.6%		
Alaska	10.7%	11.9%	13.2%	13.5%				12.4%		
Underwriting Margin										
Washington	88.2%	88.8%	86.1%	88.8%				88.0%		
Alaska	11.8%	11.2%	13.9%	11.2%				12.0%		
Contribution Margin										
Washington	88.0%	88.9%	85.7%	89.1%				87.9%		
Alaska	12.0%	11.1%	14.3%	10.9%				12.1%		
Operating Income										
Washington	13.0%	48.2%	26.5%	63.9%				42.4%		
Alaska	87.0%	51.8%	73.5%	36.1%				57.6%		
Net Income[4]										
Washington	63.7%	71.0%	54.3%	82.6%		NA	NA	69.3%	NA	NA
Alaska	36.3%	29.0%	45.7%	17.4%		NA	NA	30.7%	NA	NA

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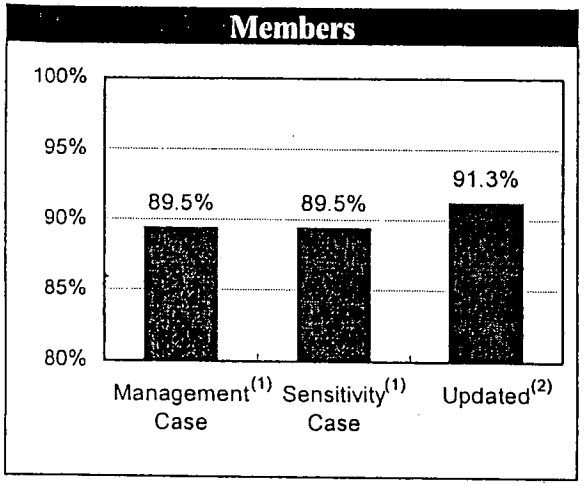
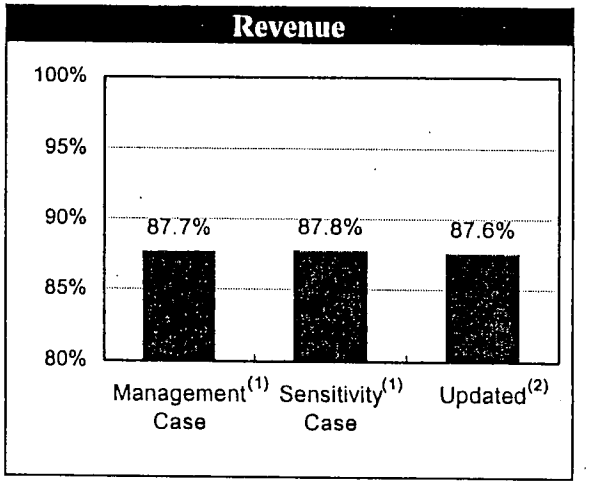
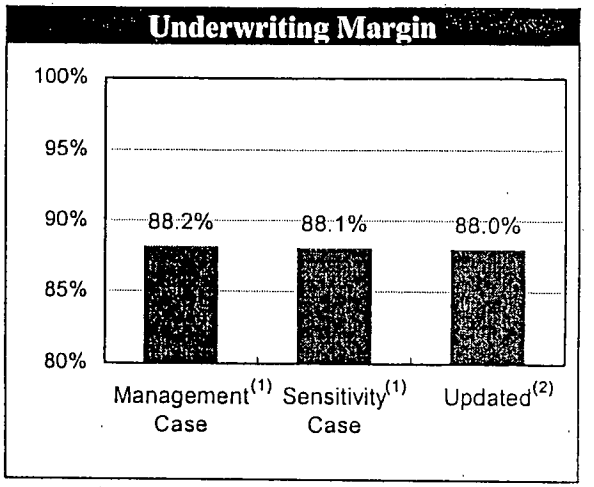
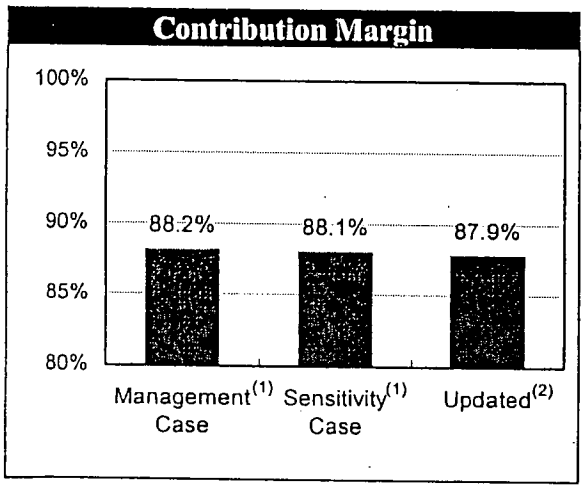
Updated Discussion Materials

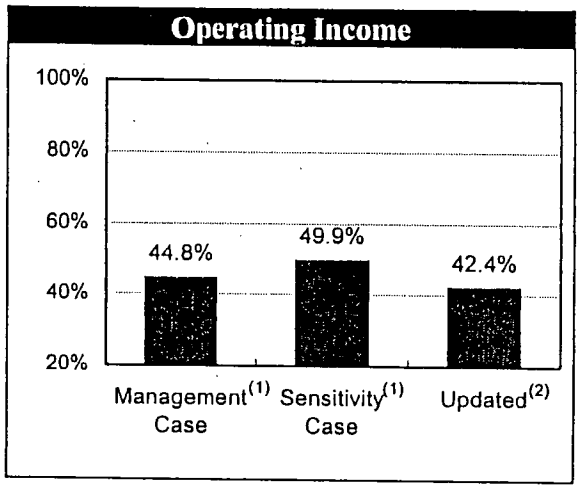
COMPARISON TO AUGUST 1, 2003 REPORT: CUMULATIVE 2000-2003

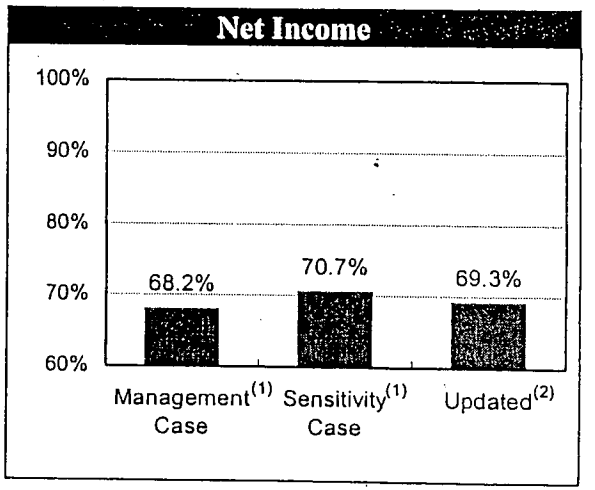








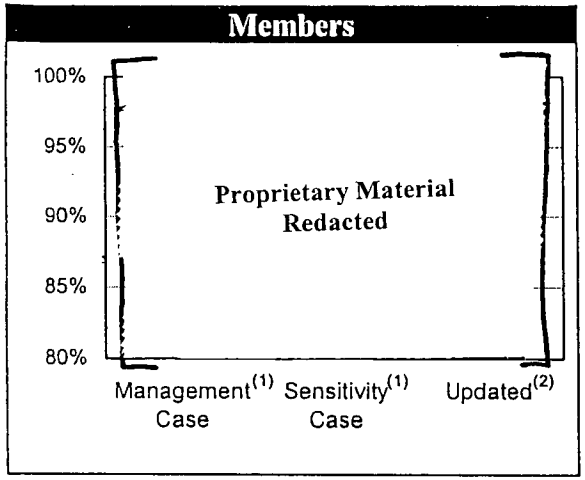


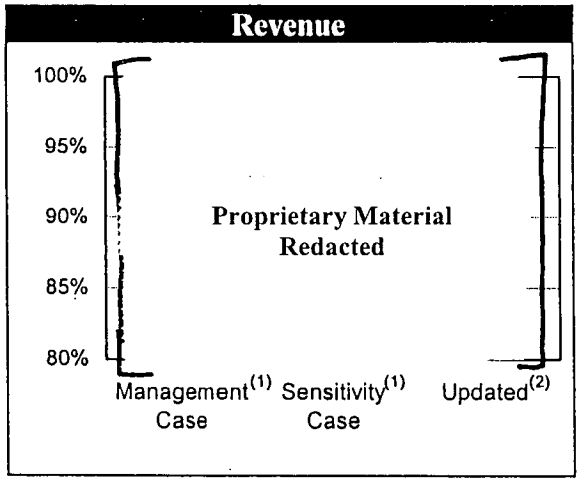


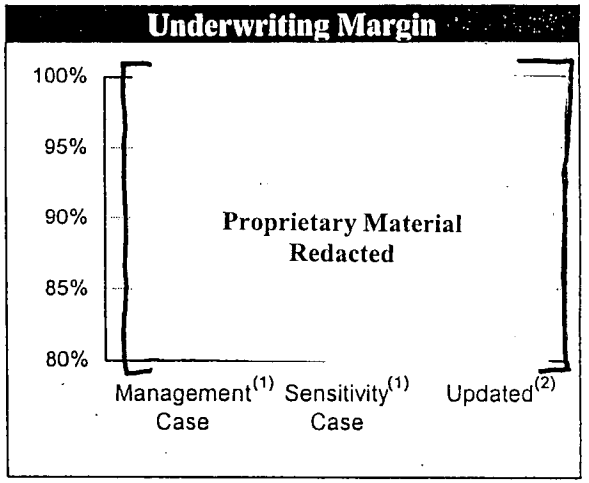
(1) Based upon previous Blackstone report "Discussion Materials: Allocation between Washington and Alaska" dated August 1, 2003.
(2) Based upon updated historical information and projections from the Company (see page 1 for detail).

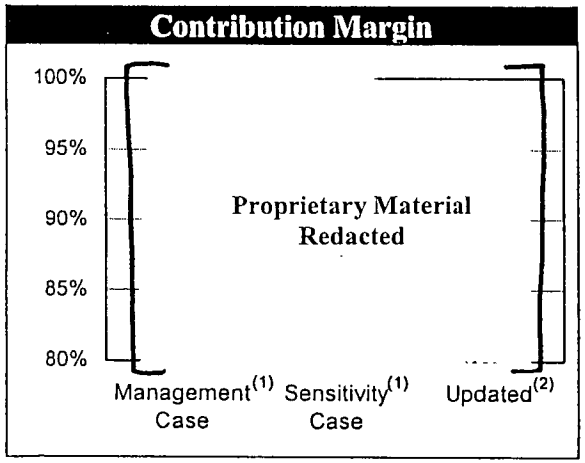
Updated Discussion Materials

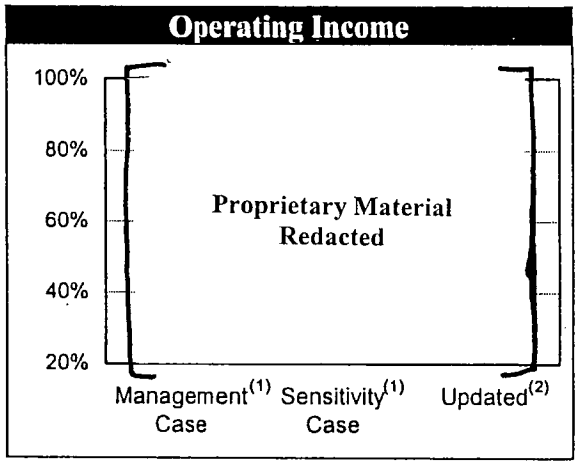
COMPARISON TO AUGUST 1, 2003 REPORT: CUMULATIVE PROJECTED 2004-2006

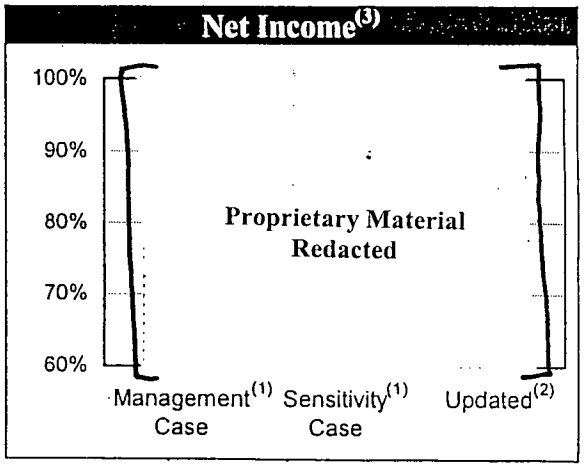












(1) Based upon previous Blackstone report "Discussion Materials: Allocation between Washington and Alaska" dated August 1, 2003.
(2) Based upon updated historical information and projections from the Company (see page 1 for detail).
(3) Based upon 2004 net income given lack of available data for 2005 and 2006.

VALUATION CONSIDERATIONS

Blackstone notes the following considerations may affect the potential allocation of value between the Washington and Alaska operations.

- As a stand-alone entity, PBC-AK may lack economies of scale.
  - With respect to relative contribution under Premera management's projections between the Washington and the Alaska operations, the Alaska operations represents only 13.5% of revenue, [ ] of underwriting margin and [ ] of contribution margin in 2003.
  - Premera management believes that PBC-AK already has a market share of 38% in the insured market of Alaska (80+% of insured market excluding state employees).
  - The Alaska operations had a total population of approximately 640,000 in 2001 according to the U.S. Census Bureau and no contiguous areas in which to expand operations in order to gain scale.
  - Alaska may have less flexibility to access the capital markets.
- The Company noted that the Alaska operations are not a major growth opportunity and that winning the government account is the only significant opportunity for growth. Furthermore, the Company noted that it was not willing to lose money in trying to win the government account in Alaska.
  - From 2003 – 2006, the Company is forecasting only a [ ] compound annual growth rate in operating income for Alaska as compared to a [ ] compound annual growth rate for Washington over the comparable period.
- Most contracting in Alaska is on a fee-for-service basis with some PPO business, as managed care has never really gained widespread acceptance.
- The Company believes that it can grow its operations and market share in Western Washington as evidenced by the recent addition of the Western Wireless account. Premera believes this account continues the validation of its business strategy in Washington. In addition, the Company would like to grow its National Accounts business and sees Weyerhaeuser, Starbucks, Nordstrom and Washington Mutual as large corporations headquartered in Western Washington that could be potential customers.

Proprietary Material Redacted

Proprietary Material Redacted