



April 13, 2015

Thomas J. Betlach, Director
Arizona Health Care Cost Containment System
801 East Jefferson
Phoenix, AZ 85034

Re: Notification of Acquisition, AHCCCS Contract YH14-0001, Request for Prior Approval

Dear Director Betlach:

I am writing in response to your request for confirmation of certain matters in connection with the proposed acquisition of Care1st Health Plan ("Care1st") by California Physicians' Service, dba Blue Shield of California ("CPS"). As we described in Attachment A to Scott Cumming's March 3, 2015, letter to you, CPS strongly believes that the completion of the acquisition of Care1st and Care1st Health Plan Arizona, Inc. ("Care1st AZ") will be instrumental to the achievement of CPS's access and affordability mission. In fact, it is difficult to envision how CPS could fulfill that mission without serving a significant part of the Medicaid population. It has been a key strategic goal of ours for several years to do so, and there are limited opportunities given how the health plan relationships are structured. So, it was with great excitement and anticipation that we learned that we were the successful bidder for Care1st.

In the due diligence process, we learned a lot about Care1st's leadership and culture. We found a highly dedicated team, imbued with a shared set of values focused on caring and community service, and commitment to high ethical standards. These are certainly values and standards to which CPS aspires, and we felt a growing sense of affiliation, respect, and admiration for the Care1st team as the process continued. In the end, CPS was able to put forward a compelling offer because of the tremendous value we perceived in the existing Care1st leadership, culture, and business model. Unlike acquisitions typical in the for-profit sector, CPS's valuation of Care1st was not premised on achieving significant "synergies" (a term often used as a euphemism for slashing overhead by reducing staff and discarding operations). The valuation was premised on the strength of Care1st's leadership, culture, and business model, and their scalability. Our objective is to preserve, invest in, and grow these remarkable assets.

When CPS decided it was a mission imperative to serve the Medicaid population, we were not seeking to expand geographically. An acquisition of Care1st was a highly attractive opportunity to fulfill that imperative, and it came along with other desirable businesses, including the Arizona Medicaid plan, and a Medicare Advantage plan. We learned that these were vital, integral parts of Care1st, that added value and growth potential for CPS. Currently, CPS has several lines of business beyond its core California health plan offerings. CPS has a significant national accounts business in which we

serve members who reside all over the United States. CPS also offers life insurance products through its subsidiaries, including CareAmerica Life, which is licensed in California and several other states. All these businesses are important parts of the CPS family, and their strength, integrity, and success are keys to CPS's reputation.

Once we acquire Care1st AZ (upon receipt of all required regulatory approvals and satisfaction of closing conditions), we will view it exactly the same way we view the other members of our corporate family. Its continued success, and provision of high quality service to its communities, will be woven into CPS's success and reputation. We have no plan to divest it. We have no plan to make changes in its management or operations. We want to see it continue to grow. These goals are completely consistent with CPS's License Agreement with the Blue Cross Blue Shield Association. That Agreement precludes us from using the Blue name or mark outside of California, but it has no prohibition on our owning and operating a health plan (or any other business) outside of California under a non-Blue name. In fact, as mentioned above, we already do.

As is always the case with any business, we are constantly evaluating options for how best to fulfill our mission. The health plan business, in particular, is subject to change due to evolving public policy, regulation, technology, and competition. These forces could result in changes in CPS's organization and operations in Arizona and elsewhere. One constant is that CPS will fulfill its commitments to its valued stakeholders, including regulators, customers, members, providers, and the communities we serve. We will work closely and cooperatively with our stakeholders in the event that changes in our organization or operations might impact them.

In addition, as you requested, I want to confirm that after the acquisition is completed, Care1st AZ will continue to meet the obligations of its contract with AHCCCS, and fulfill the commitments it made in the 2013 contract procurement process.

Finally, I want to confirm that CPS has no plans to make changes in the Care1st AZ local management team and, in particular, we have every intention to retain Scott Cummings in his current role.

It is my pleasure to provide these assurances, and I invite you to contact me any time you would like to discuss these matters or any other issues.

Very truly yours,



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