

TRUE PERFORMANCE

2012 PALMETTO GBA ANNUAL REPORT



Each year delivers a new set of demands. Accepting these unique challenges is one way of doing business. Relishing them is *our* way of doing business.

Exceptional contract fulfillment. Unparalleled value for customers. Sustainable growth in our business and positive change in our communities. This is what Palmetto GBA achieves by setting expectations beyond the industry standard.

These are the products of true performance.



PALMETTO GBA®

A CELERIAN GROUP COMPANY

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PRESIDENT'S LETTER

True performance isn't just about one thing for Palmetto GBA. It's the combination of several key elements that allows our organization to push beyond merely meeting a customer's requirements and become a trusted partner who guarantees their success. Our customers entrust us with significant responsibility – to operate on their behalf to ensure Medicare benefits are administered appropriately. We take this responsibility seriously.

We understand that to be successful, we must adapt quickly to an ever-changing environment. We must generate new ideas and reinvent current processes to deliver the services our customers value. In 2012, we invested in improvements that enhance operational efficiency and deliver new value to our customers.

We also know we must make sure that performance is always above our customers' expectations. We stay focused on our performance every day. In 2012, we made significant investment to improve processes, technology and controls, ensuring that we achieve and sustain superior performance.

We also know that the real test of an organization's quality is how it responds to adversity. Palmetto GBA has certainly faced challenges this year but it is our response that differentiates us.

This dedication goes beyond the services we provide. It is engrained in all aspects of our business. We value organizational growth. We know that we can only get better by expanding our reach and developing new capabilities. By applying new ideas, we develop solutions for our customers' changing needs. We know that giving our time, talents and resources outside of our organization delivers immeasurable rewards.

You will read more about some of these achievements in the pages that follow.

Our work in 2012 included a number of initiatives, each spearheaded by a hardworking team of associates. What's already perfectly clear is that each effort we undertook in 2012 is paying off. Internal metrics and data have shown substantial improvement in key areas. Most important, though,

is the improvements and benefits our customers are experiencing. They have seen and noted our work.

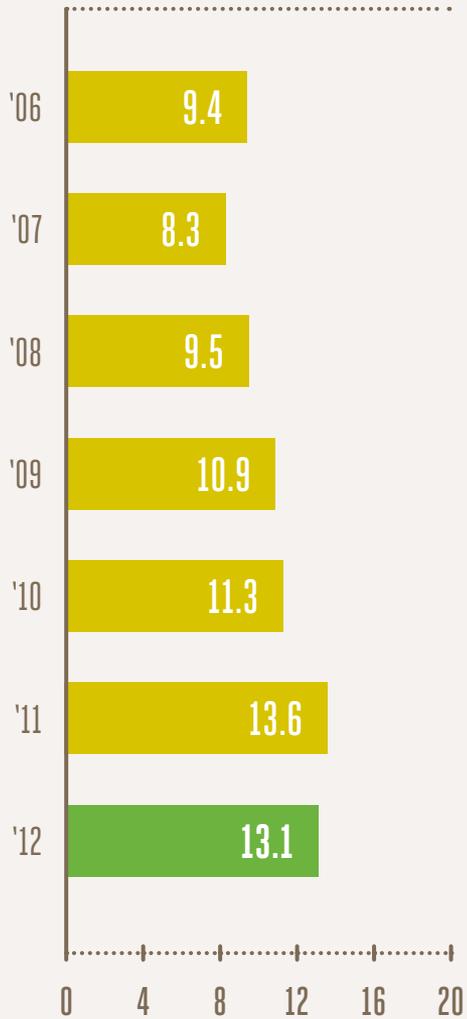
Based on what we accomplished collectively in the past year, I believe 2013 will be a year of increasing success. One where Palmetto GBA continues to excel in growth, value and service for our customers.

Best regards,



W. JOE JOHNSON
President and COO

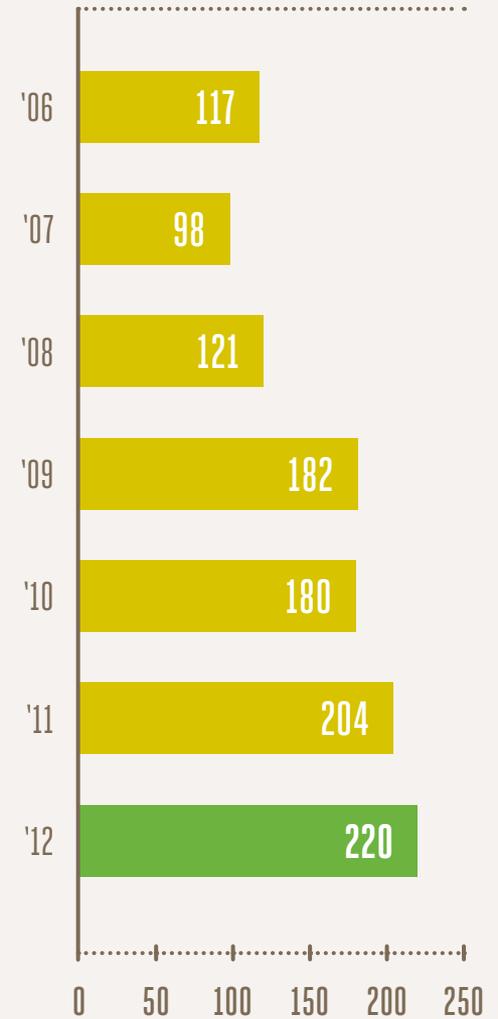
BENEFICIARIES SERVED IN MILLIONS



BENEFITS PAID IN BILLIONS



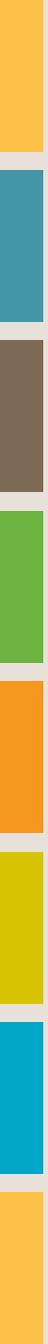
CLAIMS PROCESSED IN MILLIONS



COMPANY OVERVIEW

With nearly a half century of experience, Palmetto GBA is a leading provider of contact center, technical and administrative services to federal government agencies. Our core business is providing services to the Centers for Medicare & Medicaid Services (CMS), Medicare beneficiaries and Medicare providers. Palmetto GBA is one of the few Medicare contractors with experience in all Medicare business segments – Medicare Part A, Medicare Part B, Durable Medical Equipment, and Regional Home Health and Hospice.

As a Medicare contractor, we are trusted to administer health insurance claims for many of our nation's elderly and disabled citizens. Our proven expertise and dedication to operational ethics has allowed us to expand nationally, employing more than 2,600 associates in offices across South Carolina, Georgia, Illinois and Ohio. Headquartered in Columbia, SC, Palmetto GBA serves approximately 13 million beneficiaries, processing 220 million claims and paying more than \$75 billion in benefits in 2012.



SNAPSHOTS *of* PERFORMANCE

An organizational commitment to excellence drives continual examination of productivity and operations. The results of the ongoing assessments are often nothing short of exceptional. Enhancements and programs created by our associate teams have yielded significant operational impact, enabling us to deliver greater value to our customers.

Take a look inside eight key innovations from 2012.



CMRS

Cognitive Medical Review System

Adapting our medical review systems platform and process to surpass contractual obligations.

INNOVATION

- Identifies error patterns in claims submission
- Performs pre-payment data mining to advance error identification and communication
- Increases efficiency
- Avoids costly errors
- Automates workflow



IMPACT

- Safeguards the Medicare Trust Fund
- Increases effectiveness of Medical Review, and Provider Outreach and Education processes
- Accelerates cycle time
- Enhances education efforts
- Increases identification of payment errors
- Decreases paid claims error rate (Comprehensive Error Rate Testing)

TEAM

- e-Commerce, Medical Affairs, Medical Review and Medicare Statistical Analysis Department



MOLDx

Molecular Diagnostics Program

Providing a structured process to verify clinical validity of lab-developed tests to improve beneficiary outcomes and determine appropriate reimbursement.

INNOVATION

- Requires unique test identifier for reimbursement
- Identifies and verifies clinical validity of tests
- Establishes plan coverage and reimbursement value
- Ensures correct coding

IMPACT

- Provides coverage and coding ducation to providers
- Enhances patient care and improves outcomes
- Prevents millions-worth of improper payments
- Reduces inappropriate reimbursement by 20%
- Developed data-based test reimbursement

TEAM

- Medical Affairs - MolDx Team
- Operational Support Unit - MolDx Team

4,000+
TESTS REGISTERED

PREVENTED
MORE THAN
\$38m
IN IMPROPER
PAYMENTS



ACA TESTING

Affordable Care Act System Testing

Testing of newly developed Affordable Care Act (ACA) systems ensures effectiveness, integrity and consistency when implementing key ACA programs.

INNOVATION

- Supports the government's nationwide initiative to transform the health care system to improve access, promote efficiency, control costs and deliver high quality health care outcomes
- Supports CMS' migration toward utilizing Service Oriented Architecture (SOA) and leveraging the latest technology to develop new system capabilities
- Promotes a collaborative relationship with system developers to deliver solutions that meet the government's system requirements of the ACA

IMPACT

- Ensures quality, integrity and consistency among new programs to support the ACA's success
- Prevents and detects fraud, waste, abuse and improper payments under the Medicare program by preventing misuse of taxpayer dollars and lowering the cost of health care
- Broadens expertise in providing development and testing solutions for new customer requirements

TEAM

- Accountable Care Organization (ACA-ACO) Testing Team
- Federally Facilitated Marketplace (ACA-FFM) Testing Team
- Physician Value (ACA-PV) Testing Team



OPS

Online Provider Service Enhancements

Expanding our self-service portal functionality to utilize secured messaging that allows providers secure, transaction-based two-way communication 24 hours a day/7 days a week.

INNOVATION

- Converts paper and voice interactions to secure message platform
- Establishes secure communication platform for MAC providers

IMPACT

- Gives providers real-time access to claim status and beneficiary information
- Reduces provider cycle time
- Drives savings through reduced paper-based processes and mail lag times
- Increases efficiency by feeding online forms directly into workflow
- Increases provider access to information and facilitates information accuracy
- Prevents errors and misroutes
- Streamlines receipt and deposit of funds for Medicare debt
- Includes 44,000 registered providers initiating 11 million user sessions

TEAM

- e-Commerce, Finance & Accounting





iDOCS

Intelligent Documents

Implementing barcoding, context searchable scanned documents, duplex printing and house-holding decreases print mail costs, increases efficiency, and improves customer service.

INNOVATION

- Automates routing of forms to proper department, and pairs letters with original applications
- Bundles documents pertaining to the same household
- Aids in document review and key index identification

IMPACT

- Enables rapid, accurate processing of forms returned from providers
- Eliminates errors
- Reduces mailing and sorting costs
- Shortens cycle time through automated routing
- Limits environmental impact

TEAM

- Corporate Print Mail, Medicare Systems, Medical Review and Document Control





DELTEK

Deltek Hosted Solutions

Transitioning hosting of our Deltek accounting, time and expense, budget and reporting systems to Technology and Business Solutions LLC (TBS).

INNOVATION

- Provides remote, secure Internet access to our accounting system driving efficiencies in operations and timekeeping

IMPACT

- Ensures latest software version for optimum functionality
- Draws upon expert knowledge of Deltek application to improve response time and accuracy
- Reduces cost

TEAM

- Cost Accounting, General Ledger, Budget and Reporting, and Accounts Payable





SECURITY

System Security Program

Improving our system security program to enhance performance, reduce vulnerability and maximize the capability of our risk management system.

INNOVATION

- Supports real-time monitoring of compliance posture
- Ensures secure network filesharing
- Standardizes remote access
- Automates patching and configuration management of all computer assets
- Creates a central repository for employee system access

IMPACT

- Enhances security
- Improves access control management
- Ensures compliance with customer requirements
- Reduces costs
- Speeds response time
- Provides real-time reporting and issue alerts
- Improves audit results

TEAM

→ Systems Security and e-Commerce



APPEALS

Automated Appeals Enhancements: Auto Build and Qualified Independent Contract Case Assembler

Delivering enhancements that automate appeal case assembly and enable electronic submission of files, resulting in labor, printing, and postage savings.

INNOVATION

- Automates case building document production
- Submits electronic appeals to Qualified Independent Contractors (QICs)

IMPACT

- Accelerates appeal completion
- Improves service to providers
- Promotes cost efficiencies that deliver maximum value to CMS
- Reduces errors, and cycle time for appeal processing
- Saves an average of \$29,000 per month in printing and postage

TEAM

- Appeals, Application Development and e-Commerce

SAVES A MONTHLY AVERAGE OF
\$29,000
IN PRINTING & POSTAGE COSTS



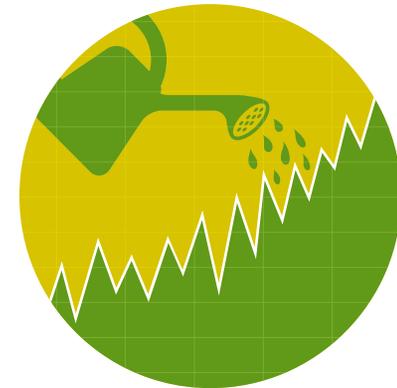
GROWTH

Expanding our portfolio of business both with our current customers and new ones remains a top priority in our strategy. With each new opportunity, we strive to surpass the status quo in satisfaction, value and fulfillment.

CULTIVATING SUCCESS

Chief Information Officer Solution & Partners (CIO-SP3) Palmetto GBA, as a subcontractor to SGT, Inc., was awarded a contract under the National Institutes of Health's Chief Information Officer Solution & Partners 3 (CIO-SP3) contract. This is a new Government-Wide Acquisition Contract (GWAC) from the National Institutes of Health's Information Technology Acquisition and Assessment Center (NITAAC) that can be used by any federal civilian or DoD agency to fulfill a broad range of mission critical IT requirements. CIO-SP3 contract holders have gone through a rigorous source selection process prior to award, which includes dimensions such as technical capabilities, past performance, price and cost.¹

Provider Education and Support Services (PESS) CMS awarded Palmetto GBA the 5-year Provider Education and Support Services (PESS) contract in June 2012. This contract is the successor contract to the national Train-the-Trainer contract which Palmetto GBA has held since 2002. Under this contract, Palmetto GBA creates and executes comprehensive education and training on the application of Medicare payment systems. As the PESS contractor, Palmetto GBA will assist CMS in its role as an Accreditation Council for Continuing Medical Education (ACCME) and International Association for Continuing Education and Training (IACET) provider.



¹ nitaac.nih.gov/nitaac/it-contracts-cio-sp3

Competitive Bidding Implementation

Contractor (CBIC) Palmetto GBA was initially awarded the national contract for the Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) competitive bidding program on September 29, 2006. In January 2012, CMS awarded Palmetto GBA a second five-year contract under a blank purchase agreement (BPA). The program, required by the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003, establishes a competitive bidding process to replace its existing fee schedule amounts with prices based on suppliers' bids. According to regulations, competitions are conducted among Medicare-enrolled suppliers who operate in a particular competitive bidding area (CBA) for selected DMEPOS items.

National Customer Support Center (NCSC)

CMS awarded the Customer Service and Support Center (CSSC) contract to Palmetto GBA on July 30, 2012. Under this contract, Palmetto GBA provides the systems and customer service for Medicare Advantage and Prescription Drug plans nationwide regarding their submissions of Risk Adjustment, Prescription Drug, and Encounter data to CMS.

Third Partner Administrator (TPA)

CMS awarded the Third Party Administrator (TPA) contract to Palmetto GBA on July 30, 2012. Under this contract, Palmetto GBA provides systems and support services for the Medicare Part D drug discount program.

Railroad Board (RRB) Specialty Medicare Administrative Contractor (SMAC)

Palmetto GBA was initially awarded the Part B contract by the RRB in 2000. The RRB contract was re-competed as the RRB Specialty MAC contract in 2011. Palmetto GBA was again awarded this contract in September 2012. Under this contract, Palmetto GBA provides claims processing, appeals processing, customer service, provider enrollment, web technology services, and financial management activities. This national contract serves more than 600,000 Railroad Medicare beneficiaries.

ACO Patient Protection and Affordable Care Act (PPACA) Testing

Palmetto GBA, as a subcontractor to QSSI, was awarded a contract to provide system testing for PPACA. Palmetto GBA's role is to function as an independent testing contractor for new ACA applications. In 2012, two testing projects began - Accountable Care Organization (ACO) and Federally Facilitated Exchange (FFE) testing.

Virtual Data Center

Companion Data Services (CDS) received the Virtual Data Center (VDC) Indefinite Delivery/Indefinite Quantity (IDIQ) award in November 2012 and subsequently the first task order, the National Data Warehouse (NDW) Hosting Services. NDW serves as a central repository for capturing, aggregating and analyzing data related to the beneficiary experience with Medicare. Through Palmetto GBA's subcontract with CDS, Medicare Statistical Analysis Department (MSAD) National Data Warehouse supports the applications and daily data loads to NDW from external data providers.



ACHIEVEMENT

We believe that it is our responsibility to continue to grow and evolve as a company. Our commitment to add value extends to both customers and within our own operations.

EXPANDING CAPABILITIES

Third Party Liability (TPL) Recovery Management System Palmetto GBA developed the TPL Recovery Management System to provide a variety of automated tools that enhance the user experience by reducing the effort needed to produce quality work products. In addition to providing an audit trail for accountability, the system performs Medicaid eligibility and insurance policy lookups via a data match feature, pulls claims for recovery based on eligibility, performs real-time updates to the Medicaid Management Information System (MMIS) for health insurance policy updates and claim payments or denials received, and generates quarterly invoices using the CMS 1500 Form.

Health Ethics Trust The Health Ethics Trust presented the Palmetto GBA Compliance Unit a Best Practice Award for its process to submit timely reports of exposures of protected health information (PHI) and personally identifiable information (PII), in accordance with CMS requirements.

Competitive Bidding Implementation Program (CBIC) Contractor The CBIC recently completed evaluating bids for the Round 2 competition in 91 areas of the country and the national mail-order competition. CMS' Office of the Actuary estimates that the program will save the Medicare Part B Trust fund \$25.7 billion and beneficiaries \$17.1 billion between 2013 and 2022.



Customer Operations Performance Center (COPC)

Palmetto GBA successfully underwent an audit and retained our certification under the prestigious, international Customer Operations Performance Center (COPC) customer service standard in the RRB customer service center.

5010 Conversion To further advance the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the U.S. Department of Health and Human Services (HHS) published a final rule that evolved the Accredited Standards Committee (ASC) X12 version 4010 to ASC X12 version 5010 for electronic health care transactions. The ASC X12 version 5010 improved the functionality and efficiency for electronic claims, patient eligibility inquiries, claim status requests, healthcare services authorization requests, enrollment, coordination of benefits (COB) transactions and remittance advices. Palmetto GBA's EDI systems team successfully completed implementation of ASC X12 version 5010 in July 2012 and now processes 100 percent of ASC X12 transactions using the new version.

Medicare Statistical Analysis Department (MSAD) Statistical Analysis Data Warehouse (SADWH)

Palmetto GBA expanded the SADWH from eight terabytes to 28 terabytes opening new storage and analytical capabilities. Palmetto GBA is accumulating up to seven years of claims data for each contract to allow consistency of historic data and to provide an effective basis for longitudinal analysis. Frequency of SADWH loads has increased from monthly to daily to provide immediate access to paid claims data. The supplemental storage capacity allows daily loading of prepayment data directly from 5010 submissions from providers. These daily loads are used as the object of statistical predictive models or to identify complex (and questionable) billing scenarios for further evaluation.

System Security Palmetto GBA's nCircle IP360™ system security scores were superior to the national averages for the last 12 consecutive months and we earned an "A" rating in 11 of those 12 months. nCircle IP360™ is the industry standard providing a vulnerability and risk management solution that delivers a comprehensive view of network risk.

iFlow Integration Palmetto GBA successfully integrated e-commerce web services with our iFlow workflow management system. The database-driven workflow management system controls every document we touch from the beginning to the end of the process. This innovative and state-of-the-art project was designed to decrease the manual interaction required between the various e-Commerce systems and to automate an array of tasks associated with documents in workflow. This project has been leveraged in several major systems across Palmetto GBA operations to increase quality while reducing errors.

Electronic Submission of Medical Documentation (esMD) Pilot Palmetto GBA was one of the first Medicare Administrative Contractors to participate in a CMS pilot project to demonstrate the innovative process allowing Medicare health care providers to submit medical records in an electronic format. This electronic submission of medical documentation (esMD) mechanism is now an accepted format for providers to respond to medical documentation requests resulting in improved provider reimbursement cycle times and reduction in administrative costs.

Web Chat Palmetto GBA's e-Commerce department added the SightMax web chat tool to PalmettoGBA.com to facilitate communication between provider outreach and education representatives and site visitors. The solution guarantees 508 compliance, multi-browser compatibility, and an intuitive inline interface.

National Supplier Clearinghouse During calendar year 2012, the National Supplier Clearinghouse Medicare Administrative Contractor saved the Medicare trust fund an estimated \$104 million by denying entry of noncompliant suppliers into the program. Palmetto GBA works closely with CMS to proactively identify areas of vulnerability to maximize program savings.

Medicare Debt Collections During the calendar year 2012, Palmetto GBA collected \$3.6 billion of receivables owed to CMS. This achievement is attributable to the timely and efficient collection methods implemented by Palmetto GBA and is a critical component of protecting the Medicare Trust Fund.

Medicare Integrity Program As a Medicare contractor, we are responsible for engaging in activities that protect the Medicare Trust Fund. Our program safeguard activities result in significant savings for Medicare. For the calendar year 2012, Palmetto GBA's efforts resulted in the Medicare savings detailed below:

	J1 A/B MAC	J11 A/B MAC	RRB
BI	-	-	\$259,480
MSP	\$351,825,066	\$490,917,193	\$824,027
MR	\$278,287,653	\$128,646,634	\$6,125,925
TOTAL	\$630,112,719	\$619,563,827	\$7,209,432

BI: benefits integrity
MSP: medicare secondary payer
MR: medical review

RESPONSIBILITY

Even the smallest act has the power to change a life. Our associates give throughout the year to ensure the needs and hopes of others are met in abundance.



\$5,300
RAISED TO FIGHT
HEART DISEASE

PROTECTING YOUTH HEALTH AND WELL-BEING

- Binky Patrol
- Camp Kemo
- Epworth Children's Home
- Firefighters 4 Kids
- Franklin County Children's Services
- Heart Warming Tree
- J.P. Thomas Elementary School
- March of Dimes
- McLeod's Children's Hospital
- Midlands Reading Consortium
- Richland School District One Backpack Project
- School Supply Drives
- Shriners Hospitals for Children
- St. Jude Children's Hospital
- Stocking Stuffers Project
- Zambia Africa School Supply Drive



\$73,452
RAISED FOR THE
MARCH OF DIMES

PREVENTING AND MANAGING DISEASE

- American Cancer Society
- American Cancer Society – Relay for Life
- American Heart Association
- American Heart Association – Start! Walk
- American Red Cross
- Alzheimer's Association
- Free Medical Clinic
- Hospice of Portsmouth
- Huntington Disease Society of America
- Leukemia and Lymphoma Society
- Shepard Community Blood Center
- The Compassion Fund
- Three-Day Breast Cancer Walk

\$355,000
RAISED TO SUPPORT
UNITED WAY

230
ITEMS GIVEN TO
ANIMAL SHELTERS

MEETING HEALTH AND HUMAN NEEDS

- Adopt-a-Family
- Angels House
- Broad Street United Methodist Church Open Shelter
- Catholic Social Services
- Cell Phones for Soldiers
- Center of Hope Homeless Shelter
- Christmas Cards for Soldiers
- Columbia International Festival
- Compassion Fund
- Cultural Council of Richland and Lexington Counties
- Dorn VA Medical Center
- Families Helping Families
- Give a Kid a KOAT
- Golden Harvest Food Drive
- Harvest Hope Food Bank
- Hurricane Sandy Relief Efforts
- Kairos Prison Ministry
- Local and Open Family Shelters
- Mid-Ohio Food Bank
- Pioneer Club Food Drive
- Project Serve 2012
- Ronald McDonald House
- Salvation Army
- Scioto County Homeless Shelter
- Soles4Souls
- Southern Ohio Shelter – Domestic Violence
- United Way
- Veterans Helping Veterans and Others
- Wounded Warrior Project
- YWCA Homeless Shelter

PROTECTING VULNERABLE ANIMALS

- Greyhound Pets of America
- Louisville Weimaraner Rescue
- Palmetto Animal Assisted Life Services – Poochapalooza
- Pets, Inc.
- SQ Rescue
- Sierra's Haven
- Walter Crowe Animal Shelter
- War Dog Memorial

LEADERSHIP

Our executive team exemplifies the dedicated effort of every Palmetto GBA associate; keeping us moving ahead, accomplishing goals, ensuring performance — together.

BOARD OF DIRECTORS

(PICTURED LEFT TO RIGHT)

M. Edward Sellers

Chairman, Board of Directors -
BlueCross BlueShield of South Carolina

T. Jeffrey Littlefield

Vice President - PGBA, LLC

David Pankau

Chairman, Board of Directors - Palmetto
GBA, LLC & President/CEO - BlueCross
BlueShield of South Carolina

Martin L. Kappert

Retired - CMS & Department of Defense

Lelia Wright

Retired - Blue Cross Blue Shield of Texas

Col. Robert E. Shields

Retired - Humana Military
Healthcare Services (TRICARE)

Bruce W. Hughes

President & COO - Celerian Group

W. Joe Johnson

President & COO - Palmetto GBA



M. Edward Sellers

T. Jeffrey Littlefield

David Pankau

Martin L. Kappert

Lelia Wright

Col. Robert E. Shields

Bruce W. Hughes

W. Joe Johnson

CORPORATE OFFICERS



ANN ARCHIBALD

Compliance Officer



MIKE BARLOW

Vice President
Jurisdiction 1 A/B MAC Operations



NELLA BISHOP

Vice President
Systems & Support



NEAL BURKHEAD

Vice President, Railroad Medicare &
Jurisdiction 15 A/B MAC Operations



JEAN CATALANO

Assistant Vice President
Competitive Bid Operations



ELAINE GARRICK

Vice President
Support Operations



W. JOE JOHNSON

President & Chief Operating Officer



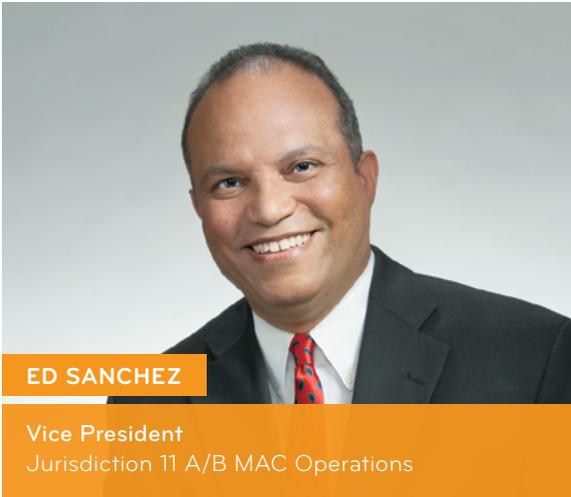
MIKE MIZEUR

Treasurer



DEDEE ROWE

Secretary



ED SANCHEZ

Vice President
Jurisdiction 11 A/B MAC Operations



CAROL SUTTON

Vice President
Shared Services



JOE WRIGHT

Vice President & Chief Financial Officer

2012 FINANCIALS

Financials

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Palmetto GBA, LLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Palmetto GBA, LLC which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, changes in member's equity, and cash flows for the years then ended and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally

accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palmetto GBA, LLC at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

EMPHASIS OF MATTER

As discussed in Note 1 to the financial statements, Palmetto GBA, LLC changed its presentation of the financial statements as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income. Our opinion is not modified with respect to this matter.

Derrick, Stubbs & Stith, L.L.P.

February 25, 2013

BALANCE SHEETS (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,865	\$ 9,879
Accounts receivable, net	36,157	35,484
Accounts receivable from affiliates	1,345	2,437
Accrued revenue	48,543	41,425
Prepaid expenses	573	1,998
Deferred income taxes	3,554	3,190
Total current assets	118,037	94,413
Long-term assets:		
Fixed assets, net of accumulated depreciation of \$28,644 and \$27,508 in 2012 and 2011, respectively	4,386	5,239
Long-term investments	2,489	2,670
Investments in affiliates	1,667	9,367
Total long-term assets	8,542	17,276
TOTAL ASSETS	\$ 126,579	\$ 111,689
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accrued payroll, taxes and benefits	\$ 17,184	\$ 14,380
Payable to parent	9,131	7,579
Other liabilities	21,138	19,762
Deferred income taxes	36	224
Total current liabilities	47,489	41,945
Long-term liabilities:		
Deferred income taxes	1,349	1,601
Total long-term liabilities	1,349	1,601
Member's equity:		
Contributed capital	34,961	28,461
Retained earnings	42,780	39,682
Total member's equity	77,741	68,143
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 126,579	\$ 111,689

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
REVENUES		
Total revenues	\$ 329,929	\$ 248,023
EXPENSES		
Total expenses	314,003	239,467
Gain from operations	15,926	8,556
Investment loss	(11,036)	(2,230)
Income before income taxes	4,890	6,326
Provision for income taxes	1,792	2,096
NET INCOME	\$ 3,098	\$ 4,230

STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
NET INCOME	\$ 3,098	\$ 4,230
<i>Other comprehensive income (OCI), net of tax</i>		
Unrealized gains/losses on investments:		
Unrealized holding (losses) arising during period, net of \$67 tax benefit in 2011	-	(126)
Less: reclassification adjustment for OCI included in net income	-	-
Total unrealized (losses) on investments	-	(126)
<i>Other comprehensive income(loss)</i>	-	(126)
COMPREHENSIVE INCOME	\$ 3,098	\$ 4,104

STATEMENTS OF CHANGES IN MEMBER'S EQUITY (IN THOUSANDS)

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance January 1, 2011	\$ 28,461	\$ 35,452	\$ 126	\$ 64,039
Net income	-	4,230	-	4,230
Other comprehensive income	-	-	(126)	(126)
Balance December 31, 2011	28,461	39,682	-	68,143
Net income	-	3,098	-	3,098
Contribution of capital	6,500	-	-	6,500
Balance December 31, 2012	\$ 34,961	\$ 42,780	\$ -	\$ 77,741

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,098	\$ 4,230
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,155	670
Amortization on bonds	38	32
Loss on fixed asset disposals	2	-
Realized gain on investments	(31)	(347)
Equity in income of affiliates	11,174	2,806
Deferred income tax provision	(804)	2,218
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(673)	(243)
Decrease/(increase) in receivables from affiliates	1,092	(1,034)
(Increase) in accrued revenue	(7,118)	(7,845)
Decrease/(increase) in prepaid expense	1,425	(437)
Increase in accrued payroll, taxes and benefits	2,804	1,288
Increase/(decrease) in payable to parent	1,552	(703)
Increase/(decrease) in other liabilities	1,376	(3,687)
Net cash provided by/(used in) operating activities	15,090	(3,052)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution to affiliate	(3,474)	(6,050)
Fixed assets purchased	(304)	(1,525)
Fixed assets sold	-	74
Investments redeemed - held-to-maturity	316	-
Investments sold - available-for-sale	-	3,144
Investments purchased - held-to-maturity	(56)	(1,159)
Investments purchased - available-for-sale	(86)	(327)
Net cash (used in) investing activities	(3,604)	(5,843)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contribution from parent	6,500	-
Net increase/(decrease) in cash and cash equivalents	17,986	(8,895)
Cash and cash equivalents beginning of year	9,879	18,774
Cash and cash equivalents end of year	\$ 27,865	\$ 9,879
Supplemental disclosures of cash paid during the year for: Income taxes	\$ 1,840	\$ 3,058

The accompanying notes are an integral part of these financial statements.

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Palmetto GBA, LLC (the Company) is a single-member limited liability company organized on January 1, 1998. The Company's sole member is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company is engaged in the business of providing Medicare Administrative Contractor Services (MACs), Medicare Part A fiscal intermediary services and Medicare Part B carrier services in various states. These services include health insurance claims processing and payment, customer service for health care providers, and payment safeguard functions designed to detect and prevent fraud and abuse in the Medicare program. The Company provides services to Medicare beneficiaries residing in various states and territories. The Company's major customer is the Centers for Medicare and Medicaid Services (CMS), the federal agency with fiduciary responsibility for the Medicare program.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies and the methods of applying those policies are summarized below:

Cash equivalents

Cash equivalents represent certificates of deposit that have maturities of less than three months at date of purchase and money market fund investments. Market risk for cash and cash equivalents is limited to any one institution when deposits exceed federally insured limits. The Company had cash deposits in excess of federally insured limits in the approximate amount of \$27,329,000 and \$9,671,000 at December 31, 2012 and 2011, respectively.

Financial instruments

The Company holds certain financial instruments including cash and accounts receivable. Management believes that the carrying values of financial instruments approximate fair value as required by Financial Accounting Standards Board (FASB) rules.

Subsequent events

Subsequent events have been evaluated through February 25, 2013, which is the date the financial statements were available to be issued. No events have occurred through that date that would require recognition or disclosure in the financial statements.

Asset valuation allowances

The Company recorded an allowance for uncollectible receivables in the amount of \$3,000 at December 31, 2012 and 2011.

Fixed assets

Fixed assets are stated at amortized cost. Depreciation on new assets purchased is computed using the straight-line method over the estimated useful lives of the respective assets: four to eight years for furniture and fixtures, three to five years for data processing

equipment and software, and four years for automobiles. Leasehold improvements are depreciated over the lesser of the remaining lease term or estimated useful life of the asset. Depreciation on used assets purchased is computed by using the straight-line method over the estimated remaining useful lives at the time of purchase of the respective assets.

Investment in affiliates

The Company has a 25% interest in TriCenturion, Inc. that is accounted for using the equity method. The Company's proportionate share of earnings or losses of this affiliate are reflected in income as earned and dividends or distributions are credited against investment in affiliate when received. The Company has not received any dividends as of December 31, 2012 and 2011.

ASSETS, LIABILITIES & RESULTS OF OPERATIONS FOR TRICENTURION, INC. (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
Assets	\$ 11,201	\$ 10,798
Liabilities	\$ 4,537	\$ 4,315
Net Income	\$ 179	\$ 177

In December 2012, the Company disposed of its interest in Healthcare Administration Association of America, LLC (HAAA). The Company realized a loss of \$11,000,000 related to this disposal. In 2011, the Company recognized a loss of \$3,000,000.

Investments

Investments are comprised of common stocks, bonds and money market mutual funds.

These assets are accounted for in accordance with FASB guidance which requires that fixed maturities are to be classified as either "held-to-maturity", "available-for-sale", or "trading".

Management determines the appropriate classification of its fixed maturity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Fixed maturity securities are classified as held-to-maturity when the Company has the positive intent and ability to hold them to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization as well as interest earned is included in investment income. Fixed maturity securities that are not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value based on published exchange prices, with the unrealized gains and losses reported in stockholder's equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest earned is included in investment income. The cost of securities sold is based on the specific identification method.

Revenue recognition policies

The Company recognizes revenue on the Jurisdiction 1 A/B MAC, Jurisdiction 11 A/B MAC, Single Testing Contractor (STC), National Supplier Clearinghouse (NSC) MAC and Provider Education Support Service (PESS) contracts on cost plus a fixed fee basis. Award fees, if applicable, for these contracts are recognized based upon historical performance or

management estimates if no historical data is available.

The Company recognizes revenues based upon allowable costs incurred which are reimbursable under the terms of the Medicare Part A Fiscal Intermediary subcontract between the Company and the Blue Cross Blue Shield Association (BCBSA) (this includes the Regional Home Health Intermediary subcontract), the Medicare Part B Carrier Services contract between the Company and CMS and the Railroad Retirement Board Part B Carrier contract between the Company and the Railroad Retirement Board.

The Company recognizes revenue on the Direct Data Entry System Access (DDE), Competitive Bidding Implementation Contractor (CBIC), Customer Support and Front End System (CSSC), and various other contracts when services are performed and billable.

Reclassifications

Certain reclassifications have been made to the 2011 amounts to conform to the 2012 presentation.

These classifications resulted in no change to net income or member's equity.

Income taxes

The Company adopted the authoritative guidance on accounting for and disclosure of uncertainty in tax positions on January 1, 2009, which required the Company to determine whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized

upon ultimate settlement with the relevant taxing authority. The tax position determination did not have a material effect on the Company's financial statements.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. As of December 31, 2012, the tax years 2009 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

If applicable, the Company accrues interest and penalties that may be assessed by the taxing authorities on any underpayment of tax. As of December 31, 2012, the Company had not accrued any interest and penalties related to income tax accruals.

Fair value measurements

The Company adopted the provision of Accounting Standards Codification (ASC) 820 effective 2009. ASC 820 establishes a framework for measuring the fair value of assets and liabilities recognized in the financial statements in periods subsequent to initial recognition.

New accounting matters

The FASB issued ASU 2011-05, *Comprehensive Income*. This standard eliminates the presentation of accumulated other comprehensive income within the Statements of Changes in Members Equity and instead requires accumulated other comprehensive income to be presented either in a single statement of comprehensive income along with net income or as a separate financial statement. The Company adopted ASU 2011-05 effective January 1, 2012, for the periods presented within these statements. This adoption did not have an impact on the Company's results of operations, cash flows, or financial position.

FASB issued ASU 2011-08, *Intangibles – Goodwill and Other*, which is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles- Goodwill and Other*. The Company adopted ASU 2011- 08 effective January 1, 2012, for the periods presented within these statements. This adoption did not have an impact on the Company's results of operations, cash flows, or financial position.

FASB has issued ASU 2012-02, *Intangibles- Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company does not anticipate ASU 2012-02 will have a material impact on the Company's results of operations, cash flows, or financial position.

FASB has issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments to the Codification in ASU No. 2011-12 are effective at the same time as the amendments in ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, so that entities

will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012. The Company does not anticipate ASU 2011-12 will have a material impact on the Company's results of operations, cash flows, or financial position.

FASB has issued Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments to the *FASB Accounting Standards Codification (Codification)* in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not anticipate ASU 2011-11 will have a material impact on the Company's results of operations, cash flows, or financial position.

NOTE 2 FIXED ASSETS

FIXED ASSETS (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
Leasehold improvements	\$ 204	\$ 201
Equipment, furniture & fixtures	25,408	25,190
Software	7,418	7,335
Automobiles	-	21
	<u>33,030</u>	<u>32,747</u>
Accumulated depreciation	(28,644)	(27,508)
	<u>\$ 4,386</u>	<u>\$ 5,239</u>

Depreciation expense was \$1,155,000 and \$670,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 3 INVESTMENTS

LONG-TERM INVESTMENTS (IN THOUSANDS)

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2012				
Held-to-maturity securities:				
Corporate bonds	\$ 2,403	\$ 112	\$ 1	\$ 2,514
Total held-to-maturity securities	2,403	112	1	2,514
Available-for-sale securities:				
Common stocks	86	3	3	86
Total long-term investments	\$ 2,489	\$ 115	\$ 4	\$ 2,600
DECEMBER 31, 2011				
Held-to-maturity securities:				
Corporate bonds	2,670	91	57	2,704
Total held-to-maturity securities	\$ 2,670	\$ 91	\$ 57	\$ 2,704

The fair value of available-for-sale securities with unrealized losses was \$59,000 and \$0 at December 31, 2012 and 2011, respectively. The Company monitors investment securities for other than temporary declines in fair value. In determining whether a decline in fair value is other than temporary, consideration is given to the extent of the decline, the length of time fair value has been below cost, and other relevant factors including estimated future cash flows. None of the unrealized losses at December 31, 2012, were considered other than temporary.

AMORTIZED COST & ESTIMATED FAIR VALUES OF HELD-TO-MATURITY DEBT SECURITIES, BY CONTRACTUAL MATURITY (IN THOUSANDS)

	Amortized Cost or Cost Value	Fair Value
DECEMBER 31, 2012		
Held-to-maturity securities:		
Due in one year or less	\$ 40	\$ 41
Due in one year through five years	2,316	2,427
Due in one year through ten years	47	46
Total held-to-maturity	\$ 2,403	\$ 2,514

There were gross realized gains of \$31,000 and \$428,000 for the years ended December 31, 2012 and 2011, respectively, and there were gross realized losses of \$0 and \$80,000 for the years ended December 31, 2012 and 2011, respectively, that were included in net investment income. Gross unrealized holding gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income in the accompanying balance sheets. No cash or assets are pledged or restricted for any purpose.

For held-to-maturity investments in an unrealized loss position at December 31, 2012, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$1,000 and the aggregate estimated fair value was \$46,000. There were no held to maturity investments in an unrealized loss position for more than twelve months at December 31, 2012.

Fair Value Measurements

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

LEVEL 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

LEVEL 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

LEVEL 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

FAIR VALUE OF ASSETS & LIABILITIES MEASURED ON A RECURRING BASIS (IN THOUSANDS)

	Level 1	Level 2	Level 3	Total
DECEMBER 31, 2012				
Held-to-maturity securities:				
Corporate bonds	\$ -	\$ 2,514	\$ -	\$ 2,514
Available-for-sale securities:				
Common stocks	86	-	-	86
Total	\$ 86	\$ 2,514	\$ -	\$ 2,600
DECEMBER 31, 2011				
Held-to-maturity securities:				
Corporate bonds	-	2,704	-	2,704
Total	\$ -	\$ 2,704	\$ -	\$ 2,704

The Company measures certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the years ended December 31, 2012 and December 31, 2011, the Company did not record any other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

NOTE 4 INCOME TAXES

The Company's operations are included in the consolidated federal income tax return of BCBSSC. Under a written tax-sharing agreement, BCBSSC allocates the tax provision to each company within the consolidated group based upon the company's proportionate share of the consolidated federal income tax liability computed on a stand-alone basis, multiplied by the total consolidated federal income tax return liability.

The Company had income tax receivables from BCBSSC of \$31,000 and \$1,147,000 at December 31, 2012 and 2011, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of \$1,840,000 and \$3,058,000 during the years ended December 31, 2012 and 2011, respectively.

RECOGNIZED PROVISION FOR INCOME TAXES (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
Current	\$ 2,596	\$ (122)
Deferred	(804)	2,218
Total income taxes incurred	\$ 1,792	\$ 2,096

Unrealized losses on investments charged directly to equity have been reduced by deferred income tax benefit of \$0 and \$68,000 for the years ended December 31, 2012 and 2011, respectively.

The provision for income taxes differs from the amount computed by applying the federal statutory tax rate of 35% to income before income taxes primarily due to changes in the tax contingency reserve, investment in subsidiaries, and the dividends received deduction allowed for tax purposes. The temporary differences that give rise to deferred tax assets and liabilities are primarily related to accrued expenses, fixed assets, and prepaid expenses. There was no valuation allowance at December 31, 2012 and 2011.

Deferred tax assets and liabilities are classified as current and long-term based on the classification of the related asset or liability.

DEFERRED TAX ASSETS & LIABILITIES (IN THOUSANDS)

	Years ended December 31,	
	2012	2011
Deferred tax assets:		
Current	\$ 3,554	\$ 3,190
	3,554	3,190
Deferred tax liabilities:		
Current	\$ 36	\$ 224
Long-term	\$ 1,349	\$ 1,601
	1,385	1,825
Net deferred tax asset	\$ 2,169	\$ 1,365

NOTE 5 RELATED PARTIES

The Company is a single-member limited liability company owned by BCBSSC. Certain offices, other facilities and services are provided by BCBSSC pursuant to an administrative services agreement. Expenses associated with the administrative services agreement allocated from BCBSSC to the Company totaled \$72,714,000 and \$62,374,000 for the years ended December 31, 2012 and 2011, respectively. The Company paid \$94,127,000 and \$85,480,000 during the years ended December 31, 2012 and 2011, respectively, to BCBSSC for expenses paid on behalf of the Company.

There are certain administrative services provided by the Company to BCBSSC and its subsidiaries. The Company received \$27,879,000 and \$10,672,000 for these services during the years ended December 31, 2012 and 2011, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

A financial guarantee has been issued by BCBSSC, which equals the Company's estimated annual net operating expenses multiplied by 8.33%, less current capitalization. This guarantee is estimated to be \$0 at December 31, 2012. BCBSSC has also executed an indemnification agreement, pursuant to minimum reserve and other requirements established by the Blue Cross and Blue Shield Association (BCBSA). BCBSSC is therefore liable to the Company to the extent of its financial guarantee and to the BCBSA to the full extent of its assets for any claims asserted against the BCBSA resulting from the contractual and financial obligations of the Company arising out of its Medicare Part A subcontract with the BCBSA.

In consideration of the novation of the fiscal intermediary and carrier contracts from BCBSSC to the Company, BCBSSC has issued a financial guarantee which equals 20% of the administrative costs of the contracts contained in the Notice of Budget Approval, less current capitalization. This guarantee is estimated to be \$0 at December 31, 2012. The financial guarantee agreement remains in effect until both the contracts and intermediary agreement expire, are non-renewed or are terminated, and closing agreements are executed.

In addition, BCBSSC has executed a statutorily required financial guarantee of \$75,000 on behalf of the Company in order for the Company to obtain a Third Party Administrator's license pursuant to the South Carolina insurance laws.

The Company recorded an estimated contingent liability for potential repayments of costs claimed on

its contracts with CMS. The liability was \$5,255,000 and \$5,075,000 at December 31, 2012 and 2011, respectively.

The Company is obligated for additional capital contributions of up to \$75,000 to its former affiliate HAAA.

The Company has entered into certain non-cancelable operating leases in excess of one year as of December 31, 2012.

FUTURE REQUIRED MINIMUM LEASE PAYMENTS (IN THOUSANDS)

<u>Years ended December 31,</u>	<u>Amount</u>
2013	\$ 1,711
2014	1,410
2015	1,435
2016	1,438
2017	1,349
Total	\$ 7,343

Total rent expense was \$3,442,000 and \$3,545,000 during the years ended December 31, 2012 and 2011, respectively. The majority of the Company's leases are guaranteed by BCBSSC.

In the ordinary course of business, there are various legal proceedings pending against the Company. Management believes the aggregate liabilities, if any, arising from legal actions would not have a material adverse effect on the financial position of the Company.

NOTE 7 EMPLOYEE BENEFIT PLANS

The Company's employees are part of the 401(k) plan sponsored by BCBSSC. Eligible employees may defer up to 50% of their salary and the Company matched 50% of the first 6% deferred in 2012 and 2011. For employees hired after January 1, 2003, there is a 2-year cliff-vesting schedule on the match contribution. For certain employees not covered by the BCBSSC defined benefit pension plan, the Company makes a discretionary contribution to the 401(k) plan which is 50% vested for employees with one year of service and fully vested for employees with two years of service. Employees must be employed on the last day of the year to be eligible for the discretionary contribution, unless terminated during the year due to retirement (age 55 and 5 years of service), death or disability. The discretionary contribution for 2012 and 2011 was 6% of salary.

The cost of providing the 401(k) contribution was \$3,498,000 and \$3,478,000 for the years ended December 31, 2012 and 2011, respectively. The pension expense allocated to the Company under the BCBSSC pension plan was \$5,291,000 and \$5,427,000 for the years ended December 31, 2012 and 2011, respectively.

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