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An Independent Licensee of the Blue Cross and Blue Shield Association

Relationships = RESULTS

TECHNOLOGY

OPPORTUNITY

DEDICATION

WELLNESS

The Formula for Success

Annual Report 2007

Relationships = **RESULTS**
The Formula for Success

*Making a difference through service, technology and wellness initiatives
to deliver successful outcomes to our customers and community.*

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PRESIDENT'S MESSAGE

The Formula for Success

In business as in our personal lives, relationships are very important and have a significant impact on our overall success. In effect, Relationships = Results.

At Mountain State Blue Cross Blue Shield we have been blessed with a number of great relationships, and by capitalizing on them, we have experienced Great Results! And not only financial results, but the empowerment of our members and providers by making available technology that enables them to have immediate access to information. Also, utilizing relationships with a number of entities, we are providing many opportunities for our members to personally play a much greater role in impacting their health.

To be successful, an organization must have a solid infrastructure and a great workforce. We do! Our affiliation with Highmark has enabled us to utilize systems and provide products and services that are unsurpassed.

This coupled with an excellent workforce capable of delivering these products and services to our members, providers and the community has significantly enhanced our reputation and public perception.

In recognition of the spiraling increases in health care costs, Mountain State Blue Cross Blue Shield for several years has been actively involved in researching, publishing and enlightening public officials and decision makers on factors contributing to the increases in cost. Inadequate reimbursement to providers from public payors, duplication of facilities and services and an aging and unhealthy population are all major contributors to rising health care costs.

In an era of consumer awareness and consumer driven health care plans, Mountain State Blue Cross Blue Shield has made a significant commitment to provide our customers a wide variety of services targeted

toward keeping them better informed. This is one of the most significant efforts we can undertake to impact the cost of health care.

A number of services are available on-line that allow members to evaluate their health and wellness, make better lifestyle choices and view claims and other information. Also, there are a number of programs that offer personalized support for lifestyle improvements. A service is available via telephone that allows the member to become more active in their health care by receiving information about medical conditions and treatment options. We also provide specific health screenings to our members and the general public. Additionally, we provide specific programs to help members prevent, manage or reverse certain conditions.

Finally, we have also entered partnerships and provided programs in conjunction with the Governor's Office and State Agencies to

improve the health status of our children through the school system.

Before closing, I must acknowledge and remember a gentleman who played a major, major role in the establishment and success of Mountain State Blue Cross Blue Shield. Without the single-handed action of Tom Farson, Mountain State Blue Cross Blue Shield might not exist. Tom served as the President and CEO of Mountain State Blue Cross Blue Shield for five years and continued serving on the board for 12 years after his

retirement. Tom passed away on February 1, 2008, and though he is gone, he is certainly not forgotten!

2007 was another great year, but none of the things we accomplished would have been possible without great relationships with Highmark, our groups, our agents, our providers, state officials and most importantly, our employees!

***Remember,
Relationships = Results!***



Gregory K. Smith
*President and
Chief Executive Officer*

Highmark = TECHNOLOGY

During 2007, we continued to reap the benefits of our affiliation with Highmark. This relationship has perhaps been one of our greatest endeavors, and has positively changed how we do business with our customers and providers. The affiliation has enabled us to enhance and add technology and provide products and services to our members and providers that would have been very difficult for us to have done on our own. This technology can best be demonstrated through the on-line capabilities we have developed to enable members and providers to have immediate access to a variety of information.

NaviNet

Mountain State Blue Cross Blue Shield has been very pleased to be able to continue offering our network facilities, physicians and other health care providers access to our provider portal, NaviNet. Through utilization of NaviNet, providers have the power to obtain valuable information from Mountain State using the internet. This free, easy to

use, on-line program assists users in obtaining information about patients' eligibility, benefits, claims status and many other transactions.

Since its introduction, we have continued to rollout NaviNet to our remaining lower-volume network providers, complete the development of new transactions, monitor utilization and evaluate provider satisfaction with the system. We further enhanced our NaviNet system throughout the year with the introduction of several new transactions available for provider use. One such



introduction was the addition of NaviNet Claims. This new program offers the industry's best platform for sending, confirming and checking the status of claims electronically. NaviNet Claims provides claims submission products, services and an electronic claims clearinghouse, as well as comprehensive training and support that reduce administrative costs and improve claim workflow for providers.

Additional transactions new to NaviNet for 2007 included the following: Allowance Inquiry – a feature set up to return pricing amounts for the plan and procedure code selected; EOB/Remittance – a capability designed to allow providers to download a copy of their weekly EOB and Remittance reports in PDF format; Claims Dashboard – a feature which allows



providers to track all pended and finalized claims by provider number instead of by individual member number; Provider File Management – designed for providers to view their Mountain State provider file to ensure their office addresses, telephone numbers, networks and practitioners are



correct; Member Responsibility Calculator – helps determine what a provider can collect at point of care from

Mountain State members who have not met their in-network deductible or in-network out-of-pocket; and UB Claim Submission – allows facility claims to be submitted electronically.

Employee/Employer Portals

As our members and groups grow more accustomed to and comfortable with having immediate access to their records and files, so has the utilization of our on-line resource,

My Benefits Home, www.mybenefitshome.com, grown. Through this system, both our members and employer groups personally play a much greater role in their health and the health of their employees.

The employer portal of My Benefits Home enables our groups to make on-line changes to their enrollment such as address changes and adding or terminating employees and dependents. Groups are also able to utilize e-Bill to pay premium payments on-line and Plan Administrators can request ID cards, view benefits booklets, find providers and update the group's information. Currently, over 300 Mountain State groups are enrolled for usage of this convenient, on-line resource.

Mountain State members can access the member portal of My



Benefits Home to manage their claims, track health care costs, research treatment and health care provider options and review benefits all from this helpful site. The member portal provides information about lifestyle improvement and preventive care recommendations. Health articles are also available so that members can further their knowledge and understanding of different diseases, care management, surgeries and procedures.

Access to My Benefits Home is available 24 hours a day – 7 days a week at www.mybenefitshome.com.

Members = OPPORTUNITIES

The results experienced from our valuable relationships have played a significant role in our continued success. Without the technology resulting from our relationship with Highmark, it would have been difficult to provide the following additional opportunities for our members. These opportunities delivered as our products and services are what set us apart from the competition.

My Benefits Home – ***www.mybenefitshome.com***

As mentioned earlier, through My Benefits Home, Mountain State members are able to be more actively involved in their health care decisions through a variety of resources and information available through the click of a mouse.

During 2007, Mountain State members became better educated on how My Benefits Home could work best for them. Members were introduced to HealthMedia® – a series of six online programs that offer personalized support for lifestyle improvements. Whether a member wishes to manage their weight, decrease stress, quit smoking, improve

eating habits or make healthier lifestyle choices in general, these programs assist members in meeting their wellness goals.

Added as a new feature in 2007 to My Benefits Home was the Personal Health Record (PHR). Using claims data from health, drug and other relevant information, the PHR offers members a personalized Health Action Plan that provides specific action items for improvements to their listed health conditions. This added capability also links members to various programs to help them manage possible health issues and provides them with detailed information to ensure they are fully educated about their health.

Additionally, the detailed personal health history located within the PHR is supplemented with a tool that enables members to prepare for health care appointments with their physician. This tool allows members to print portions of their individual record to share with providers and other caregivers, therefore empowering the member to have control of their overall health.

Complementary Wellness Discount Program

Through a partnership developed with Healthways Wholehealth Networks, Inc., Mountain State Blue Cross Blue Shield members became eligible in August for a Complementary Wellness Discount Program for complementary and alternative medicine products and services.

Through this program, members can receive discounts of up to 30% on non-covered services (e.g. services that do not meet medical necessity criteria or services that exceed benefit limits) such as fitness center memberships, massage therapy, dietary counseling, personal trainers, chiropractors, mind/body therapies, holistic practitioners, vitamins, nutritional supplements, health magazines, etc.

To take advantage of this service, Mountain State members simply log on to www.mybenefitshome.com. WholeHealth Networks is the leading national network of over 35,000 Complementary and Alternative Medicine (CAM) practitioners. Their mission is to help practitioners and clients prosper

in the health care marketplace by making alternative health and wellness practitioners available to members.

Blues On CallSM

Taking a proactive approach to one's wellness plays a major part in better health. Through Blues On CallSM, Mountain State members can call a Health Coach, 24 hours a day, 7 days a week, 365 days a year. Health Coaches are experienced nurses, dietitians and respiratory therapists who provide patients with information and support to assist them in better understanding and dealing with their medical conditions.

Continuous promotion to our members regarding Blues On Call has been essential to increase participation. Throughout most of the year, a majority of our efforts have been concentrated on this task. Articles regarding Blues On Call are being sent to groups on a monthly basis, and a CD of materials for Mountain State to use as "print on demand" has been developed. These materials focus on health topics while also promoting the program to the member.

The second release of the SMART[®] Registry, a Blues On Call tool to assist physicians to better manage chronic patients, was distributed in March. The Registry is a claims-derived list of patients with one or more of these chronic conditions: diabetes, diabetes plus hypertension, coronary heart disease, heart failure, asthma, and chronic obstructive pulmonary disease.

The SMART[®] Registry provides information about demographics, diagnoses and utilization data, and identifies gaps in recommended evidence-based clinical care. Three reports included in the Registry provide practice-wide and patient-specific information to primary care physicians and their offices. In addition, the Registry identifies whether or not patients are currently in contact with a Blues On Call Health Coach.

The goal of the Blues On Call program is to teach members self-care skills, increase their self-confidence, support them in adhering to their doctor prescribed treatment plans and help them work effectively with their physician.



CorCell[®]

Another new service introduced for Mountain State members during the year was the CorCell[®] Saving Baby's Blood[®] Program. Through utilization of this program, members are eligible for a \$350 discount for cord blood collection and processing.

Saving a newborn baby's umbilical cord blood could be the most important investment a person could make for the baby's future. The health of a child or other family member tomorrow could depend on the viability of the cord blood collected today. Currently over 70 diseases can be treated with umbilical cord blood stem cells, including leukemia, sickle cell anemia, Tay-Sachs and non-Hodgkin's lymphoma. Medical researchers are exploring new uses for cord blood stem cells for treatments for Alzheimer's disease, Parkinson's disease, heart attack, stroke, diabetes and spinal cord injury.

Employees = DEDICATION

A critical formula exists for meeting the needs and expectations of our customers. This formula is – highly trained, respected and content employees with state-of-the-art systems = customers whose needs and expectations are met. Recognizing that our employees are the most important asset of the organization, we established several new projects throughout the year designed to strengthen this relationship.

New Corporate Headquarters

The first of these projects included preparations for construction of a new Corporate Headquarters in Parkersburg. From an initial study of the need for a new building conducted in 2006, it was determined that construction of a new headquarters just made good business sense. The review concluded that a new building would greatly improve operational efficiencies, and would result in lower facility operating costs. The new headquarters will consist of approximately 127,000 square feet, and will consolidate Mountain State's

675 Parkersburg-based employees into one building versus four.

As 2007 progressed so did the planning stages of this project. Site remediation

and excavation for our new headquarters began in October. Additionally, construction contract bids were received at the end of November and subsequently awarded to Fairmont-based contractor G.A. Brown & Son, Inc., in December. With construction planned to start at the beginning of 2008, the building is projected for completion in May, 2009.

Performance

A cornerstone of Mountain State Blue Cross Blue Shield has been and continues to be our commitment to service and quality. As a



result, significant emphasis was once again placed on meeting performance goals and customer expectations during 2007. Because of the commitment our workforce has

continued to make in meeting the needs of our customers as well as the company's overall goals and objectives, we once again met all national BCBSA performance standards for the year.

In recognition of the interest and dedication our employees take in meeting our company's objectives, each became eligible to receive in March for the first time a financial award based upon Mountain State's continued success in meeting all financial, contract and performance goals. We have always been proud of the commitment our

employees show in making our company successful and look forward to continuing this trend in the years to come.

Blue Cross Blue Shield Association Award

Mountain State Blue Cross Blue Shield was once again recognized by the Blue Cross Blue Shield Association (BCBSA) by receiving a Brand Excellence Award in the Member Retention category for having a high member retention rate over the past year. This is the second year in a row that we have been recognized for this achievement.

Since its inception in 1995, the BCBSA Brand Excellence Award program has honored Blue Cross and Blue Shield companies across the country that excel in developing and enhancing the overall image of the Blue Cross and Blue Shield brands – some of the most recognized and trusted in the world.

The winning companies were evaluated on the following six measures that represent Brand Excellence according to the BCBSA:

Brand Awareness, Enrollment Growth, Membership Recommendation, Member Retention, Brand Extension and Provider Satisfaction.

Great Place To Work®

During the fall of 2006, every Mountain State employee was given the opportunity to provide input into the Great Place to Work® Trust Index® Survey. This survey was designed to gain valuable information from each employee in order to transform Mountain State from a good place to work into a “Great Place to Work”.

The preliminary findings from this survey were presented to the Mountain State Executive Team in 2007, and consisted of data from nearly 740 participants and more than 60 pages of comments. Even though most of the survey findings proved we do many things well, there were areas that needed to be addressed. Therefore, a Project Manager was assigned to work with management to address these issues, and to form employee focus groups. Meetings



of the focus groups to discuss the survey findings, identify potential solutions and implement the appropriate ones, were conducted throughout the year.

Based on the recommendations from the focus groups, many new programs were initiated to help ensure an increase in satisfaction among our employees. Our success will be measured by the results of the next Great Place to Work® Trust Index® Survey scheduled to be conducted in 2008. Programs implemented included a Leadership Development Program for future potential Mountain State management candidates, an enhancement in training and career development for all employees, the distribution of special employee recognition cards generated from upper management, and development of community service/ volunteering opportunities for employees.

Community = WELLNESS

The last of our established relationships consists of the one we have developed with the communities around us. Recognizing the poor health status of the population in West Virginia, it has become imperative that we play a greater role in promoting healthy lifestyles for our members and the citizens of the state.

WalkingWorksSM Capitol Challenge

As a way to raise awareness of physical activity while showcasing positive role models promoting a healthy lifestyle change, Mountain State organized a four-week walking competition between the members and staff of the West Virginia House of Delegates, State Senate and Governor's office. Conducted during the 2007 Legislative session, this challenge was designed to assist participants in becoming more physically active by using a pedometer to track the number of steps taken each day.

A total of 91 participants competed in this challenge, walking a total of 18,055,189 steps which is equivalent to approximately 9,030 miles. As a whole, participants averaged

9,918 steps, or 5 miles, per day. With a final team average of 10,703 steps per day, the House of Delegates team was named the overall winner. A trophy was presented to a representative of the House for display in the House Speaker's office for a year. Additional awards were presented to the individual who had the highest number of steps by the end of the competition, the participant who increased their steps consistently each week and was considered to be most improved, and to the oldest walker. The WalkingWorksSM Capitol Challenge is planned to be an annual event.

National Walk @ Lunch Day

In April, Mountain State Blue Cross Blue Shield participated and promoted the first National Walk @ Lunch Day. This national event is a workplace walking program, developed by the Blue Cross Blue Shield

Association. It encourages people to take time during their lunch breaks to start walking toward better health. Most Americans' schedules are built around their workdays, so National Walk @ Lunch Day was designed to fit into – not compete with – their daily routine.

To celebrate this special day in Charleston, a 30-minute walk along the eastbound lanes of Kanawha Boulevard was conducted from two separate starting points. First Lady, Gayle Manchin, kicked off the walk at Greenbrier Street and Kanawha Boulevard, along with state employees. Kanawha County and Charleston City employees, along with employees of Mountain

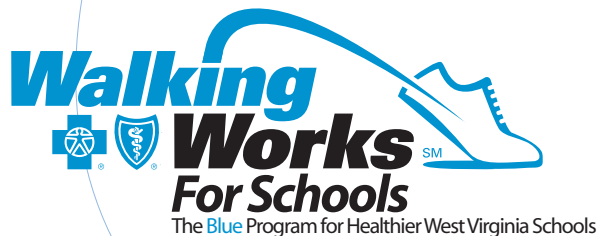
State, joined Assistant Mayor, Rod Blackstone, at Capital Street and Kanawha Boulevard. All participants met halfway at the Mountain State HealthPLACE on the Move health bus for refreshments. This too is planned to be an annual event.



Challenge For Healthier Schools

For the past few years, Mountain State Blue Cross Blue Shield has been actively engaged in addressing obesity and inactivity among the youth within our state through the Challenge for Healthier Schools program. With the first three-year Challenge program ending in 2006, a proposal for a new pilot program, WalkingWorksSM for Schools, was presented to two separate county school systems during 2007. These West Virginia counties were Roane and Webster.

WalkingWorksSM for Schools is a walking program for students, teachers, staff and administrators. The program encourages teachers to instruct children in grades 1 through 8 the benefits of proper exercise as part of a healthy lifestyle. Participants are invited to walk using pedometers for a six week period in the spring and fall. The five schools within each county will compete



against each other for a \$5,000 grant that will support the Wellness Council initiatives for the winning school. Several individual awards will also be provided to students at each participating school, and Roane and Webster counties will compete against each other as a school system for the chance to receive an additional \$2,500 grant.

HealthPLACE on the Move

The HealthPLACE on the Move mobile health screening facility has continued to keep pace with Mountain State's commitment in promoting a healthier way of life for members and the community. This year we screened more than 11,000 West Virginians and visited 142 community or company work sites statewide.

HealthPLACE on the Move has enabled us to reach out to our group customers and participate in community and civic events. Through its travels, HealthPLACE on the Move has enlightened many about healthier lifestyle choices and disease prevention while working with their physicians when necessary. Through educational materials and basic health screenings such as:

blood pressure testing, body composition assessment and blood screenings that include cholesterol, triglycerides, glucose, and for men, PSA levels, we can enhance health awareness for our members and the citizens of West Virginia.

Flu Shot Donations

In its continuing effort to improve the overall health status of West Virginia citizens, while at the same time working to combat the rising cost of health care, Mountain State Blue Cross Blue Shield donated 500 flu vaccines in October to be used for the needy in our area. Receiving this donation was FamilyCare of Charleston, and the Good Samaritan Clinic from Parkersburg. Both clinics utilized the vaccines to provide free flu shots to the uninsured and medically needy. Additionally, FamilyCare administered a portion of its donation to residents of area homeless shelters.



Consolidated Balance Sheets (GAAP)

December 31, 2007 and 2006 (in thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 35,987	\$ 31,246
Restricted cash	8,848	-
Investments		
Debt securities, available-for-sale at fair value (amortized cost of \$161,648 at December 31, 2007 and \$145,741 at December 31, 2006)	163,129	145,558
Equity securities, available-for-sale at fair value (cost of \$12,628 at December 31, 2007 and \$9,489 at December 31, 2006)	14,066	10,615
Accounts receivable		
Trade	48,439	42,288
Government programs	40,191	52,661
Other	4,447	4,287
Securities lending collateral	33,220	21,270
Reinsurance recoverables	442	883
Property and equipment, net	18,061	21,604
Deferred income taxes, net	4,081	-
Prepaid pension asset	-	12,085
Other assets	650	1,149
Total assets	\$ 371,561	\$ 343,646
Liabilities and Reserves		
Claims outstanding	\$ 79,983	\$ 91,714
Unearned subscription revenue	27,182	30,888
Amounts held for others	1,039	1,225
Other payables and accrued expenses	28,535	21,390
Book overdraft	15,060	23,164
Securities lending payable	33,220	21,270
Due to related party	2,198	1,651
Benefit plan liabilities	22,109	10,853
Deferred income taxes, net	-	23
Capital lease obligation	674	948
Total liabilities	210,000	203,126
Accumulated other comprehensive (loss) income	(17,972)	755
General reserves	179,533	139,765
Total reserves	161,561	140,520
Total liabilities and reserves	\$ 371,561	\$ 343,646

Consolidated Statements of Operations (GAAP)

Years Ended December 31, 2007 and 2006 (in thousands)

<u>Revenue</u>	<u>2007</u>	<u>2006</u>
Premium revenue	\$ 653,735	\$ 651,893
Management services revenue	57,064	47,605
Net investment income	12,579	10,497
Net realized gain on investments	197	534
Other revenue	129	279
Total revenue	723,704	710,808
<u>Expenses</u>		
Claims incurred	555,345	574,479
Operating expenses	118,719	114,659
Total expenses	674,064	689,138
Income before income taxes	49,640	21,670
Income tax provision	9,872	4,167
Net income	\$ 39,768	\$ 17,503

GAAP derived from the audited financial statements of Mountain State Blue Cross Blue Shield. For a complete copy of the audited financial statements that were prepared in accordance with Generally Accepted Accounting Principles, please call 304-424-9813.

The Blue Cross and Blue Shield Association licenses Mountain State Blue Cross Blue Shield to offer certain products and services under the Blue Cross and Blue Shield brand names. Mountain State Blue Cross Blue Shield is an independent organization governed by its own Board of Directors.

Board of Directors



Kenneth Perdue

President, West Virginia
Labor Federation,
AFL-CIO

David Campbell

Chief Executive Officer
West Virginia Primary Care
Network, Inc.

Gregory K. Smith

President and
Chief Executive Officer

James Hayhurst, Jr.

Executive Vice President,
United Bankshares, Inc.

J. Mark Sengewalt

Chief Financial Officer
Treasurer
Senior Vice President,
Finance and Administration

Nan DeTurk

Chief Financial Officer
Treasurer
Executive Vice President
Corporate Finance
Highmark Inc.

Sandra R. Tomlinson

Senior Vice President
Provider Services
Highmark Inc.

Deborah L. Rice

Senior Vice President
Regional Accounts
Highmark Inc.

Judy Sjostedt

Executive Director
Parkersburg Area
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Management and Corporate Officers



Cindy Ayers

Vice President, Statewide
Service Operations

J. Fred Earley, II

General Counsel
Corporate Secretary
Senior Vice President,
External Operations

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President and
Chief Executive Officer

James R. Miller

Vice President,
Health Services

Scot N. Swartz

Vice President,
Sales

Sam Tyre

Vice President, Statewide
Claims Operations

J. Mark Sengewalt

Chief Financial Officer
Treasurer
Senior Vice President,
Finance and Administration

JoAnn Morrison

Senior Vice President,
Operations

Steven R. Hunt

Vice President, Actuarial
and Underwriting
Operations

This publication is being dedicated in memory of
Tom Farson

Tom Farson, 76, former president and board member of Mountain State Blue Cross Blue Shield, died at his residence in Parkersburg on Feb. 1, 2008. During his life, Tom spent over 40 years in the Blue Cross Blue Shield system.

While he contributed enormously to the system as a whole, Tom will best be remembered as the individual who single-handedly assured that the West Virginia plan would continue to operate as and market the world's best known health care symbols - the Blue Cross and Blue Shield.



Tom began his career with the company in February 1967 when it was Parkersburg Hospital Services Inc. and Medical Surgical Care. He became president of the company in 1973. In 1983, the company's name changed to Blue Cross and Blue Shield of West Central West Virginia.

On Oct. 12, 1990, he became the first president of the newly formed Mountain State Blue Cross Blue Shield (MSBCBS), and on May 1, 1995, Farson retired after 22 years as the company's chief executive. Tom continued to serve on the Board of Directors of Mountain State Blue Cross Blue Shield until December 31, 2007.

Employees at Mountain State Blue Cross Blue Shield will always remember Tom as a very kind, congenial and supportive leader. He was a man of few words, but his words spoke volumes. Many of our employees still remember the twinkle in his eyes and the warmth when he greeted them. Tom, you will sadly be missed.

OFFICES

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CHARLESTON

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An Independent Licensee of the Blue Cross and Blue Shield Association

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The Blue Cross and Blue Shield are Registered Marks of the Blue Cross and Blue Shield Association, an Association of Independent Blue Cross and Blue Shield Plans.