

ADDENDUM NO. 1 TO AMENDMENT NO. 2 TO FORM A**STATEMENT REGARDING THE ACQUISITION
OF CONTROL OF OR MERGER WITH DOMESTIC INSURERS:**

HIGHMARK INC.,
a Pennsylvania nonprofit corporation licensed to operate a hospital plan and a professional health services plan

FIRST PRIORITY LIFE INSURANCE COMPANY, INC.,
a Pennsylvania stock insurance company

GATEWAY HEALTH PLAN, INC.,
a Pennsylvania business corporation and licensed health maintenance organization

HIGHMARK CASUALTY INSURANCE COMPANY,
a Pennsylvania stock insurance company

HIGHMARK SENIOR RESOURCES INC.,
a Pennsylvania stock insurance company

HM CASUALTY INSURANCE COMPANY,
a Pennsylvania stock insurance company

HM HEALTH INSURANCE COMPANY,
d/b/a **HIGHMARK HEALTH INSURANCE COMPANY,**
a Pennsylvania stock insurance company

HM LIFE INSURANCE COMPANY,
a Pennsylvania stock insurance company

HMO OF NORTHEASTERN PENNSYLVANIA, INC.,
d/b/a **FIRST PRIORITY HEALTH,**
a Pennsylvania nonprofit corporation and licensed health maintenance organization

INTERCOUNTY HEALTH PLAN, INC.,
a Pennsylvania nonprofit corporation licensed to operate a professional health services plan

INTERCOUNTY HOSPITALIZATION PLAN, INC.,
a Pennsylvania nonprofit corporation licensed to operate a hospital plan

**KEYSTONE HEALTH PLAN WEST, INC.,
a Pennsylvania business corporation and licensed health maintenance organization**

**UNITED CONCORDIA COMPANIES, INC.,
a Pennsylvania stock insurance company**

**UNITED CONCORDIA DENTAL PLANS OF PENNSYLVANIA, INC.,
a Pennsylvania business corporation and licensed risk-assuming PPO**

**UNITED CONCORDIA LIFE AND HEALTH INSURANCE COMPANY,
a Pennsylvania stock insurance company**

BY

**UPE,
a Pennsylvania nonprofit corporation**

**Filed with the Insurance Department
of the Commonwealth of Pennsylvania**

January 18, 2013

PRIVATE AND CONFIDENTIAL TERM SHEET

**AMENDMENT TO AFFILIATION
AGREEMENT BETWEEN
HIGHMARK INC. ("HIGHMARK") AND
WEST PENN ALLEGHENY HEALTH SYSTEM,
INC., *et al.* ("WPAHS")**

This Term Sheet summarizes the terms and conditions of a proposed amendment (the "Amendment") to the Affiliation Agreement, dated as of October 31, 2011, between Highmark and WPAHS, among others (the "Affiliation Agreement"). The proposed terms of the Amendment are set forth below:

Highmark will make a cash tender offer for WPAHS Series 2007A bonds ("Bonds") at \$875.00 per \$1000.00 plus accrued interest to close by April 30, 2013 unless extended by mutual agreement of the Lockup Bondholders, the Trustee and Highmark (such date, as it may be extended, the "Outside Close Date")

A minimum of 73.5% of the outstanding principal of the Bonds must tender in order for Highmark's commitment to be effective

There will be no financing contingency to the tender or as a condition to close the tender

WPAHS consent to an extension of the Outside Close Date will not be required so long as the other terms of the tender and accompanying documents and agreements remain unchanged, and provided, further, that WPAHS consent, together with the consent of Highmark and the Lockup Bondholders, will be required in order to extend the Outside Close Date beyond May 31, 2013

Tendering Bondholders will waive all existing defaults under the indenture(s) and will agree to amend the indenture(s) to delete the following covenants:

Financial covenants

Financial reporting covenants

Limitation on additional indebtedness and guarantees

Limitations on liens to secure other indebtedness, but there will be no additional parity indebtedness except as currently permitted under the indenture(s)

The debt service reserve fund covenant will be modified to remove the coverage requirement for tendered Bonds, and the amount no longer required to be held in the debt service reserve fund will be deposited in the Project Fund under the Indenture with respect to the Bonds at closing (the remaining balance of the debt service reserve fund shall exclusively benefit the bondholders that did not tender their Bonds)

The Bonds purchased by Highmark in the tender will be exchanged for a new series of bonds. Principal and interest payments on the new bonds shall be deferred until July 1, 2015. Accrued but unpaid interest on the tendered Bonds through the closing date will be paid to Highmark on the next regularly scheduled interest payment date.

Highmark will make an additional \$75 million grant to WPAHS in lieu of the \$75 million previously committed under the Affiliation Agreement to a special purpose endowment fund to support medical education

Highmark will pay to WPAHS, as an advance against such \$75 million grant, up to \$33.6 million, for the following purposes: to fund debt service on the Series 2007A Bonds (i.e., \$12.3 million due February 7, 2013 and \$12.3 million due May 7, 2013); and to make a pension payment of \$9 million due April 15, 2013, provided, in each case, that the Affiliation Agreement has not been terminated. Highmark will make such payments to WPAHS prior to the due date for each. WPAHS will use such funds for the specified purposes and, provided it does so, it will have no repayment obligation with respect to these amounts.

The balance of such \$75 million grant will be unrestricted and unconditional, and paid to WPAHS at closing

Highmark will make additional loans of \$200 million to WPAHS as provided in the Affiliation Agreement

The parties will use their reasonable best efforts to resolve, prior to closing, any outstanding disputes between them relating to amounts due to/from one or the other. Undisputed net amounts will be paid upon funding of the Fourth Funding Commitment. Amounts, if any, remaining in dispute will be resolved within 60 days following closing and paid promptly thereafter.

To the extent permitted by the Indenture(s), Highmark loans (excluding the loans that are currently outstanding) will be secured *pari passu* with the Bonds or, to the extent not permitted to be so secured, by junior liens (i.e. as Subordinated Indebtedness), and by first priority liens on all unencumbered WPAHS assets (e.g., movable equipment). Loans that are currently outstanding will be secured by liens on otherwise unencumbered WPAHS assets *pari passu* with the liens securing the new loans and junior liens to the liens securing the Bonds (i.e. as Subordinated Indebtedness), provided it will be a condition precedent to WPAHS's obligation to secure currently outstanding loans that Highmark provide such indemnification as WPAHS may request.

Interest will not be payable on Highmark's loans at any time during the term if the result would be to reduce WPAHS's debt service coverage ratio to less than 3.0

Past-due interest will be paid on Highmark's currently outstanding \$100 million in loans upon effectiveness of the Amendment to the Affiliation Agreement

WPAHS's days cash on hand will be measured as at the end of each fiscal quarter and at the end of the month immediately preceding the last month of each fiscal year. If, as of any such measurement date, WPAHS's cash on hand exceeds 100 days, then the "excess" cash on hand over 100 days will be paid to Highmark as a mandatory prepayment on the loans.

Highmark will make supplemental rate payments to WPAHS of \$10 million per year (which is equivalent to the standard medical index) for each of the 5 years following closing

The covenants in the Affiliation Agreement as to governance of WPAHS will be revised to delete the requirement that there be "Non-Perpetual WPAHS Representative Designees" on the WPAHS Board

There will be no change to the requirement that 25% of the WPAHS Board comprise "Perpetual WPAHS Representatives Designees"

An express covenant will be added to the Affiliation Agreement that WPAHS will continue to provide charitable care consistent with past practices for at least four years following closing

The Parties will agree upon the execution of the Amendment that there are no defaults existing or continuing, or with the passage of time or provision of notice or both could mature into a default, and in the event and to the extent any default exists or could mature into a default, all such defaults and acts or omissions that could mature into a default are waived.

The Affiliation Agreement will be amended to further clarify the unconditional nature of the \$50 million grant made to WPAHS on October 31, 2011

Highmark will deposit \$50 million into escrow upon the signing of the lockup agreements with the bondholders and signing of the Amendment, to secure its performance in respect of the tender offer

The escrow funds will be released to WPAHS if by the Outside Close Date (i) the tender and the affiliation have not closed for any reason and (ii) no Category I Material Default by WPAHS has occurred and remains uncured since the deposit date.

The End Date set forth in the Affiliation Agreement will be made coterminous with the Outside Close Date

Highmark bears the risk of failure to obtain PID approval.

A condition to closing the Affiliation Agreement is the closing of the tender.

Within 2 weeks of execution of the lockup agreements by the Lockup Bondholders, the following will be placed into escrow: the signed amendment of the Master Trust Indenture, the signed amendment to the Bond Indenture and WPAHS's executed request to the Trustee that such amendments be executed and delivered, to be released on consummation of the tender.

The parties agree to use reasonable diligence to execute and deliver the Amendment in a form mutually acceptable to the parties within five days of the execution of this Term Sheet, the Amendment to take effect upon Highmark's deposit of \$50 million into escrow as provided in this Term Sheet.

This Term Sheet sets forth the framework of the anticipated Amendment and is subject to documentation. Notwithstanding any past, present or future written or oral agreement to some or all of the matters then under negotiation, and notwithstanding that either or both parties may expend substantial efforts and sums in anticipation of entering into the Amendment, it is agreed that in no event will this Term Sheet be construed as an enforceable contract, and each party accepts the risk that no Amendment will be executed. Furthermore, any costs and expenses incurred by either of the parties in the negotiation of the Amendment contemplated herein shall be such party's individual responsibility and the other party shall have no liability therefor. This Term Sheet may be executed and delivered in one or more counterparts, each of which when executed and delivered shall be deemed to be an original but all of which when taken together shall constitute one and the same Term Sheet. This Term Sheet contains the entire agreement of the parties with respect to the subject matter of this Term Sheet and supersedes all prior negotiations, agreements, and understandings with respect thereto. This Term Sheet may only be amended by a written document duly executed by the parties.

WEST PENN ALLEGHENY HEALTH SYSTEM, INC.

BY: Paul H. Dimmick
NAME: Paul H. Dimmick
TITLE: Vice Chairman, WPAHS Board of Directors
DATE: January 18, 2013

HIGHMARK INC.

BY: _____
NAME: _____
TITLE: _____
DATE: _____

WEST PENN ALLEGHENY HEALTH SYSTEM, INC.

BY: _____
NAME: _____
TITLE: _____
DATE: _____

HIGHMARK INC.

BY: William Winkewend
NAME: William Winkewend
TITLE: President and CEO
DATE: 17 January 2013