

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company, Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**SUPPLEMENTAL RESPONSE TO PID INFORMATION REQUEST 3.5 FROM THE
PENNSYLVANIA INSURANCE DEPARTMENT**

Information Request 3.5

Provide a full and complete copy of any communication (whether by letter, email or otherwise) and/or other document provided to and/or received from any governmental or regulatory entity related to the Transaction that is not otherwise required to be submitted in connection with this PID Information Request. "Governmental or regulatory entity" includes but is not limited to, the Pennsylvania Attorney General's Office, the Pennsylvania General Assembly, departments or agencies of the Commonwealth (other than the Pennsylvania Insurance Department), other state insurance departments, the United States Department of Justice, the Federal Trade Commission, other department or agencies of the United States or any other state, and any political subdivision or other governmental unit.

RESPONSE:

Attached at Tab A is correspondence sent to or received by local counsel with respect to change of control filings required by the following regulatory entities: Delaware Insurance Department and Ohio Department of Insurance. Attached at Tab B is a letter dated February 14, 2013 from Senator Don White to Dr. William Winkenwerder.

This Response relates to governmental and regulatory approvals in other states only and will be supplemented with respect to other notices, consents or approvals.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222

DELAWARE

MITCHELL || WILLIAMS

Doak Foster
Direct Dial: 501-688-8841
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425 West Capitol Avenue, Suite 1800
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Telephone: 501-688-8800
Fax: 501-688-8807

November 20, 2012

VIA FEDERAL EXPRESS

Michael Houghton, Esq.
Leslie Polizoti, Esq.
Brenda Mayrack, Esq.
Morris, Nichols, Arsht & Tunnell, LLP
1201 North Market Street, 18th Floor
Wilmington, DE 19801

Re: February 14, 2012 Form A Statement Regarding the
Acquisition of Control of Highmark BCBSD, Inc. by UPE:
Applicant's Twelfth Set of Responses to Department's First Set of Requests for
Production

Dear Mike, Leslie and Brenda:

This letter and the attached disks constitute Applicant's twelfth set of responses to your requests of March 19, 2012. The first response was submitted on April 5, 2012, the second response was submitted on April 12, 2012, the third response was submitted on April 19, 2012, the fourth response was submitted on April 27, 2012, the fifth response was submitted May 9, 2012, the sixth was submitted on May 11, 2012, the seventh was submitted on June 15, 2012, the eighth response was submitted on July 26, 2012, the ninth response was submitted on August 22, 2012, the tenth response was submitted on September 6, 2012, and the eleventh response was submitted on September 25, 2012.

We are also providing you with a copy of a letter from the PID to counsel for UPE dated September 26, 2012, requesting supplemental information related to Amendment No. 1 to the Form A that was filed with the PID. We will provide you with copies of the responses to those supplemental requests, which relate to numbered requests as to which you have previously designated as PID requests to be responded to for Delaware as well, as we receive them.

CONFIDENTIALITY REQUEST

The documents/information submitted with these responses to the Delaware Insurance Department ("Department") by UPE, the Applicant in the Form A, and/or Highmark Inc. ("Highmark") (in those instances where Highmark is the owner and/or provider of the documents/information) that are marked "Confidential" or "Confidential Proprietary Information" are submitted pursuant to the Department's procedures, protocols and practice (collectively "Protocols") on confidentiality with respect to documents/information submitted in conjunction with a Form A filing. These documents were submitted to the Pennsylvania

Michael Houghton, Esq.
Leslie Polizoti, Esq.
Brenda Mayrack, Esq.
November 20, 2012
Page 2

Insurance Department ("PID") with a request that they be treated as confidential under Pennsylvania law. Therefore, we are requesting that these documents also be treated as confidential under Delaware law for the reasons set forth below. A disk label bearing the legend "Confidential" shall designate all attached or included materials within the confidentiality designation. Those documents for which we are not requesting confidentiality are contained on a separate disk.

The documents/information submitted as confidential documents/information are confidential and protected materials and/or excepted from public disclosure pursuant, *inter alia*, to 29 Del. C. § 10002(g)(2), 18 Del. Admin. Code 908-3.0, and the Protocols. Such documents should be maintained as confidential and should not be made available for public inspection or copying because they contain the types of information referenced in the various referenced Protocols, statutes and regulations as being trade secrets and commercial or financial information obtained from a person which is of a privileged or confidential nature. The release of the documents/information could cause substantial material harm to the competitive position of UPE and/or Highmark and/or one or more of their affiliates, including material losses to one or more of such companies.

UPE and Highmark, as well as their affiliates, including but not limited to BCBSD, jointly and severally, request that the Department, any other representative of the State of Delaware (the "State") and/or any consultant to the Department provide written notification to UPE and Highmark in advance of any release of any of the documents/information submitted with these responses if either the Department or any other agency or representative of the State determines that these documents should not be accorded confidential treatment or the Department, any other representative of the State, or any consultant to the Department receives any request for access to these confidential documents/information from third parties. Written notification should be made to:

Frederick K. Campbell
Doak Foster
Mitchell, Williams, Selig, Gates & Woodyard, PLLC
425 West Capitol Avenue, Suite 1800
Little Rock, Arkansas 72201
(501) 688-8800
rcampbell@mwlaw.com
dfoster@mwlaw.com

RESPONSES TO REQUESTS FOR PRODUCTION

REQUEST I: PENNSYLVANIA INSURANCE DEPARTMENT REQUESTS

2. Transaction.

2.4. Distribution of Funds.

2.4.1 In addition to the funding commitments described in Article 2 of the Affiliation Agreement, provide a full description of any plans of the Applicant or any Highmark and WPAHS Affiliate to declare or cause to be declared any extraordinary dividend, liquidate any of the Domestic Insurers, sell, transfer, donate, assign or create any lien or encumbrance upon its assets or merge them with any Person or to make any other material change in their business operations, corporate structure or management. Do not cross reference to other information. Please list and describe each such plan.

Supplemental Response: See supplemental response to PID contained on the attached disk labeled "CONFIDENTIAL" and Bates numbered DE-DOI-0030493 through DE-DOI-0031308.

5. Organization and background of entities involved in the Transaction.

5.1. Information related to all Highmark and WPAHS Entities.

5.1.1 For (i) the Applicant; (ii) Highmark; (iii) each Highmark Affiliate; (iii) UPE Provider Sub; (iv) WPAHS; and (v) each WPAHS Affiliate provide copies of:

5.1.1.3 With respect to each entity listed in Section 5.1.1 that will have its Articles of Incorporation and/or Bylaws amended when the Transaction is completed, provide a comparison document showing the changes that are proposed to be made in such document when the Transaction is completed.

Supplemental Response: See response to PID included on attached disk labeled "PUBLIC DOCUMENTS" and Bates numbered DE-DOI-0031309 through DE-DOI-0031944.

Michael Houghton, Esq.
Leslie Polizoti, Esq.
Brenda Mayrack, Esq.
November 20, 2012
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As always, we greatly appreciate your assistance and are available to answer any questions that you may have.

Sincerely,

MITCHELL, WILLIAMS, SELIG,
GATES & WOODYARD, PLLC

By


Doak Foster

DF/ka
Enclosures

cc: William E. Kirk III (w/enc.)
Ronald E. Chronister (w/enc.)
Jack Sencak (w/enc.)

OHIO

February 12, 2013

Via Hand Delivery

Kelly Maynard
Office of Risk Assessment
Ohio Department of Insurance
50 West Town Street
Third Floor, Suite 300
Columbus, OH 43215

RE: Acquisition of Gateway Health Plan of Ohio, Inc. by UPE

Dear Ms. Maynard:

This letter provides further updates to the Form A that was filed by UPE with the Ohio Department of Insurance on January 17, 2012 concerning UPE's proposed acquisition of Gateway Health Plan of Ohio, Inc. We are writing because there have been additional changes to the Affiliation Agreement and other agreements. Consequently, on January 18, 2013, UPE filed Amendment No. 2 to the Form A (the "Amendment") with the Pennsylvania Insurance Department.

I spoke with Tim Biler, Assistant Chief Financial Analyst on February 5, 2013 and briefly discussed the changes that were reflected in the Amendment to the Form A filed with the Pennsylvania Department. At the conclusion of that conversation, Mr. Biler indicated a short summary of the changes by letter would at least initially be acceptable to the Ohio Department. However, of course, if the Ohio Department desires additional information or has questions, we will be happy to promptly respond.

The principal changes that necessitated the filing of the Amendment with the Pennsylvania Department are the following:

1. The Affiliation Agreement has been amended to reflect some changes in the Funding Commitments by Highmark to West Penn Allegheny Health Systems ("WPAHS"). Those changes do not increase the total Funding Commitments of \$475 million as reflected in the Affiliation Agreement and the Form A as originally filed. The amendments to the Funding Commitments relate, in part, to an escrow of \$50 million dollars being provided by Highmark in conjunction with a tender offer transaction under which Highmark would purchase Allegheny County Hospital Development Authority Health System Revenue Bonds Series 2007A from bondholders who tender their bonds. Under the terms of the tender offer, Highmark would purchase the tendered bonds for cash at a price equal to \$875 per \$1,000.00 of principal. Highmark estimates that at least 80% of the outstanding bonds will be tendered. Highmark has arranged for a loan of up

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728376.1

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UPE-0022625

Kelly Maynard
February 12, 2013
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to \$600,000,000 to finance the tender. Highmark anticipates holding the bonds as investments for up to 3 years until WPAHS completes a tax-exempt bond offering and buys the tendered bonds from Highmark.

2. The Amendment describes two additional affiliation transactions that are part of Highmark's strategic plan to develop an integrated delivery network. The financial commitments associated with the affiliation transactions with these two community hospitals remain within the total projected cost for implementation of the integrated delivery network as previously reported in the Form A. The addition of the two entities, Jefferson Regional Medical Center (JRMC) and St. Vincent Health System (SVHS) are reflected in the attached Organizational Chart showing the proposed UPE Organizational Structure. This chart should replace the chart originally attached to the Form A at Tab D.
3. With respect to the Highmark Organizational Structure, there have been several additional provider acquisitions/affiliations under HMPG, Inc., as reflected page 2 of the Organizational Chart for Highmark, Inc. This chart should replace the chart originally attached to the Form A at Tab B.
4. Lastly, revised financial proformas and business plans were included with the Amendment to reflect updated information concerning the financial results of Highmark and WPAHS. These proformas and business plans also incorporate the additional costs to Highmark associated with the tender offer transaction.

Please be advised the that Amendment to the Affiliation Agreement and the tender offer will have no impact on Highmark subsidiary insurers. UPE will remain the ultimate controlling person for the insurance holding company system.

As indicated above, we will be happy to answer any questions or provide any additional information.

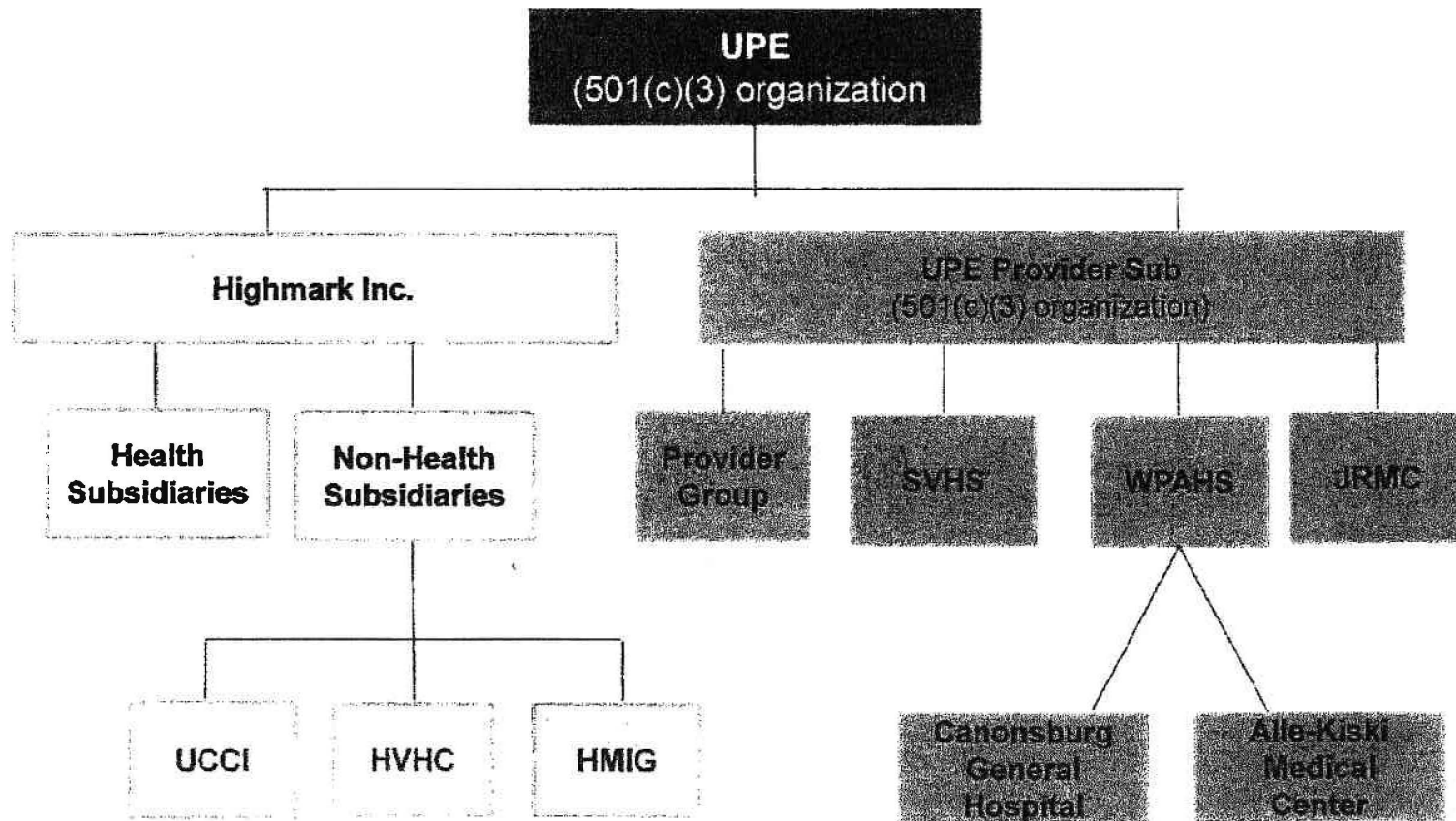
Very truly yours,



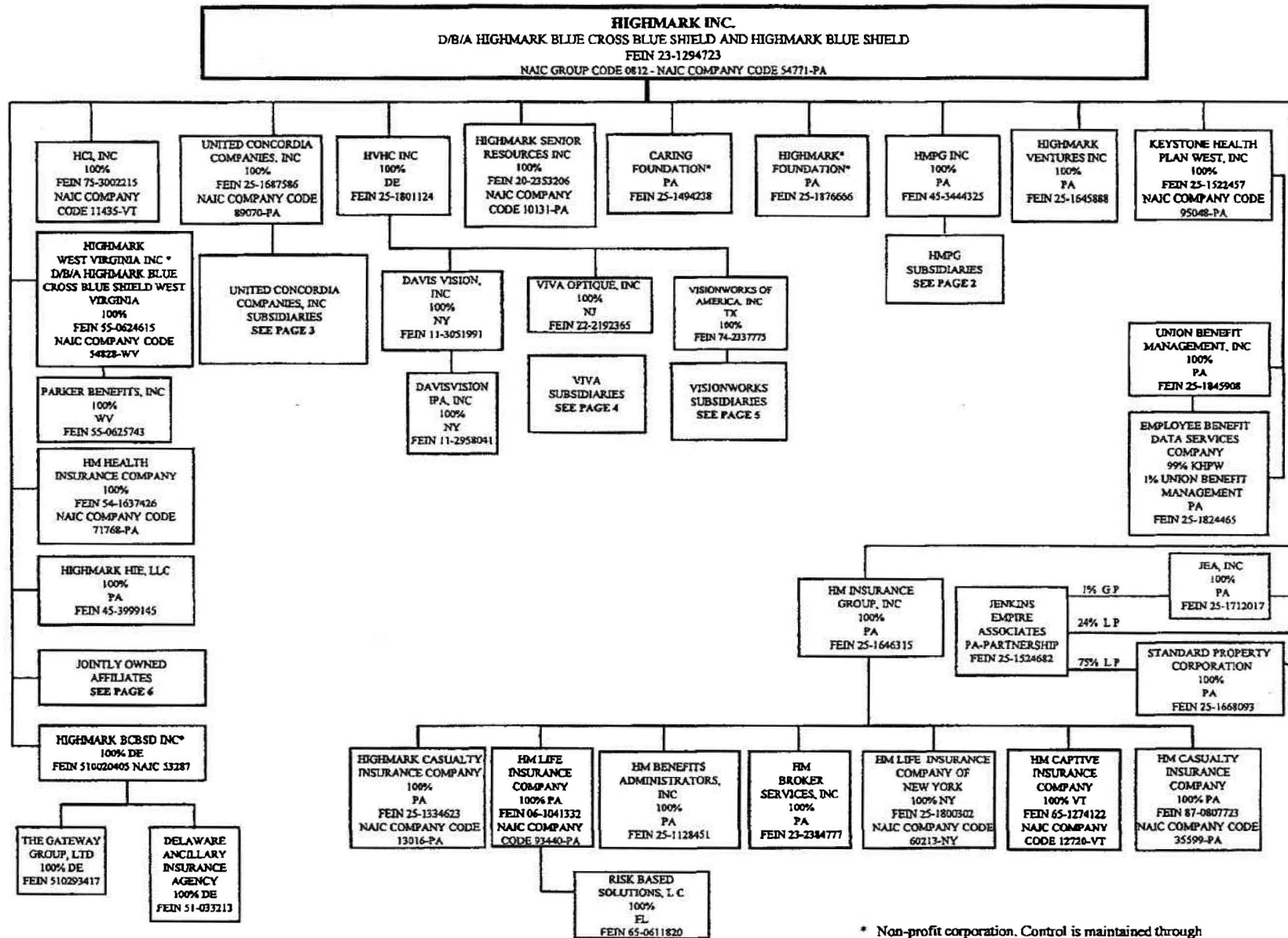
Alan F. Berliner

cc: Ron Chronister
Sarah P. Chambers

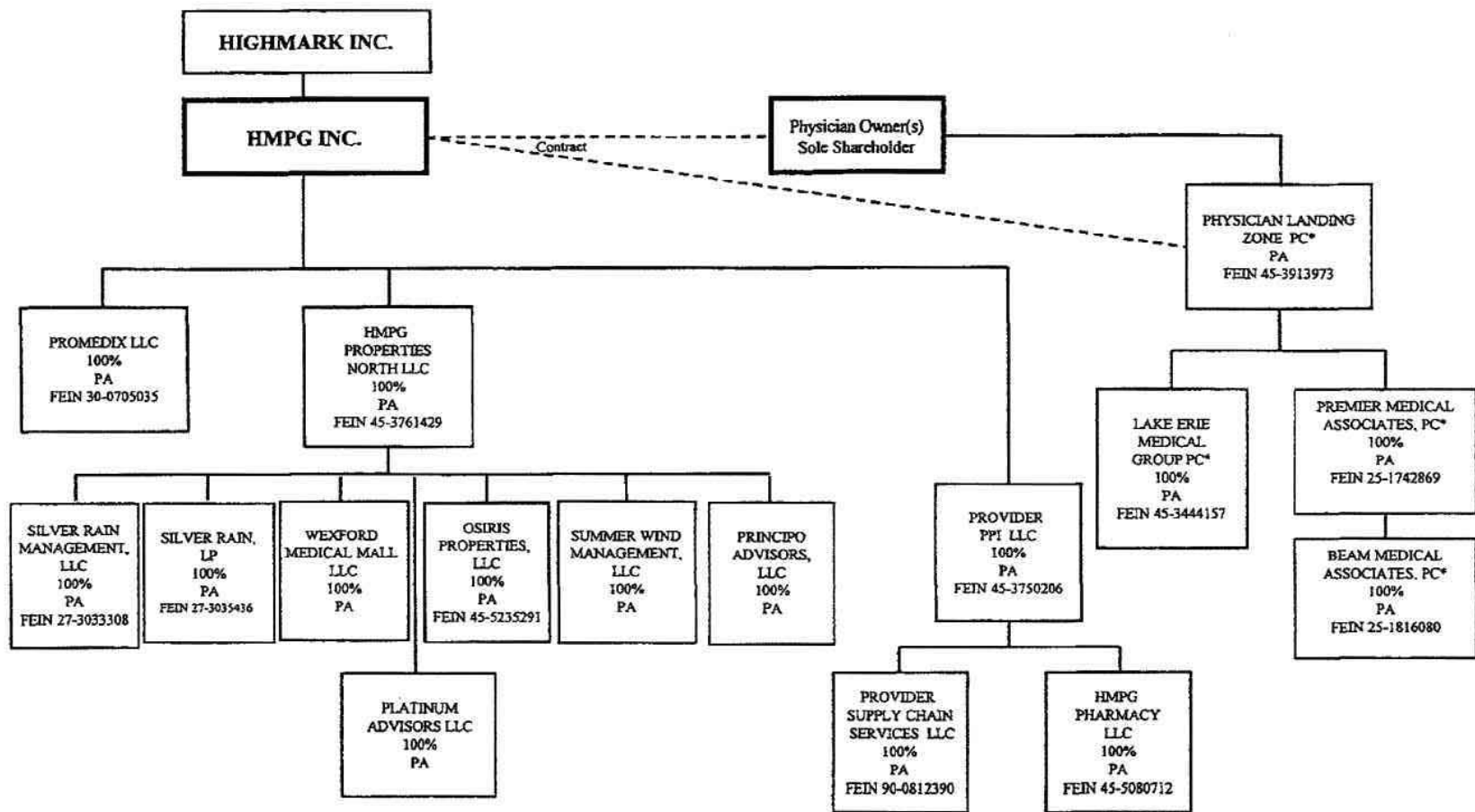
Proposed Corporate Structure



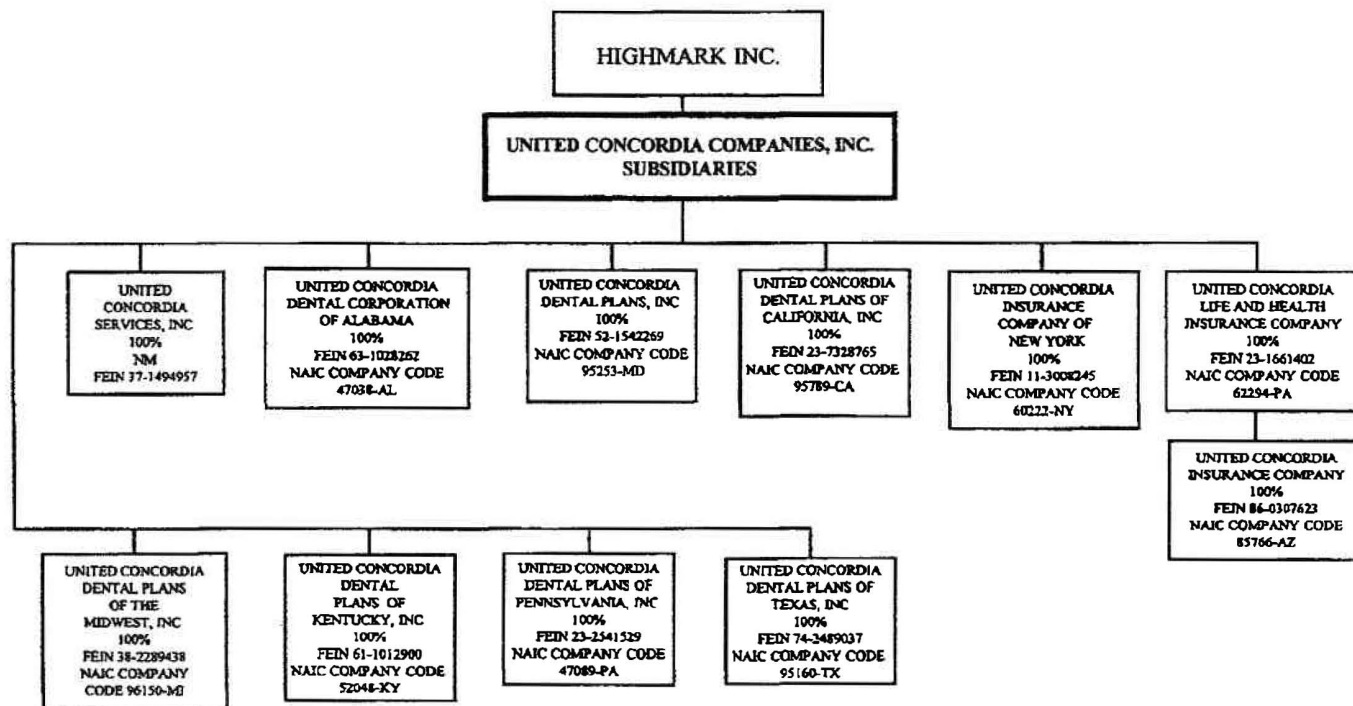
HIGHMARK.

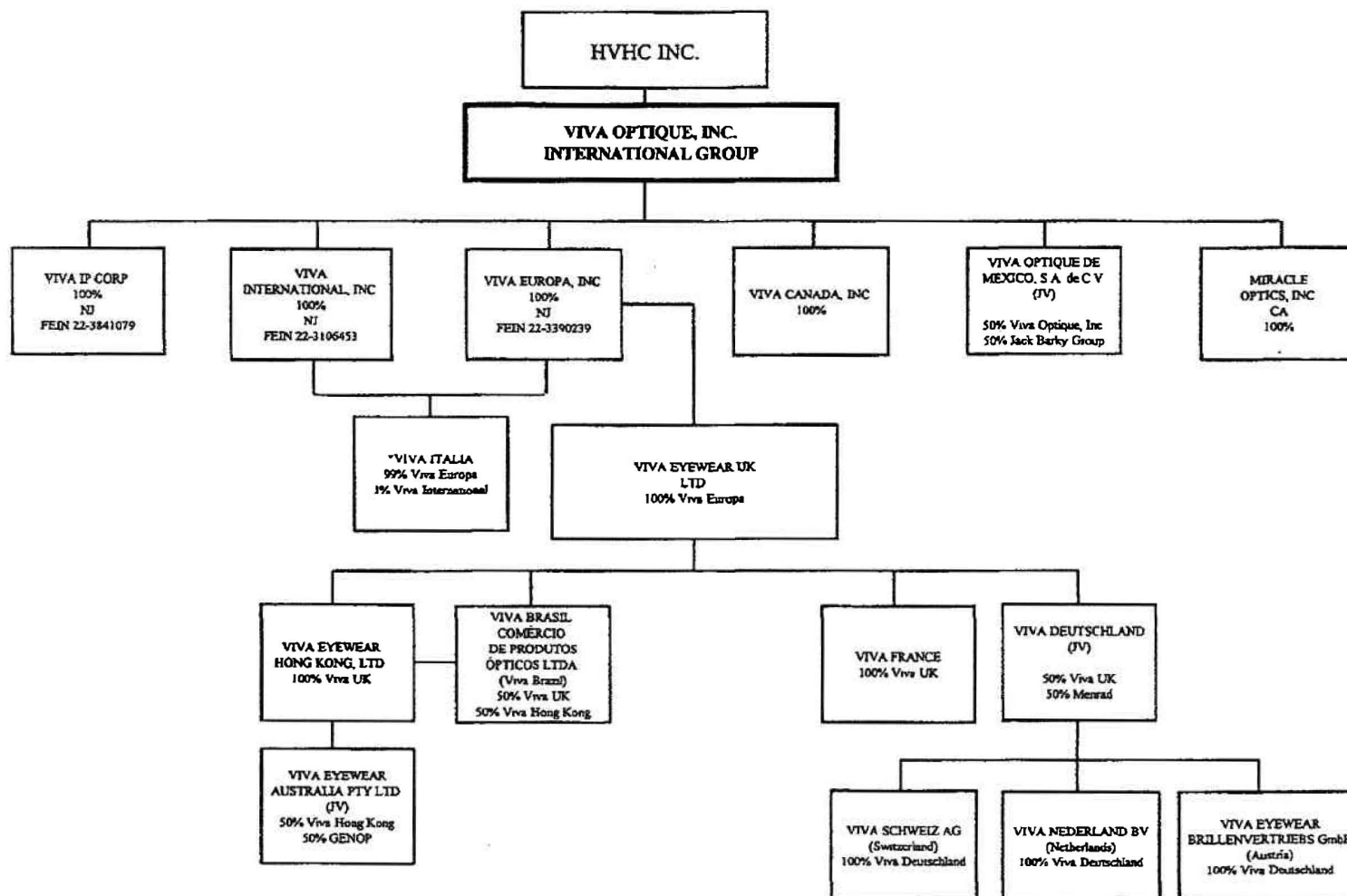


* Non-profit corporation. Control is maintained through ability to appoint the board of directors as sole member



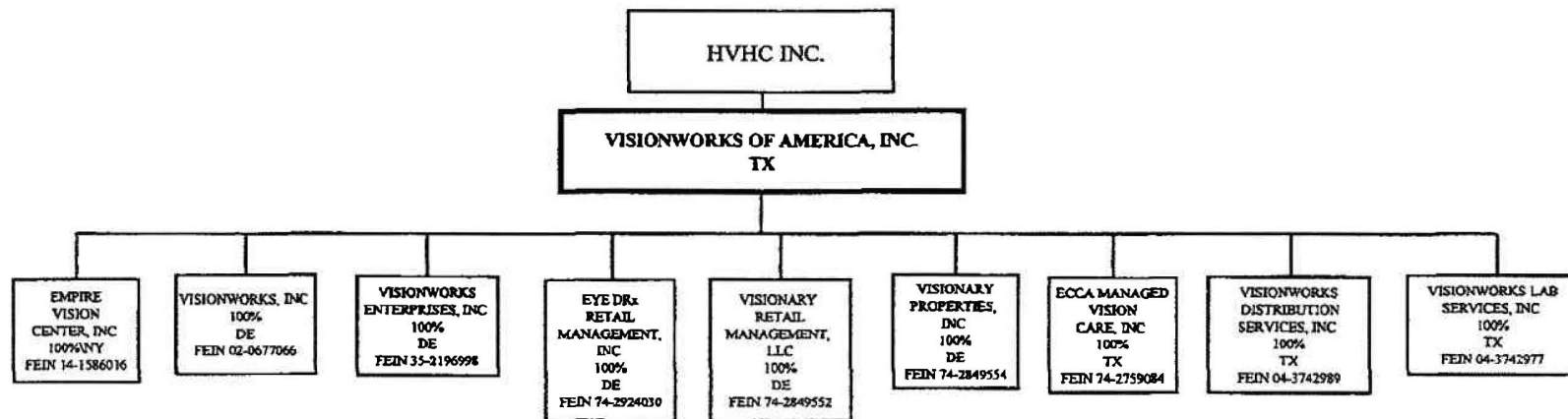
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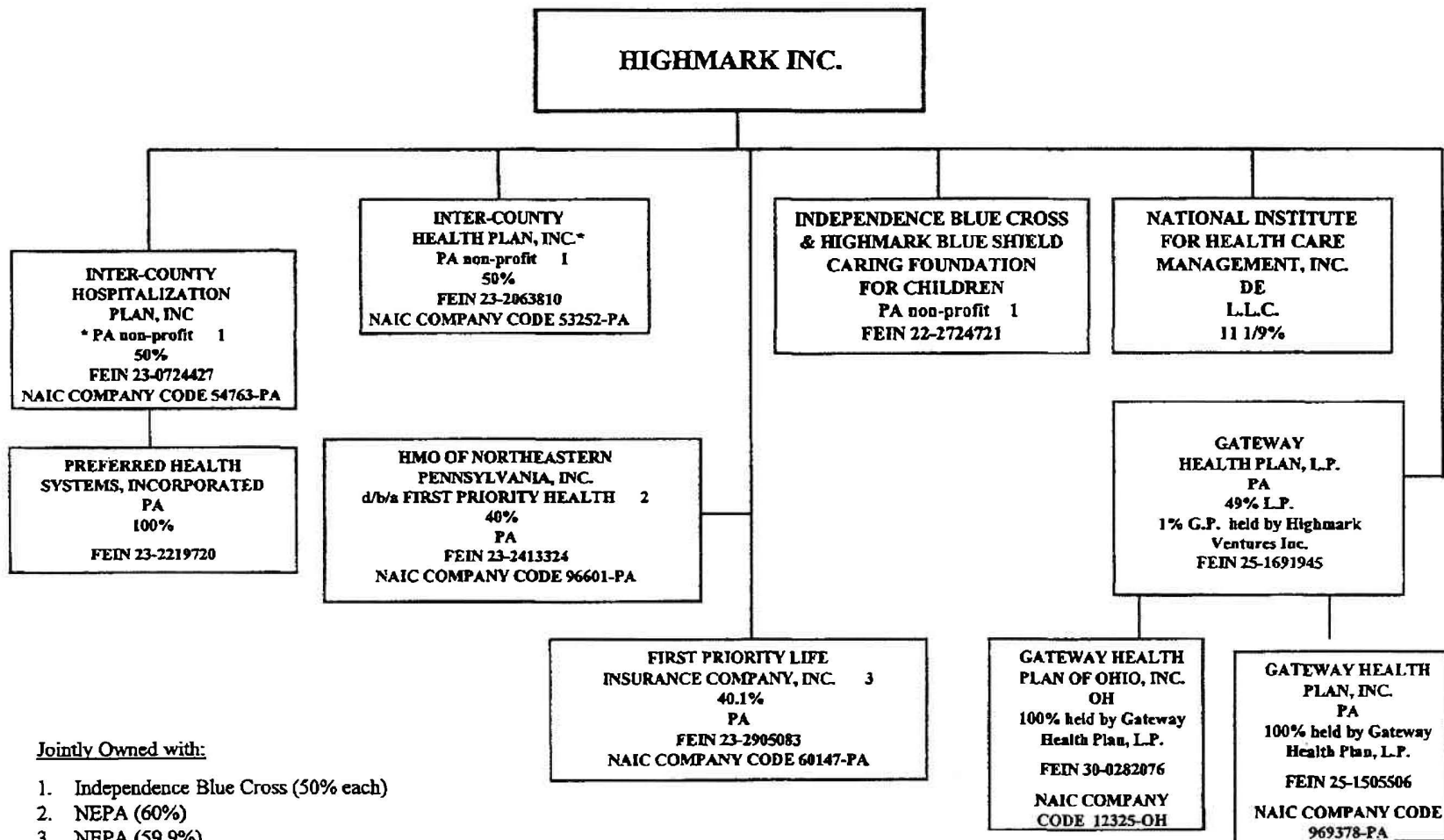




Viva Optique Group

*Viva Italia Operations ceased September 2004
 – In process of dissolution





Jointly Owned with:

1. Independence Blue Cross (50% each)
2. NEPA (60%)
3. NEPA (59.9%)

* Control is maintained through affiliation agreements which allow for control of the Boards of Directors

TAB B

State Senator
Don White
41st Senatorial District



Senate of Pennsylvania

February 14, 2013

COMMITTEES

BANKING & INSURANCE, CHAIRMAN
TRANSPORTATION, VICE CHAIRMAN
COMMUNITY & ECONOMIC DEVELOPMENT
ENVIRONMENTAL RESOURCES & ENERGY
STATE GOVERNMENT
PA INFRASTRUCTURE INVESTMENT
AUTHORITY (PENNVEST)
MINING & RECLAMATION ADVISORY BOARD

- **SENATE BOX 203041**
THE STATE CAPITOL
HARRISBURG, PA 17120-3041
717-787-8724
FAX: 717-772-1589
- **616 PHILADELPHIA STREET**
INDIANA, PA 15701
724-357-0151
FAX: 724-357-0148
(TOLL FREE) 866-357-0151
- **109 SOUTH JEFFERSON STREET**
KITTANNING, PA 16201
724-843-3026
FAX: 724-548-4856
- **3950 WILLIAM PENN HIGHWAY**
MURRYSVILLE, PA 15668
724-327-2422
FAX: 724-327-2436

Dr. William Winkenwerder, President & CEO
Highmark
Fifth Avenue Place
120 Fifth Avenue, Suite 111
Pittsburgh, PA 15222-3099

Dear Dr. Winkenwerder:

Thank you for your recent letter expressing Highmark's desire for the residents of western Pennsylvania to have open access to all health care providers and insurers. Such a desire is laudable.

However, for almost two years, I've observed rather extraordinary events in western Pennsylvania revolving around two separate but related matters which have caused a great deal of discontent:

- 1) The financial distress of the West Penn Allegheny Health System (WPAHS) and Highmark's evolving affiliation agreement seeking to return the system to a profitable status while competing with the University of Pittsburgh Medical Center (UPMC), and;
- 2) The UPMC/Highmark insurance contract now set for expiration on January 1, 2015.

The outcome of these two matters will have profound consequences on the long term delivery of health care in western Pennsylvania and deserve thorough and deliberate scrutiny by the Pennsylvania Insurance Department (PID), your policyholders, the employees of WPAHS and the citizens of western Pennsylvania.

Since our January 23rd meeting with Sen. Scarnati, I've considered Highmark's stated desire to have both the WPAHS affiliation approved by the PID no later than April 30, 2013 and an extended long term insurance contract executed with UPMC as soon as possible. Candidly, the content of the most recent affiliation agreement and prior public statements by Highmark officials are inconsistent and require clarification.

Dr. Winkenwerder
February 14, 2013
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Primarily, I'm concerned about the consequences a long term insurance contract between Highmark and UPMC could have on Highmark's ability to execute the turnaround of WPAHS as envisioned in your amended affiliation agreement. Two excerpts from the filing clearly state Highmark does not anticipate a long term arrangement with UPMC and that your projections are based on the contract not being renewed after January 1, 2015.

On page 143 of the document, 1210 it states:

"Highmark's contracting position with UPMC - The contract extension between Highmark and UPMC requires Highmark to pay higher contracting rates than it had been paying in order to secure in-network access to UPMC facilities and UPMC physicians through December 2014. Although Highmark intends to continue to pursue a longer term agreement with UPMC, UPMC has publicly stated that it does not intend to renew the contracts. Accordingly, the projections assume that UPMC will not renew the contracts, and access to certain UPMC facilities will be terminated, effective December 31, 2014"

On page 148, the document further states:

"Highmark Product Changes - Anticipated volume changes associated with the introduction of new insurance products were incorporated into the projections. As was noted above, the projections assume that UPMC will not renew its contracts with Highmark and access to certain UPMC facilities will be terminated effective December 31, 2014. Additional volume was incorporated into the projections due to these UPMC facilities being out of Highmark's network at that time."

Further, on August 1, 2012, Deb Rice, Division President of Health Services, testified before the Senate Republican Policy Committee that WPAHS will require an increase of over 20,000 new admissions annually to make the system viable and that every new admission would "absolutely" come at the expense of UPMC because "eventually we're not going to have a contract with UPMC, likely... so the capacity will be necessary for our members." When considering the overall patient volume of western Pennsylvania is declining, and Highmark's acknowledgement that all new admissions to WPAHS will be at the expense of UPMC, I'm sure you can appreciate my skepticism that such a drastic shift of patient volume can occur unless those insured by Highmark are no longer given the option of accessing UPMC doctors and hospitals.

Given Highmark's recently stated desire to secure a long term contract, I believe any review of the WPAHS affiliation agreement will be comprehensive only after Highmark provides projections on the viability of the WPAHS affiliation agreement if a long term contract is signed between Highmark and UPMC.


Dr. Winkenwerder
February 14, 2013
Page 3

Therefore, I respectfully ask that any analysis completed on Highmark's behalf which demonstrates the impact a long-term contract between Highmark and UPMC will have on the efforts to revive WPAHS be amended to your most recent affiliation agreement. If no such analysis exists, I strongly encourage one be completed in a timely manner in order to provide the Insurance Commissioner, your policyholders, the employees of WPAHS, community hospitals and the citizens of western Pennsylvania with an opportunity to fully understand the impact a long term contract with UPMC will have on Highmark's ability to turn WPAHS around. If it is Highmark's desire to continue its contracted relationship with UPMC, I believe this must become part of the Insurance Department's public record as this omission may not only result in an inaccurate and incomplete record but lead to a decision by the Department not based on Highmark's actual strategic direction.

Alternatively, Highmark could clarify that it does not intend to pursue a contract with UPMC beyond January 1, 2015 which would assure all parties that the current WPAHS filing accurately reflects the anticipated landscape of the health care marketplace in western Pennsylvania.

I would appreciate your prompt response clarifying Highmark's position on these matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Don White". The signature is fluid and cursive, with a large initial "D" and "W".

Don White
Senator, 41st District

DCW/lst

cc: The Honorable Tom Corbett
The Honorable Michael Consedine
The Honorable Joe Scarnati

UPE-0022636