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August 27, 2014

Jack M. Stover, Esquire
Buchanan Ingersoll & Rooney PC
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101-2121

RE: Department responses to BCNEPA's and Highmark's Non-Confidential Responses through June 23, 2014

Dear Mr. Stover:

The Pennsylvania Insurance Department (the "Department") has made a preliminary review of BCNEPA's and Highmark's Responses through June 23, 2014 (not marked confidential) to the Department's April 10, 2014 Information Request (the "4/10/14 Request").

The purpose of this letter is to review several issues in more detail. A discussion of a specific issue in this letter does not diminish the priority or necessity of BCNEPA and Highmark responding to the other requests set forth in the 4/10/14 Request.

I. General Questions:

A. Many of BCNEPA's or Highmark's responses require a certification that BCNEPA and/or Highmark have completely provided all information responsive to the Department's Request.

(1) The following responses require a certification from BCNEPA that it has provided a response based upon all information available to it: 2.1.5, 2.1.8, 2.1.9, 2.1.10, 2.1.12, 2.3.3, 2.4.3, 2.4.5, 2.4.6, 2.6.6, 3.1, 3.3, 3.4, 4.4.1, 5.1, 5.2, 5.2.1, 5.2.2, 5.2.3, 5.2.7, 5.2.9.2(D), 5.2.9.3(B), 5.2.9.3(E), 5.2.11.9, 5.2.14.2, 5.2.14.3, 5.2.14.4, 5.2.15, 5.2.16, 5.2.17.1, 5.2.17.2, 5.2.18.12.1, 5.3.1, 5.3.4(A), 5.3.4(D), 5.3.5, 5.3.5.1, 5.3.5.4, 5.3.5.5, 5.3.9, 5.4, 5.4.2.1, 5.4.4, 5.4.7, 5.4.7.2, 5.4.8.2, 5.4.8.3, 5.4.8.4, 5.6, 5.6.4, 5.6.8.1, 5.6.8.2, 5.6.11, 5.6.12, 5.6.15, 6.1.1.1, 6.1.1.2, 6.1.1.3, 6.1.1.4, 6.1.1.8, 6.1.1.10, 6.1.1.12, 6.1.1.14, 6.2.1, and 6.2.2.1.

(2) The following responses require a certification from Highmark that it has provided a response based upon all information available to it: 2.1.11, 2.1.11.1, 2.4.2, 2.4.3, 2.4.6, 2.6.3, 2.6.6, 2.7.1, 5.2.11.11, 5.2.15, 5.2.15.1, 5.2.18.4, 5.2.18.5, 5.2.18.6, 5.2.18.7, 5.3.2, 5.3.5.2, 5.3.5.3, 5.3.15.1, 5.3.18, 5.4.8.1, 5.4.8.2, 5.4.8.5, 5.6.11, 5.6.13, 6.1.1.3, 6.1.1.13, 6.3.1.1, 6.3.1.2, and 6.3.2.1.

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- B. Each of Highmark and BCNEPA has provided limited copies of emails and other electronic documents in response to the request for “Documents.” Among other things, the term “Documents” is defined to include “every report, survey, book, pamphlet, periodical, letter, memorandum, telegram, report, record, study, inter-office and intra-office communication, memorandum reflecting an oral communication, handwritten or other notes, working paper, draft, application, permit, chart, drawing paper, graph, survey, index tape, disc, data sheet, data processing card, computer printout and every other written, typed, recorded, transcribed, filed or graphic information or matter. The term ‘Documents’ also includes electronic mail messages and other documents and data stored in, or accessible through, computer or other information retrieval systems....” The Department specifically requests that Highmark and BCNEPA confirm that it has provided or will provide in connection with its responses to the Requests all Documents responsive to each Request requiring the production of documents.

II. Additional Responses are required by BCNEPA with respect to the following:

Request 2.1.8 – Analysis of the effect of the Transaction on existing insurance policies

- A. Request 2.1.8 provides:

Provide an analysis of the effect of the Transaction on any existing insurance policies of the Highmark Entities or BCNEPA Entities, including if the Transaction results in a termination of any claims-made policies or requires the purchase of any tail or extended reporting policy.

- B. BCNEPA certified that it is unaware of the effect the Transaction will have on any existing insurance policies of the BCNEPA Entities. This response appears not to be consistent with BCNEPA’s confidential response to Request 4.2.1 regarding required consents.

- C. Required Action:

- (1) Please provide a response to this Request addressing the effect of the Transaction on any existing insurance policies of the Highmark Entities or BCNEPA Entities.
- (2) For any policies for which consents may be required in connection with the Transaction, provide an analysis of whether such consents are to be obtained and the timing thereof, and if not, the affect or the risk of not obtaining such consents.

Request 2.3.2 – Effect of Class A Members and Advisory Board on management of Highmark

- A. Request 2.3.2 provides:
- Describe and analyze the ability of the Class A Members or the Advisory Board to affect or direct the management or affairs of Highmark or any other Highmark Entity.
- B. The filing is not responsive as BCNEPA interpreted the request as directed to Highmark and did not give a substantive response.
- C. Required Action: Please take the following actions:
- (1) Analyze and summarize the ability of the Class A Members or the Advisory Board to affect or direct the management or affairs of Highmark or any other Highmark Entity.
 - (2) Describe BCNEPA's expectations with respect to the role of the Class A Members or the Advisory Board?

Request 2.3.4 – Analysis of how Advisory Board and Class A Members comply with law

- A. Request 2.3.4 provides:
- Provide an analysis of how the Advisory Board and Class A Members comply with the provisions of applicable law, including, without limitation, 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61.
- B. BCNEPA stated that 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61 does not impose any restrictions on the establishment of the Advisory Board or the Class A Members.
- C. The filing is not responsive as BCNEPA did not provide a specific analysis of 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61.
- D. Required Action: Please provide a complete analysis of 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61 as it relates to the Advisory Board and the Class A Members.

Request 2.3.5 – Analysis of process and factors considered in deciding on Advisory Board and Class A Members

- A. Request 2.3.5 provides:
- Describe and provide an analysis of the process and factors considered in deciding upon the term length and authority of the Advisory Board and the Class A Members, together with any Documents relating thereto.

- B. The filing is not responsive as BCNEPA interpreted the request as directed to Highmark and did not give a substantive response.
- C. Required Action: Please provide a complete analysis of the process and factors considered in deciding upon the term length and authority of the Advisory Board and the Class A Members and produce any Documents relating thereto.

Request 2.4.1 – Description of Financial Relationships between Highmark and BCNEPA Entities

- A. Request 2.4.1 provides:
 - Provide a full and complete description of all Financial Relationships of any Highmark Entity with any BCNEPA Entity or of any current or former BCNEPA Entity with any Highmark Entity.
- B. BCNEPA stated that such Financial Relationships consist of Highmark Inc.'s 40.1% ownership of the shares of FPLIC and 40% of the shares of FPH.
- C. BCNEPA also stated that it has contractual arrangements with Highmark that it does not believe rise to the definition of a Financial Relationship, including but not limited to the following: Joint Operating Agreement for Freedom Blue; Master Data Center IT Infrastructure Agreement; and Joint Operating Agreement for Indemnity Products. In its response, Highmark referred to the attachment to request 2.1.4 for more information of these relationships.
- D. A Financial Relationship includes by definition “any direct or indirect ownership or investment interest through equity, debt or other interests in a Person or any direct or indirect arrangement involving any right to manage, consult with, be employed or engaged by any Person including, without limitation, as consultant, officer, director or member.”
- E. The filing is not fully responsive as the contractual arrangements between Highmark and BCNEPA described in C. above appear to fall within the definition of Financial Relationships.
- F. Required Action: Please take the following actions:
 - (1) State specifically, with respect to the quoted definition, why BCNEPA believes that the contractual arrangements identified in C. above do not rise to the definition of a Financial Relationship.
 - (2) For each contract or other arrangement that falls within the definition Financial Relationship, provide a complete response to the Request regarding these contractual arrangements.

Request 2.4.3 – Assessing risks and benefits of Highmark relationship with FPH and FPLIC

- A. Request 2.4.3 provides:
- Provide a full and complete copy all of Expert Opinions or Documents assessing the risks or benefits of Highmark’s Financial Relationships in or with FPH and FPLIC.
- B. BCNEPA stated that to the best of its knowledge it is not aware of any such documents “since Highmark acquired an interest in FPH and FPLIC.” (emphasis added).
- C. The response is not complete as it qualified the response by providing a response only “since Highmark acquired an interest in FPH and FPLIC.”
- D. Required Action: Please provide a full and complete copy of any such expert opinions and other Documents responsive to this Request regardless of the time that the requested expert opinions or other Documents were obtained.

Request 2.5.3.3 – Criteria regarding nature and structure of the Transaction

- A. Request 2.5.3.3 provides:
- Explain in detail the criteria used in determining the nature and structure of the Transaction, and provide a copy of all Expert Opinions relating thereto.
- B. While BCNEPA stated generally that it determined that a merger represented the best vehicle for BCNEPA and Highmark to address the market challenges BCNEPA is facing and provides BCNEPA access to capital for necessary investments, increased scale to better control administrative costs and manage increasing risks, geographic footprint to compete effectively for commercial and government business, it did not explain in detail the criteria used in determining the nature and structure of the Transaction.
- C. The filing is not responsive as BCNEPA did not give a specific response to this request. BCNEPA engaged financial advisors and therefore we would expect that it has more specific information responsive to this request.
- D. Required Action:
- Please take the following actions:
- (1) Describe to what extent BCNEPA’s financial advisors and counsel were engaged to determine the risks and structure of the Transaction.

- (2) Explain in detail the criteria used in determining the nature and structure of the Transaction.
- (3) Please provide a copy of all Expert Opinions or other Documents relating to the engagement of financial advisors and counsel that relate to or discuss a determination of the nature and structure of the Transaction.

Request 4.4.3 – Documents regarding Hart/Scott/Rodino Filing

A. Request 4.4.3 provides:

Provide a full and complete copy of all Documents (whether by letter, e-mail or otherwise) and/or other Documents provided to and/or received from, or, when made or received, are provided to or received from, any other governmental or regulatory authority concerning the Hart/Scott/Rodino Filing in connection with the Transaction.

B. BCNEPA certified that to the best of its knowledge it has not “directly provided” to and/or received from any governmental or regulatory authority documents concerning the Hart/Scott/Rodino Filing in connection with the Transaction. BCNEPA will provide such documents when they are available.

C. The filing is not responsive as it used the phrase “directly provided” while the request simply asks whether documents were “provided.”

D. Required Action:

- (1) Please provide a full and complete copy of all such required Documents without referral to the qualifier for Documents “directly provided.”
- (2) If all Documents required to be provided have been produced, please certify this.

Request 5.2.9.3(E) – Request for integration plans

A. Request 5.2.9.3 provides:

Provide a copy of all steps implemented or planned to integrate the BCNEPA Entities with the Highmark Entities in connection with the Transaction.

B. BCNEPA stated that there have been recent, early discussions between Highmark and BCNEPA regarding developing operations and business plans.

C. This response is general and does not provide a copy of Documents relating to steps planned and implemented in connection with the Transaction.

- D. Required Action: Please provide an explanation and copy of all Documents regarding integration steps taken or planned.

Request 5.2.15 – List of third party payors of BCNEPA Entities

- A. Request 5.2.15 provides:

Provide a list of third party payors with which any BCNEPA Entity currently contract, along with the related lines of services.

- B. BCNEPA provided a list of third party payers and related lines of services.
- C. The filing is not complete as it only identifies insurance payors and does not identify payment or reimbursement contracts with any BCNEPA Entity, including HRC.
- D. Required Action:

Please take the following actions:

- (1) Provide a copy of reimbursement or payment contracts under which any BCNEPA Entity receives payment or reimbursement from any third party.
- (2) Provide a copy of any payment or reimbursement contract under which any BCNEPA Entity (other than HRC) makes payment or reimbursement to HRC.
- (3) Provide a copy of any contracts between HRC and BCNEPA, any BCNEPA Entity, or a third party.

Request 5.2.18.11 – Analyze impediments on geographic expansion and affect of the Transaction

- A. Request 5.2.18.11 provides:

With regard to any Joint Venture in effect since January 1, 2012: Please provide any documents or other materials regarding impediments to any Highmark Entity, BCNEPA Entity, and/or Joint Venture to expand operations outside of its current service area into other areas in Pennsylvania or elsewhere.

(A) How, if at all, will the Transaction affect any such impediment?

- B. BCNEPA stated that BCNEPA, FPH, and FPLIC currently offer only Blue-branded products within the 13 counties. BCNEPA also stated that the FPH and FPLIC Shareholders Agreements will terminate as a result of the Transaction.

- C. The filing is not directly responsive as it does not directly respond to whether there are any impediments to expansion and the effect of the Transaction on such impediments.
- D. Required Action: Please provide any information and Documents regarding impediments to any Highmark Entity, BCNEPA Entity, and any Joint Venture to expand operations outside its current service area and state specifically how the Transaction will affect such impediments.

Request 5.4.7 – Analyze factors affecting the size of charitable contributions

- A. Request 5.4.7 provides:

Describe and analyze the factors and determinations affecting the size of any charitable contribution discussed in Section 2.6 or 5.4.8.
- B. BCNEPA certifies that the description and analysis of the factors and determinations affecting the size of any charitable contribution were provided in response to Request 2.6.1.
- C. Required Action: Specifically identify the applicable portions of BCNEPA's response to Request 2.6.1 (including a reference to all applicable page numbers) that are responsive to this Request 5.4.7.

Request 5.6.10 – Assess impediments or risks relating to the Transaction

- A. Request 5.6.10 provides:

Identify and assess the magnitude and likelihood of impediments or risks relating to the Transaction.
- B. BCNEPA stated that all risks relating to the Transaction from BCNEPA's perspective were identified and assessed as part of its responses to the requests in Request 2.1.
- C. The response does not address all of the additional risks or costs resulting from the execution and delivery of the Merger Agreement. Among others are the following: (1) Section 6.3(b) requires that "from and after the Closing, Highmark shall (A) at all times maintain regional operations in the BCNEPA Service Area" (the "Location Commitment"); and (2) Section 6.1(d) provides a release of certain obligations of "Indemnification Parties" being all individuals "who were directors or officers of BCNEPA or its Subsidiaries at any time before the Effective Time. . . or who, at the request of BCNEPA or any of its Subsidiaries, served as a director or officer of any other Person" (the "BCNEPA Releases"). The Merger Agreement also provides for certain commitments as to employment (the

“Employment Commitment”) for a 4-year period and an indemnification of Indemnified Parties for a certain period. These obligations, and other obligations being undertaken by Highmark are not summarized and no value is provided as to Highmark’s assessment of the amount of these liabilities.

D. The filing does not appear complete as it does not provide a full analysis of the risks of the Transaction.

E. Required Actions:

Please take the following actions:

- (1) Provide a full analysis of the risks of the Transaction and specific citations to the parts of the responses to Request 2.1 that are responsive to this Request. Alternatively, if BCNEPA believes that it has provided a full analysis of the risks of the Transaction, it should provide a specific citation to such risks and certify that no further risks of the Transaction exist.
- (2) Provide an assessment of the likelihood of the impediments or risks relating to the Transaction.
- (3) Describe and summarize to what extent the Location Commitment, the indemnification of Indemnified Parties under the Merger Agreement, and Employment Commitment imposes obligations on Highmark and the anticipated cost of such commitments.
- (4) Describe to what extent the Location Commitment could restrict the ability of Highmark to conduct business in the Northeast region, including any ability to sell or otherwise change operations in that area.
- (5) With regard to the BCNEPA Release, specifically identify any known obligations for which any Indemnified Parties are being released.

Request 5.6.11 – Social and charitable missions of Highmark and BCNEPA Entities

A. Request 5.6.11 provides:

Summarize the social and charitable mission of each Highmark and BCNEPA Entity and describe the specific manner in which the Transaction will impact the ability of each Highmark and BCNEPA Entity to fulfill its social and charitable mission.

B. BCNEPA stated that is has traditionally and voluntarily engaged in a variety of community commitment activities designed to improve health and health care in

its service area, and that BCNEPA will discontinue those efforts as a separate entity when merged into Highmark.

C. The filing is not responsive as it does not provide a summary of the social and charitable mission of each BNCEPA Entity.

D. Required Action:

Please take the following actions:

- (1) Summarize the missions of each BCNEPA Entity.
- (2) Provide a summary of any discussion or communication with Highmark regarding the continuation or change in such mission.

III. Additional Responses are required by Highmark with respect to the following:

Request 2.1.8 – Analysis of the effect of the Transaction on existing insurance policies

A. Request 2.1.8 provides:

Provide an analysis of the effect of the Transaction on any existing insurance policies of the Highmark or BCNEPA Entities.

B. Highmark stated that the Transaction will have no effect on any existing insurance policies of the Highmark Entities. Highmark also stated that the existing insurance policies of BCNEPA and the BCNEPA Entities will be terminated at the time of closing but that it does not believe that any tail or extended reporting policy will be required. Finally, Highmark stated that it intends, upon closing, to take action to immediately incorporate all prior BCNEPA coverage into Highmark's insurance program with no lapse in coverage.

C. Required Action:

Please take the following actions:

- (1) Explain what steps or analyses taken by Highmark form the basis for Highmark concluding that there will not be a need for any tail or extended reporting period coverage?
- (2) Explain what specific actions Highmark intends to take upon closing to ensure there is no lapse in coverage.
- (3) Explain whether and to what Highmark's extent existing coverage will provide insurance coverage to existing directors and officers of BCNEPA.

Request 2.3.4 – Analysis of how Advisory Board and Class A Members comply with law

A. Request 2.3.4 provides:

Provide an analysis of how the Advisory Board and Class A Members comply with the provisions of applicable law, including, without limitation, 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61.

B. In analyzing Section 1405 of the Insurance Holding Companies Act, Highmark concluded that the Advisory Board was not a committee subject to Section 1405 without providing any citation to any legal authority.

C. The filing is not responsive as Highmark did not provide a specific analysis of 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61 as it relates to the Advisory Board.

D. Required Action:

Please take the following actions:

- (1) Provide a complete analysis of 40 P.S. § 991.1405(c)(3) and 40 Pa.C.S. Chapter 61 as it relates to the Advisory Board.
- (2) Provide an analysis with citations to legal authority for Highmark's conclusion that the Advisory Board is not subject to the provisions of Section 1405.

Request 2.3.5 – Analysis of process and factors considered in deciding on Advisory Board and Class A Members

A. Request 2.3.5 provides:

Describe and provide an analysis of the process and factors considered in deciding upon the term length and authority of the Advisory Board and the Class A Members, together with any Documents relating thereto.

B. Highmark stated that the term, length, and authority of the Advisory Board was determined through negotiations, but provided no Documents (including emails) setting forth the negotiations between the parties regarding the Advisory Board's length or term.

C. Required Action:

Please take the following actions:

- (1) Provide a copy of all Documents exchanged between or among Highmark, BCNEPA, and/or its counsel or advisors or otherwise delivered or communicated by any of the foregoing to the other(s) regarding the Advisory Board, including all Documents exchanged concerning the authority of the Advisory Board and the term length of its members.
- (2) If no further Documents other than those provided exist, please certify that it has provided all Documents currently in its possession that are responsive to this Request.

Request 2.4.3 – Assessing risks and benefits of Highmark relationship with FPH and FPLIC

A. Request 2.4.3 provides:

Provide a full and complete copy all of Expert Opinions or Documents assessing the risks or benefits of Highmark's Financial Relationships in or with FPH and FPLIC.

- B. Highmark's response to this request qualifies its response by stating that it has not received any such expert opinions "since the time of Highmark's acquisition of its interests therein," expect for any such Documents that are included in Highmark's responses to 2.4.6, 2.4.5, or 6.1.2. (Emphasis added.)
- C. The filing is not completely responsive as it includes a qualifier as to timing that is not included in the question.
- D. Required Action: Please provide a full and complete copy of all Expert Opinions or other Documents analyzing the risks or benefits of Highmark's Financial Relationships with regard to FPH and FPLIC, regardless of when these were prepared or obtained.

Request 2.4.6 – Analysis of presentation materials to Highmark's Board regarding FPLIC and FPH

A. Request 2.4.6 provides:

Provide any analysis of presentation materials, together with a copy thereof, made to Highmark's Board of Directors in consideration of alternatives for evaluating BCNEPA's rights with regard to FPLIC and FPH, including any relevant analyses regarding Highmark's consideration of strategic / operational alternatives related to Highmark's presence in the Northeastern Pennsylvania service area.

- B. Highmark certified that if there are any materials responsive to this request, they are included in the Form A at Tab 6 of the Confidential Supplement, Highmark's

Confidential Response to Request 2.4.5, and Highmark's Confidential Response to Request 5.6.9.

- C. Required Action: Please clearly state or provide the exact location by reference to page number(s) of the filing which Highmark believes responds to this request in the materials cited or certify that no relevant Documents exist.

Request 2.5.1 – Description of plans to declare extraordinary dividend or affect any asset

- A. Request 2.5.1 provides:

Other than the merger contemplated by the Merger Agreement, provide a full description of any plans of the Applicant or any Highmark Entity or and BCNEPA Entity 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.

- B. Highmark stated that no Highmark Entity has any plan to declare or cause to be declared any extraordinary dividend or make any other material change in their business operations other than those changes set forth in the Merger Agreement or the Form A filing. The response by Highmark is general in nature and does not identify the specific plans with regard to any extraordinary dividends or material changes in Highmark's business operations

- C. Required Action:

Please take the following actions:

- (1) Explain and list what extraordinary dividend or material change in Highmark's business operations are planned by Highmark.
- (2) Identify the specific pages of the Merger Agreement or Form A filing that are responsive to this Request.

Request 2.5.3.1 – Describe amount and source of funding

- A. Request 2.5.3.1 provides:

Describe the amount and source of funds for any funding, contributions, loans or advances currently anticipated to be made by Highmark, BCNEPA, any Highmark Affiliate or any BCNEPA Affiliate in connection with the Transaction to BCNEPA, any current or former BCNEPA Affiliate in existence

within six (6) months prior to the Merger Agreement, Highmark, and/or other Highmark Affiliate.

- B. Highmark's response only addressed planned funding at the close of the Transaction.
- C. The filing is not complete as Highmark qualified its response by reference to timing that is not included in the Request.
- D. Required Action: Please describe the amount and source of funds for "any" funding, contributions, loans, or advances as described in Request 2.5.3.1 at any time, not just at the close of the Transaction.

Request 2.6.1 – Summary of all assets and property that may be transferred by BCNEPA

- A. Request 2.6.1 provides:

Provide a summary of all assets and property that, pursuant to or in connection with the Merger Agreement or relating to the Transaction, may be transferred, disposed of, donated or contributed by BCNEPA or any BCNEA Affiliate to any Person other than transfers of assets or property in the ordinary course of the business of BCNEPA or the applicable BCNEPA Affiliate making such transfer, disposition, donation or contribution.

- B. Highmark interpreted this request as directed to BCNEPA and thus did not respond substantively.
- C. The filing is not responsive as it provides no response by Highmark as to its understanding of the rights of BCNEPA to make any transfer, disposition, donation, or contribution of property.
- D. Required Action: Please provide a summary of the rights and restrictions on the ability of BCNEPA to transfer assets, or any BCNEPA Affiliate to transfer, dispose, donate, or contribute any property pursuant to or in connection with the Merger Agreement.

Request 5.2.18.8 – Affect of Transaction on offering of Community Blue or similar plan

- A. Request 5.2.18.8 provides:

Is Community Blue or a similar plan currently offered in the Northeastern Pennsylvania area by any Highmark Entity, BCNEPA Entity and/or any Joint Venture? How, if at all, will this change if the Transaction is approved?

- B. Highmark certified that Community Blue PPO plan designs are not currently offered in the Northeastern PA area by Highmark or BCNEPA. Highmark notes that certain joint venture products such as CustomBlue PPO and AffordaBlue are administered similarly to Community Blue in Central Pennsylvania but through benefit design tiering of a broad network instead of by use of a select network.
- C. Highmark's response does not identify how, if at all, the Community Blue or similar plans will change if the Transaction is approved.
- D. Required Action: Please describe how, or if, the Community Blue or similar plans will change if the Transaction is approved.

Request 5.3.14 – Copy of tax opinions or taxation issues

- A. Request 5.3.14 provides:

Provide a full and complete copy of any tax opinions or analyses of taxation issues concerning the Transaction that have been or will be obtained.
- B. Highmark certified that it has not obtained nor does it plan to obtain any such written tax opinion or analyses of tax issues concerning the Transaction. Highmark further stated that the Transaction is expected to qualify as a tax free reorganization under IRC § 368.
- C. Required Action: Please provide an analysis, including reference to legal authority, as to how the Transaction will qualify as a tax free reorganization under IRC § 368, and identify the provisions of the Merger Agreement or other Documents supporting that analysis.

Request 5.4.3.6 – Expert opinions regarding reasonableness of compensation arrangements

- A. Request 5.4.3.6 provides:

Provide a full and complete copy of all Expert Opinions supporting or not supporting the reasonableness of the compensation arrangements. Explain all limitations on, and guidelines for, post-consolidation compensation.
- B. Highmark stated that it does not intend to change its current compensation practices as a result of the Merger and, over time, it expects that such practices will be implemented for former BCNEPA employees who become Highmark employees and references Section 6.2 of the Merger Agreement which sets forth certain limitations on post-consolidation compensation applicable to BCNEPA employees.

- C. While Highmark references the limitations in Section 6.2, it does not describe if there are any other “limitations on, or guidelines for, post-consolidation compensation.”
- D. Required Action: Please provide a description of any other “limitations on or guidelines for, post-consolidation compensation” in addition to those contained in the Merger Agreement.

Request 5.6.2 – Advantages and disadvantages of the Transaction for affected persons

- A. Request 5.6.2 provides:

Explain the advantages and disadvantages of the Transaction for members, subscribers, enrollees, policy holders, hospital providers, other health care providers, pharmacies and other affected persons.
- B. While Highmark listed general benefits of the Transaction for subscribers, providers, employees, and for the community, it does not specifically discuss the steps taken or to be taken to achieve the stated advantages.
- C. Required Action:

Please take the following actions:

 - (1) Identify specific steps taken or to be taken to promote or advance the stated advantages for members, subscribers, enrollees, policyholders, hospital providers, other health care providers, pharmacies and any affected persons.
 - (2) Specifically identify the disadvantages of the Transaction for members, subscribers, enrollees, policyholders, hospital providers, other health care providers, pharmacies and any affected persons.

Request 5.6.6 – Discussions between Highmark or BCNEPA Entities and health care providers

- A. Request 5.6.6 provides:

Describe any meetings or discussions between any of the Highmark and BCNEPA Entities with health care providers or health care professional groups about the Transaction.
- B. Highmark certified that no such meetings or discussions have been held, although Highmark has provided brief updates on the Transaction when requested. Highmark also stated that it will supplement this response as required.

- C. Required Action: Describe and summarize the “brief” updates Highmark has given and provide any Documents relating to such updates.

Request 7.1 – Discuss compliance with Section 5922(d) of the Non Profit Law

- A. Request 7.1 provides:

If the entity is a membership corporation, discuss how each Highmark and BCNEPA Entity has complied or plans to comply with section 5922(d) of the Non Profit Law and its bylaws concerning member or subscriber approval of the Transaction.

- B. Highmark stated that all necessary approvals of Highmark Health (the sole corporate member) have been obtained in compliance with Section 5922(d) and Highmark’s bylaws. Highmark stated that no subscriber approval of the Transaction is required.
- C. Required Action: Please describe and explain specifically the steps taken by Highmark as required to be taken to comply with Section 5922(d).

IV. Additional request added to the 4/10/14 Request.

- A. The following request for information is added to Request 5.4.3 of the 4/10/14 Request in the form of a new Request 5.4.3.7 to read as follows:

5.4.3.7 Provide a summary in chart form of the specific amounts (or a good faith estimate of the specific amounts) of all annual compensation (including but not limited to cash compensation, the value of health insurance or other benefits, the value of education expenses, the value of additional expenses or reimbursements etc.) (“Compensation”) that each (i) current member of the BCNEPA Board; (ii) member of the Advisory Board; (iii) individual who will serve on a committee of the Advisory Board; or (iv) member of the board or officers of AHRC may or is expected to receive from any Highmark Entity, BCNEPA Entity, the Foundation, the Public Charity, AHRC or Affiliates of any of them after the effective date of the merger. This includes but is not limited to Compensation referred to in Section 5.6.6 of the Merger Agreement. For the purpose of responding to this Request, assume that each person will serve in these capacities for a one year period.

- B. Please fully respond to Request 5.4.3.7.

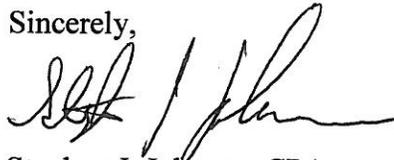
Based on assurances from counsel for BCNEPA and Highmark that additional submissions will be made on a rolling basis, the Department may not comment in this letter

Jack M. Stover, Esquire
Buchanan Ingersoll & Rooney PC
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regarding specific Responses where only partial information has been received or where no Response has been received.

Please be advised that the Department reserves the right to request additional information and documentation, above and beyond the requests set forth in the 4/10/14 Request and in this letter, based on its continued review of the Form A filings, including all of BCNEPA's and Highmark's current and future responses. These requests are continuing requests and the Applicant should promptly update its responses as soon as new information becomes available.

Sincerely,

A handwritten signature in black ink, appearing to read "S. J. Johnson", written over a horizontal line.

Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation