

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

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

**Hospital Service Association of Northeastern Pennsylvania  
d/b/a Blue Cross of Northeastern Pennsylvania;  
First Priority Life Insurance Company, Inc.;;  
HMO of Northeastern Pennsylvania, Inc.,  
d/b/a First Priority Health**

**By Highmark Inc.**

**BCNEPA RESPONSE TO SUPPLEMENTAL INFORMATION REQUEST  
2.5.3.3 FROM  
THE PENNSYLVANIA INSURANCE DEPARTMENT**

**SUPPLEMENTAL REQUEST 2.5.3.3 (via letter from PID dated August 27,  
2014)**

**Required Action:**

- (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.**

**RESPONSE:**

BCNEPA hereby supplements its prior response to this Request.

BCNEPA certifies that to the best of its knowledge, information and belief as follows:

(1) and (2) Cain Brothers & Company, LLC (“Cain”) was engaged by Cozen O’Connor, on behalf of and as legal counsel to BCNEPA and its affiliates, to provide

investment banking advisory services in connection with an analysis of the strategic options for BCNEPA, and a potential transaction, including providing a fairness opinion prior to signing the Merger Agreement. BCNEPA engaged Cozen O'Connor to assess certain risks of the Transaction by performing legal due diligence on Highmark. BCNEPA engaged PriceWaterhouseCoopers, LLP ("PwC") to assess certain risks of the Transaction by performing financial due diligence on Highmark, and the Executive Summary and full report prepared by PwC have been previously provided as Attachment 23 and 24 to Request 5.6.9.

BCNEPA's financial advisors and legal counsel were not engaged to determine the structure of the Transaction as a merger, rather than another form of purchase or a joint venture. Instead, the structure of the Transaction as a merger resulted from BCNEPA's internal identification of its goals and objectives in pursuing a transaction (as described in its response to Request 5.6.14 and in the Request for Proposal), the structures proposed by the bidders in the Request for Proposal process and ultimately negotiations with Highmark. Cain and BCNEPA's legal counsel provided advice and guidance to BCNEPA throughout the Request for Proposal process.

BCNEPA's business needs in the marketplace included capital investment in critical business and information systems; increased scale to better compete with insurers better equipped to deal with the challenges of the post-ACA environment and a broader geographic footprint for the commercial and government markets. In reviewing the nature and structure of the transactions proposed by the bidders in the Request for Proposal process, BCNEPA analyzed the following: complimentary mission as BCNEPA, significant regional presence, preservation of jobs, financial commitment and continued local governance to assure a voice for Northeastern and North Central Pennsylvania.

Ultimately, it was determined that a full merger, versus a less integrated solution such as a joint venture, was necessary to address BCNEPA's goals and objectives in pursuing a transaction. BCNEPA's legal counsel participated in the drafting and negotiation of a term sheet and subsequently the Merger Agreement, based on direction from BCNEPA, to seek to obtain terms that best met BCNEPA's goals and objectives. BCNEPA also sought advice from counsel concerning certain tax issues related to the Transaction.

(3) Other than tax advice from Cozen concerning the implications of the merger, BCNEPA is not in possession of any Expert Opinions or other documents responsive to this request.

**Hospital Service Association of  
Northeastern Pennsylvania  
d/b/a Blue Cross of Northeastern  
Pennsylvania ("BCNEPA")  
19 North Main Street  
Wilkes-Barre, PA 18711**