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Brackbill, Robert

From: Brackbill, Robert
Sent: Thursday, December 20, 2012 9:35 AM
To: 'jack.stover@bipc.com'
Cc: 'Chronister, Ronald'
Subject: UPE/Highmark Form A Filing: Letter from Deputy Commissioner Stephen Johnson
Attachments: 20121220075712739.pdf

Mr. Stover,

Please see the attached letter from Deputy Commissioner Stephen Johnson.

Robert E. Brackbill, Jr. | PIR | Chief, Company Licensing Division
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pennsylvania
INSURANCE DEPARTMENT

December 20, 2012

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

RE: Status of Form A Filing: Application of UPE for approval of the acquisition of control of Highmark Inc. and its Pennsylvania domiciled insurance subsidiaries (the "Form A filing")

Dear Mr. Stover:

The purpose of this letter is to summarize the current status of the Form A filing pending before the Pennsylvania Insurance Department (the "Department").

Representatives of UPE, Highmark, and West Penn Allegheny Health System ("WPAHS") have informed the Department that Highmark and WPAHS are now working closely together to address WPAHS' difficult financial issues over both the short and long term.

While the Department is encouraged that the parties are working together, the Department cannot evaluate a hypothetical transaction or one that is not in final form. Until the parties have come to an agreement on a way forward and have finalized the details of that agreement, the Department cannot complete its review of the Form A filing which lacks this critical information. The Department understands that UPE intends to make a revised filing detailing the agreed upon final structure of the transaction and will provide the Department with financial projections and other information pertinent to that final structure.

It is important to note that since UPE submitted its original filing to the Department in November of 2011, the transaction has continued to evolve –from the proposed change of control of Highmark and an affiliation with WPAHS to the implementation of an integrated delivery network that will include the proposed affiliation with WPAHS, the acquisition of physician practices, the establishment of medical malls, a planned affiliation with Jefferson Regional Medical Center and ongoing negotiations with Saint Vincent's Health System and other providers. The proposed transaction now contemplates expenditures of approximately $1 Billion.

The transaction took a further dramatic turn when WPAHS declared the Affiliation Agreement that had been submitted to the Department to be null and void. As a result, Highmark commenced an action seeking to enjoin WPAHS' actions. After four days of testimony, the Court issued an order in favor of Highmark and the parties are again back at the negotiating table in an effort to resolve the financial issues facing WPAHS.

All of these developments have required the Department to expend considerable time and resources to evaluate a constantly moving target. Nevertheless, the Department continues its review of the significant volume of documents that UPE, Highmark and WPAHS continue to submit in response to the Department's information requests.

The Department is looking forward to receiving a filing that describes the final form of the transaction. The Department will review expeditiously any future submissions as and when they are presented. In making additional submissions, given the significant amount of financial information that was publicly disclosed as part of the recent litigation, the Department will expect adequate financial information disclosure, including separate projections for UPE, Highmark and WPAHS.

It is important to note, however, that no decision can be made regarding the Form A filing until (i) UPE, as applicant, provides the Department with a full description of the proposed transaction, along with financial projections and other pertinent information based on the final form of the proposed transaction, which information contains sufficient detail to permit the Department to evaluate the change of control and related transactions consistent with the Department's statutory obligations; (ii) the public has had an opportunity to comment on the revised filing; and (iii) the Department and its consultants have sufficient time to review and evaluate this additional information.

We continue to encourage UPE to provide information as promptly as possible.

Sincerely,

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