

**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.

**HIGHMARK INC. (“Highmark”) RESPONSE TO INFORMATION
REQUEST 2.3.5 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 2.3.5:

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.

RESPONSE:

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

The term length and authority of the Advisory Board and the Class A members of the Highmark Board of Directors (the “Class A Directors”) were determined through negotiations between Highmark and BCNEPA. Highmark determined that the agreed upon term length and the powers, rights and duties granted to or conferred upon the Advisory Board and the Class A Directors were reasonable in light of the desire to facilitate a smooth transition and integration of the BCNEPA business, operations and employees into Highmark and maximize support for the long-term success of the Blue business in the northeastern Pennsylvania region following the Merger.

The agreed upon four year term for Advisory Board members and Class A Directors coincides with the duration of key provisions of the Merger Agreement, such as Highmark’s commitments related to employment in the northeastern Pennsylvania region.

In a similar manner, the agreed upon authority of the Advisory Board and the Class A Directors relates to key success factors with respect to the Merger. Section 5.6 of Highmark’s proposed Fourth Amended and Restated Bylaws provides that the Advisory Board will include

fifteen (15) members of the board of directors of BCNEPA immediately prior to the Effective Time, which will afford Highmark with the benefit of continuity in leadership during a period of change for the former BCNEPA organization. The Bylaws provide that the purposes of the Advisory Board will include making recommendations to Highmark with respect to the annual budget and strategic plan for the Acquired Business (as defined in the Bylaws); corporate giving in the northeastern Pennsylvania service area; selection and termination of the market president for the service area; and other matters as may be requested by the Board of Directors or management of Highmark. Highmark expects that these other matters will focus on matters that are specific to northeastern Pennsylvania. Thus, the Advisory Board's role is intended to support the activities of the merged company in BCNEPA's historical service area.

As set forth in Highmark's response to Request 2.3.2, the Class A Directors will have the same rights, powers and duties as all other Highmark directors and no supermajority or class voting rights, except, for the first four years following the Merger (again, coinciding with other key provisions of the Merger Agreement), with respect to those provisions of Highmark's Bylaws that relate to their rights and duties or the rights and duties of the Advisory Board. Thus, Highmark expects that while the Advisory Board will focus on issues affecting the northeastern Pennsylvania region, the Class A Directors will assist Highmark on a broader scale, while bringing a unique perspective with respect to the business of Highmark's new merger partner.

There are no Documents that are responsive to this Request, except to the extent included within the materials previously provided to the Department at Tab 6 of the Confidential Supplement to Form A or in Highmark's confidential responses to Requests 5.6.9. and 6.1.2.

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