

**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 INFORMATION REQUEST 5.4.8.5 FROM  
THE PENNSYLVANIA INSURANCE DEPARTMENT**

**REQUEST 5.4.8.5:**

**Provide full and complete information with regard to the mission, governance, management team, Board of Directors, organizational structure and tax status of the foundation to which assets or property are contemplated to be contributed or distributed in connection with the Transaction.**

**RESPONSE:**

BCNEPA certifies to the best of its knowledge, information and belief the following:

Hospital Service Association of Northeastern Pennsylvania Foundation, dba The Blue Ribbon Foundation (the "Foundation"), is an existing Pennsylvania non-profit corporation that is exempt from federal income tax as a private foundation pursuant to Section 501(c)(3) of the Internal Revenue Code. The sole member of the Foundation is currently BCNEPA. Prior to closing of the Transaction, the name of the Foundation will be changed and other changes will be made to the Articles of Incorporation and Bylaws of the Foundation to reflect the new structure in which the Foundation will be a nonmember nonprofit corporation and will not be an affiliate of BCNEPA and the fact that the Foundation will have significant charitable assets. The purposes of the Foundation are those charitable purposes which are consistent with its Section 501(c)(3) status. The Form 1023 filed by the Foundation with the Internal Revenue Service in 2002 indicated that the Foundation provides cash grants exclusively to qualified Section 501(c)(3) nonprofit organizations focusing on the areas of health and human services, children and families and education within the thirteen counties of Northeastern Pennsylvania and that the Foundation's goal is to support efforts that improve the quality of life and health in the community, such as programs for community health education and prevention, programs to

improve literacy, programs that provide assistance for underserved, abused or neglected children and similar endeavors.

In the auction process that BCNEPA employed to consider and select an affiliation/merger partner, Highmark did not express an interest in the acquisition of the business conducted by HRC. As a result, the BCNEPA Board of Directors considered options for utilizing the value of HRC to benefit charitable purposes. Because BCNEPA believes that the business of HRC has the potential for significant growth and increase in value, BCNEPA concluded that contributing the stock of HRC to a charitable enterprise, which could benefit from any future increase in value, was the most appropriate course of action.

The Foundation would be subject to significant excess business holdings penalties if the stock of HRC was contributed to the Foundation. However, a public charity would be permitted to own the stock of HRC without triggering those penalties. Therefore, a Pennsylvania non-profit corporation (“Public Charity”) will be created that will request the Internal Revenue Service to classify it as a public charity.

It is expected that AHG, a wholly owned subsidiary of BCNEPA, and HRC, which is wholly owned by AHG, would merge prior to the closing of the Transaction and the name of the surviving entity would be changed to AllOne Health Resources Corporation (“AHRC”). AHRC would become a wholly owned subsidiary of the Public Charity following the contribution by BCNEPA of all of the outstanding capital stock of AHRC to the Public Charity. Following the closing of the Transaction, the Public Charity will file a Form 1023 with the Internal Revenue Service seeking tax exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. BCNEPA expects that a majority of the \$90 million (or \$70 million after the cash contribution of \$20 million by BCNEPA to HRC as permitted by the Merger Agreement) that BCNEPA would contribute to one or more charitable organizations pursuant to the Merger Agreement immediately prior to the closing of the Transaction, as described in the Merger Agreement and the Form A, would be contributed to the Foundation and the balance to the Public Charity. The purposes of the Public Charity would be those charitable purposes which are consistent with its application for 501(c)(3) status from the Internal Revenue Service and in furtherance of those purposes the Public Charity would provide or support programs which focus on health, education and disease prevention, human services activities, activities which improve the quality of life of children and families, activities for the promotion of social welfare, and lessening the burdens of government, including supporting health care and other purposes that complement or supplement the historic mission of BCNEPA, either directly or by assisting other exempt organizations which carry on such activities principally within the 13 counties of Northeastern Pennsylvania.

The Board of Directors of the Public Charity would be constituted as a “representative governing body” as described in applicable Treasury Regulations for public charities. It is expected that the Board would include individuals from the Northeastern Pennsylvania community who are: public officials or individuals chosen by public officials; individuals having special expertise or knowledge in the fields or disciplines to which the charitable aims of the Public Charity would be devoted; community leaders; educators; clergymen or other such persons who would represent the community or the general public. The current members of the

Board of Directors of BCNEPA (excluding the ex officio member) would serve on the initial Board of Directors of the Public Charity. However, a majority of the initial Board of Directors of the Public Charity would consist of individuals who are not current members of the Board of Directors of BCNEPA. It is expected that such majority may consist of some or all of the current members of BCNEPA who are not members of the Board of Directors of BCNEPA. As part of the changes to the current structure of the Foundation described above, the current members of the Board of Directors of BCNEPA (excluding the ex officio member), as well as certain of the current members of the Board of Directors of the Foundation, would serve on the Board of Directors of the Foundation.

The current Bylaws of the Foundation provide that no member of the Board of Directors of the Foundation is entitled to any compensation when acting in the capacity of a director. That provision of the Bylaws of the Foundation will not be modified as part of the changes to the Bylaws of the Foundation referred to in the first paragraph of this response. The section of the proposed Bylaws of the Public Charity that governs compensation of directors is attached to this response as Attachment 5.4.8.5. That section of the proposed Bylaws of the Public Charity provides that a member of the Board of Directors of the Public Charity is not entitled to any compensation for his or her services as a director. BCNEPA is in the process of reviewing and considering the appropriate management and operational structure and other specifics with respect to the Public Charity and the Foundation.

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

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Compensation. A Director shall not be entitled to any compensation for his or her services as a Director. The foregoing shall not prevent the Board of Directors from reimbursing any Director for expenses actually and necessarily incurred in the performance of his or her duties as a Director or from entering into a contract, directly or indirectly, with a Director for the providing of goods or services to the Corporation if such contract is consistent with the terms of any policy relating to conflicts of interest and transactions with Directors of the Corporation which may be approved from time to time by the Board of Directors.