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June 27, 2011

VIA E-MAIL AND U.S. MAIL

Mr. Cooper Wright
Mr. Brett D. Newman
The Blackstone Group
345 Park Avenue
New York, New York 10154

Michael Houghton, Esquire
Brenda Mayrack, Esquire
Morris, Nichols, Arsht & Tunnell, LLP
1201 North Market Street, 18th Floor
Wilmington, Delaware 19801

Re: Joint Response to Public Questions

Dear Messrs. Wright, Newman and Houghton, and Ms. Mayrack:

On behalf of Highmark Inc. and Blue Cross Blue Shield Delaware (“BCBSD”), we are submitting these joint responses to the public questions that were received from Cooper and Brett on June 13, 2011 and June 15, 2011, respectively. For ease of review, we have broken down the responses by date and by the name of the person who submitted the questions.

I. DR. BILL WOOD
MAY 16, 2011, GEORGETOWN, DELAWARE

Question: Will the affiliation affect the rate of Delaware citizens without health insurance? Can we predict whether the uninsured rate will increase, decrease or stay unchanged?

Response: It is difficult to predict the impact the affiliation will have on Delaware’s uninsured rate. The pro-forma financial statements that were prepared in connection with the proposed affiliation did not assume any specific increase or decrease in the uninsured rate. However, both Highmark and BCBSD are interested in reducing the rate of uninsured in Delaware and believe that the affiliation will enable BCBSD to be more competitive from a cost-standpoint, which should help improve affordability. Further, the affiliation offers the best opportunity for BCBSD to remain a strong, not-for-profit company with a community focus across the state, to expand access to health care services for Delaware citizens and to bolster the Delaware economy. Working with Highmark, BCBSD can continue to provide grants to

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community organizations to help increase access to health care for Delaware's uninsured and underserved and reduce health disparities in minority communities.

Additionally, the provisions of the Patient Protection and Affordable Care Act, particularly those effective January 1, 2014, are intended to have a positive impact on reducing the rate of uninsured. BCBSD and Highmark are both committed to implementing these provisions. Through the affiliation, BCBSD will be in a much better position to offer more solutions to help local employers address the issue of rising costs, which will affect the availability of employer-sponsored health care coverage and the rate of uninsured in the state.

While it is impossible to predict how the proposed affiliation, on its own, may affect the rate of uninsured in Delaware, the transaction will put BCBSD in a better position of making health care services accessible to more Delawareans.

II. MARK SHARNOFF (BCBSD POLICYHOLDER)
MAY 19, 2011 – WILMINGTON, DE

Question: What is BCBSD giving up in return for new Board composition?

Response: Integral to the transaction is the placement of Highmark executives on the BCBSD Board of Directors. Following the affiliation, the company will be governed by a nine member Board, consisting of four representatives from BCBSD, four representatives from Highmark, including Highmark's CEO, and BCBSD's President. Highmark will also become BCBSD's sole "member" and, as such, shall be the sole party with the power to elect BCBSD's directors. The affiliation will thus give Highmark control over a majority of the BCBSD Board of Directors, but BCBSD welcomes this as a way to ensure that the potential fruits of the affiliation can be fully realized. The agreement also causes Highmark to become the "primary licensee" under the Blue Cross Blue Shield Association rules for the State of Delaware, and will cause BCBSD to use the Blue Cross Blue Shield service marks as a "controlled affiliate" much like it did from 2000 through 2006 during its affiliation with CareFirst. Under this arrangement, BCBSD will continue to use the Blue Cross Blue Shield brand just like it always has, but as a controlled affiliate of a much larger blue plan, Delaware interests will enjoy more effective representation at the Blue Cross Blue Shield Association. In addition, as primary licensee, Highmark will guaranty the claims obligations of BCBSD, thereby ensuring that BCBSD has the financial wherewithal to pay its claims well into the future.

It is important to note that BCBSD considers this to be a partnership – not a takeover – between two well-respected not-for-profit Blue Cross and Blue Shield plans with shared goals. BCBSD will continue to operate as a separate legal entity, headquartered in Delaware and under

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the jurisdiction of the Delaware Department of Insurance. Through the new relationship, BCBSD will have access to a wide range of Highmark's capabilities, including enhanced customer services such as online provider cost information and wellness programs, while physicians and hospitals will see real-time claims information and adjudication capabilities. It is our view that the affiliation with Highmark will enable BCBSD to remain competitive, and continue as a significant local employer and contributor to the local economy.

**III. STUART SNYDER (BCBSD POLICYHOLDER)
MAY 19, 2011 - WILMINGTON, DE**

Question 1: What adjustments to overall compensation including, but not limited to salaries, benefits, stock ownership, stock options, derivatives, etc., will executives and board members receive if the merger, or portions of the merger, go through? This is directed toward both Blue Cross and Highmark.

Response: The proposed affiliation between BCBSD and Highmark was structured very carefully to ensure that no compensation or other incentives for BCBSD or Highmark executives would be tied to efforts to close the transaction or to get the transaction approved. As a result, no senior executives or board members from BCBSD or Highmark will receive a bonus or incentive payment as a direct result of the affiliation. Additionally, there have been no commitments regarding adjustments to compensation, including salaries, benefits, etc. for senior executives of either company to be offered prospectively after the affiliation is approved.

Question 2: With regard to the stated information systems needs of Blue Cross Blue Shield of Delaware, have other options to the proposed \$80MM computer system upgrade been exposed to an external source for a "business case" study? Has Cloud Computing been looked at? Has an option been explored for staged upgrades over time? Has a partnership been examined with Highmark to cost share their current robust system (both capital and operating expenses) possibly benefiting both companies who currently don't compete anyway?

Response: BCBSD's proposed affiliation with Highmark is the byproduct of a very deliberate and extensive four-year corporate strategic planning process. During this process, BCBSD, working with consultants, analyzed numerous strategic alternatives and potential partners. BCBSD engaged Deloitte, a nationally recognized consulting firm, to conduct a capabilities assessment. As part of its review, Deloitte developed cost estimates for the various capability enhancements. Additionally, BCBSD's management team, with the support of Deloitte, developed a high-level Information Technology plan. As part of this process, BCBSD evaluated a number of technology alternatives.

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BCBSD has evaluated and continues to evaluate cloud computing. Similar to many organizations, we anticipate that cloud computing will provide future opportunities for BCBSD. Also, BCBSD is currently in the process of developing a detailed integration plan, which contemplates staged upgrades over a 24-month timeframe. Finally, the proposed affiliation with Highmark specifies a cost-sharing arrangement for both capital and operating expenses related to technology.

Question 3: Are there any plans or possibilities of instituting changes to any current customers that could result in coverage changes or need to re-apply to other plans within the new system?

Response: Highmark and BCBSD are committed to maintaining BCBSD's existing products in the Delaware marketplace and hope to expand and provide more alternatives for Delawareans. There are no plans to institute coverage changes to any current customers that could result in the need to re-apply for other plans. Customer premiums will continue to be developed based upon Delaware laws and regulations, and will be subject to the review and oversight of the Delaware Department of Insurance.

Question 4: WellPoint/RightChoice alliance resulted in inability for some members to purchase similar coverage at past rates (i.e. poorer benefits for some subscribers as a result of alliance). [How will the affiliation address these issues?]

Response: Highmark and BCBSD are committed to maintaining BCBSD's existing products in the Delaware marketplace and hope to expand and provide more alternatives for Delawareans. Customer premiums will continue to be developed based upon Delaware laws and regulations, and will be subject to the review and oversight of the Delaware Department of Insurance.

Question 5: Are there regulations in place to hold the companies accountable to promises made in this affiliation process?

Response: Both BCBSD and Highmark are committed to delivering on the promises made during the affiliation review process. Additionally, BCBSD will continue to operate as a separate legal entity headquartered in Delaware and will remain under the regulatory oversight of the Delaware Department of Insurance.

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IV. TRACY BOLANDER (PHYSICIAN AND BCBSD PROVIDER)
MAY 19, 2011 – WILMINGTON, DE

Question 1: How will the affiliation impact mental health benefits? Will there be a carve-out plan?

Response: We do not anticipate that the affiliation will have any impact on mental health benefits. BCBSD will continue to operate as a separate legal entity headquartered in Delaware and will remain under the regulatory oversight of the Delaware Department of Insurance. BCBSD will continue to follow all state and federal laws and regulations related to mental health benefits. Both Highmark and BCBSD currently manage behavioral health benefits in-house and do not anticipate any changes to this approach. We believe that because this approach facilitates better coordination between an individual's physical health and mental health, it is in the best interests of our members. Additionally, consistent with today, there will be BCBSD staff dedicated to working with Delaware clinicians to ensure our members continue to have access to high quality behavioral health services.

Question 2: Providers, like Dr. Bolander, have already begun transitioning onto Highmark's IT platform. If the affiliation does not go through, will they have to incur more costs to re-transition onto another platform?

Response: BCBSD has entered into a service agreement with Highmark for the provision of certain front-end technology support that was previously provided by CareFirst, Inc. This agreement is separate and distinct from the affiliation agreement and will remain in effect, even if the affiliation is not approved. Accordingly, we do not anticipate that providers would need to incur more costs to transition onto another platform in the immediate future following a termination of the Affiliation Agreement.

V. RICHARD SMEDBERG (40 YEARS IT EXPERIENCE)

Question 1: Is the insurance industry required by law to use hardware/software that is supported by the manufacturer?

Response: There is no such law. BCBSD is diligent in ensuring we remain on supported software versions; additionally, we incorporate "best of breed" software to support business/technology requirements.

Question 2: What hardware is being utilized and yes I'm asking for the specific model not a "generic" answer like an IBM mainframe?

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Response: BCBSD recently upgraded to an IBM 2098-L02 (Z10) mainframe.

Question 3: What programming language(s) are the applications written in? Is an application generator used, for example CA-Telon?

Response: BCBSD incorporates a range of development platforms. Examples include: COBOL, Assembler H, SQL, Easytrieve Plus, VB.net, ASP.net, Access, Power Builder, C++, HTML, JAVA, Dialog Designer, XML/XPATH, IBM Websphere MQ, AION 10 r2.

Question 4: Are a significant number of employees that developed the applications still employed, and is BCBSD hiring people that are capable of developing/maintaining their applications and infrastructure?

Response: Yes. BCBSD's information technology areas incorporate a well-defined cross-training program for new and mature technology platforms. Staff hiring/acquisition is focused on existing and emerging technology needs.

Question 5: Is there a mix of employees that can integrate COBOL and Web-based business processes in Web services, XML, Java, and COBOL applications?

Response: Yes. BCBSD information technology staff can integrate COBOL and Web-based processes. We have experienced COBOL programmers along with web developers who are well versed in Web services and XML. While we are a Microsoft .Net shop, our web developers are highly proficient in C# (language and platforms are similar to JAVA) and a number of these have prior Java experience.

Question 6: Did BCBSD submit an RFP for other companies that could provide hardware/operations support and application support? If not, then why? BCBSD would retain control and use the economies of scale a larger service provider could provide to host their IT environment.

Response: BCBSD conducted a thorough, four-year review of its strategic business options; this review included an examination of a number of different business models. We did conduct an assessment of options to contract with various technology vendors to meet our hardware and applications support needs. These options were rejected for a number of reasons, most notable among these is the determination that such an arrangement fails to provide the broader, non-technology benefits that an affiliation with another not-for-profit Blue plan could provide. Not only will BCBSD gain leading edge technology support from Highmark, the company will also benefit from access to Highmark's highly regarded and extensive resources in product development, regulatory compliance, actuarial services, consumer engagement, data

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analytics, provider support and other leading health care services. Furthermore, the Highmark affiliation will provide BCBSD with a guarantee of adequate financial reserve levels. And, the Highmark affiliation ensures that BCBSD will continue as a significant local employer and contributor to the Delaware economy.. Finally, it is important to note that under the proposed affiliation with Highmark, BCBSD would gain access to these technology and other business solutions at cost. Under the technology vendor approach contemplated in this question, a vendor would charge BCBSD cost plus some profit margin.

Question 7: Did BCBSD have talks with other smaller (single-state) BCBS companies on collocation of their computer environments, running out of a single data center either owned/operated by BCBS or a facility like Philadelphia Technology Park?

Response: As indicated in our response to item 7, above, BCBSD undertook an extensive, four-year review of the company's strategic business options. In the course of this process, we held discussions with a number of other Blue plans to assess their interests in various business models. The review process concluded that the proposed affiliation with Highmark offers BCBSD with the best opportunity to meet our technology and other critical business objectives.

We appreciate the opportunity to respond to these questions and to demonstrate why the affiliation should be approved.

Sincerely,

MITCHELL, WILLIAMS, SELIG,
GATES & WOODYARD, P.L.L.C.

By


Frederick K. Campbell

FKC:ka

cc: David S. Swayze, Esquire
Michael W. Teichman, Esquire