

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

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

Highmark Inc.; First Priority Life Insurance Company, Inc.;  
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;  
Highmark Senior Resources Inc.; HM Casualty Insurance Company;  
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;  
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,  
d/b/a First Priority Health; Inter-County Health Plan, Inc.;  
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;  
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;  
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**SUPPLEMENTAL RESPONSE TO  
PID INFORMATION REQUEST 3.8  
FROM THE PENNSYLVANIA INSURANCE DEPARTMENT**

**REQUEST 3.8:**

**Provide a full and complete copy of any press release or public announcement, issued by the Applicant or any Highmark and WPAHS Entity regarding or referencing the Transaction.**

**SUPPLEMENTAL RESPONSE:**

UPE hereby supplements its prior response to this Request by attaching at Tab A copies of press releases or public announcements made by Highmark regarding or referencing the Transaction.

**UPE**  
120 Fifth Avenue  
Pittsburgh, PA 15222

**TAB A**

## HIGHMARK'S RESPONSE TO MEDIA INQUIRY ON PID REVIEW PROCESS

Highmark has been responding to the information requests from the Pennsylvania Insurance Department on the Form A filing on a rolling basis. We disagree with any characterization that there is tension between Highmark and the Insurance Department. Thus far, we have submitted thousands of pages of documents to the Department regarding the transaction with West Penn Allegheny Health System, and we are continuing to work cooperatively with the Department to assist them in conducting a thorough review of the transaction. After the Department examines our responses, it sends us follow-up questions. We respond with additional supplemental information to clarify our responses. This information exchange and supplemental information follow-up is a normal part of the process that the Department conducts. We appreciate the fact that the Department's review of our filing has been moving forward expeditiously, and we will continue to respond to all information requests from the Department in a timely manner.

Date: June 8, 2012

# **DIVIDER SHEET**

## West Penn Allegheny Health System Moves On From Affiliation Agreement with Highmark

**Friday, September 28th, 2012**

West Penn Allegheny Health System (WPAHS) today notified Highmark that the System is released from its obligations under the Affiliation Agreement that was signed by the two organizations in November 2011, and as a result WPAHS will be exploring new options for its future direction.

According to West Penn Allegheny, Highmark has breached the Affiliation Agreement by its unequivocal position that Highmark will not close the transaction set forth in the agreement, even if the Pennsylvania Insurance Department (PID) approves the deal. Moreover, despite earlier assurances to the contrary, Highmark has specifically demanded, among other things, that WPAHS restructure through bankruptcy.

Jack Isherwood, Chair of West Penn Allegheny's Board of Directors, said that Highmark remains an important partner in the delivery of healthcare and that WPAHS is open to new discussions with the insurer about better alternatives to bankruptcy, but WPAHS needs to move forward in exploring all options available to it. He said that a bankruptcy is not the preferred course for the organization since it may cause harm to the health system, its many employees and the community.

"Our goal now, as it was when we signed this agreement, is to ensure a robust West Penn Allegheny Health System that preserves the choice of exceptional health care services in our region. There is no question that a provider network with West Penn Allegheny as its core would afford the region with outstanding, patient-centered healthcare services that are unsurpassed in quality, cost and convenience," Isherwood said.

"To date, we have met every obligation outlined in the Affiliation Agreement to make that concept a reality and have worked earnestly and with absolute transparency to help expedite a review and approval of the agreement by the PID."

Continuing, Isherwood said that from the outset of West Penn Allegheny's discussions with Highmark and negotiations to reach the Affiliation Agreement, the central concern of West Penn Allegheny has been to safeguard its valuable community assets and to protect its nearly 12,000 dedicated employees.

"West Penn Allegheny's board would violate its fiduciary responsibility if it failed to determine whether a better alternative exists to Highmark's proposed financial strategy," Isherwood said.

Isherwood said that Highmark, however, can still be part of the solution.

"Highmark has touted West Penn Allegheny's high quality and low cost services when promoting its planned integrated delivery network and its new Community Blue product. Highmark's unwillingness to pay us at fair rates that recognize West Penn Allegheny's value to the community does not make sense," Isherwood said.

"We have been and are continuing to ask Highmark to agree to a reasonable rate request, which we have earned and which would help strengthen West Penn Allegheny for the future. Delaying such an increase only serves to further weaken the System financially," he said.

Bond debt has been identified by Highmark as a key financial hurdle to finalizing the affiliation. In fact, the System's debt level has not changed since the affiliation agreement was signed, except for the addition of loans from Highmark that were part of the affiliation agreement.

Keith T. Ghezzi, MD, Interim President and Chief Executive Officer at WPAHS and a principal at the healthcare turn-around firm Alvarez and Marsal (A&M), cited several other developments that Highmark initiated over the past year that negatively affected WPAHS. These include extension of the UPMC contract plus the addition of UPMC East, the abrupt change in Highmark leadership in April 2012, and Highmark's failure to generate the volume increases that Highmark projected in the PID filing in November 2011.

Alvarez and Marsal was hired by Highmark to assess the value and viability of West Penn Allegheny prior to its signing the Affiliation Agreement. West Penn Allegheny's board then contracted with A&M, at the urging of Highmark, to implement a turnaround plan for the organization.

"We have always believed that Highmark was an appropriate community partner, and we trusted Highmark's intentions to help restore our system for the benefit of community. This breach of the Affiliation Agreement by Highmark is contrary to the discussions that West Penn Allegheny and Highmark leadership had throughout our negotiations and it is incumbent upon us to now explore other potential partners who are interested in preserving our health system for the community," Isherwood said.

# **DIVIDER SHEET**

## HIGHMARK PUBLIC STATEMENT

Highmark categorically denies the claim by West Penn Allegheny Health System (WPAHS) that Highmark has breached the affiliation agreement between us. Highmark continues to believe that an affiliation between Highmark and WPAHS is in the best interests of both parties, and more importantly of the entire community – the physicians and employees of WPAHS, Highmark plan members, employers, and all parties. We believe that WPAHS is an important community asset that is vital to our region. We have been working in good faith with WPAHS to move forward our proposed affiliation in a way that creates a strong foundation for success. We believe that we have made substantial progress in this regard, especially in recent weeks.

Market forces and health system reform are causing all participants in the health care system to change the way they do business. For that reason in 2011, we announced our proposed affiliation with WPAHS. Highmark wants to maintain competition and preserve provider choice for consumers in Western Pennsylvania. Alignment with WPAHS helps create this outcome.

Highmark is firmly committed to working with all segments of the community to make necessary changes to help control health care costs, improve quality of patient care and patient safety, preserve options and choice for individuals, employers, physicians and other health care practitioners. We will continue to pursue efforts that are in the best interests of the broader community.

Dated: September 28, 2012

# **DIVIDER SHEET**

**Highmark Seeks Injunction to Preserve Proposed Affiliation with WPAHS**  
*Media Statement*

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In an effort to preserve the proposed affiliation agreement between Highmark and West Penn Allegheny Health System (WPAHS) which Highmark continues to believe is in the best interest of the community, Highmark is asking the Pennsylvania Court of Common Pleas of Allegheny County for a temporary restraining order to prevent WPAHS from starting affiliation/acquisition discussions with other organizations and to protect the large financial investment Highmark has already made in the WPAHS.

Highmark categorically denies the WPAHS claim that Highmark has breached the affiliation agreement. Highmark urges WPAHS to change its position and work cooperatively to move forward with the proposed affiliation.

In light of the ongoing concerns about the short-term and long-term financial condition of WPAHS, Highmark has strived to work collaboratively with WPAHS and has suggested the development of a mutually agreed upon restructuring of WPAHS' obligations that significantly improves the health system's financial condition and creates a strong foundation for success in the long term and protects the pensions of all WPAHS employees.

Highmark and WPAHS are obliged under the affiliation agreement to use "reasonable best efforts" to close the transaction. Although a financial restructuring is one option that must be considered to meet these objectives, Highmark is open to considering alternative WPAHS proposals that would sustain the system's long-term financial soundness and that could be approved by the Pennsylvania Insurance Department (PID). The PID did not ask for, and has not required, bankruptcy as part of a long-term plan to ensure the system's long-term financial viability

Highmark continues to believe that WPAHS is an important community asset that is vital to Western Pennsylvania, as reflected by the fact that Highmark has already provided more than \$225 million in loans and grants for necessary capital improvements at WPAHS as well as for WPAHS' operating needs, and has committed to provide additional financial support. We will continue to work diligently to take responsible steps to help preserve WPAHS as a strong provider in the region's health care delivery system.

Date: October 1, 2012

# **DIVIDER SHEET**

## Highmark files injunction to preserve proposed WPAHS affiliation

(October 2, 2012) Highmark wants to preserve the proposed affiliation agreement with WPAHS in the best interests of the community, we told the Allegheny County Court of Common Pleas on Oct. 1, where we are seeking an injunction.

Highmark wants to prevent WPAHS from discussing an affiliation or acquisition with another organization. This action comes in the wake of a Sept. 28 announcement by WPAHS when they claimed Highmark “had breached” the proposed affiliation agreement.

### **Categorical denial of ‘breach of contract’**

Highmark categorically denies that we breached the agreement. There was no breach. We simply want to encourage the health system to change their position and work cooperatively toward an economic solution that makes sense and move forward with the proposed affiliation.

“We want to create a strong foundation for success and preserve competition and choice in the region’s health care systems,” said **Bill Winkenwerder**, MD, Highmark’s president and CEO.

### **Meeting objectives regarding finances**

There are many ongoing concerns about WPAHS’s short- and long-term financial positions. Highmark has been and remains committed to work collaboratively with the health system to develop a mutually-agreed-upon restructuring of WPAHS’s financial obligations. Goals are to improve the health system’s financial condition, create a strong foundation for success in the long term, and protect the pensions of their employees.

Under the affiliation agreement, Highmark and WPAHS are obliged to use “reasonable best efforts” to obtain regulatory approval of the transaction. Financial restructuring is one option that must be considered to meet these objectives.

### **No PID requirement for bankruptcy**

Highmark believes its proposal for WPAHS to move forward is solid, thoughtful, and respectful of all parties and interests. However, if WPAHS has other ideas to put forward, Highmark will consider them.

It is important to note that WPAHS has not provided to Highmark a meaningful alternative financial proposal that could be approved by the Pennsylvania Insurance Department (PID). The PID did not ask for, and has not required, bankruptcy as part of the long-term plan to ensure the system’s financial viability.

“Highmark continues to believe that WPAHS is an important community asset that is vital to western Pennsylvania, as reflected in the fact that Highmark has invested to date in excess of \$225 million into WPAHS, and it has plans to invest at least \$275 million in additional funds in the next three years. In total, Highmark made a \$1 billion commitment to this region to develop an Integrated Delivery Network, of which WPAHS is at the core,” said Dr. Winkenwerder.

### **Control of health care costs is essential to economic vitality**

Control of health care costs is essential to the economic vitality of the region, and to the budgets of small businesses, families, and individuals. Highmark is committed to this vital goal. The Highmark strategy to develop an Integrated Delivery Network is central to achieving cost savings and preserving competition in western Pennsylvania.

Highmark's actions are guided by what the company and many others in the greater Pittsburgh area believe are in the best interests of the broader community. "It is critically important that area residents and businesses have viable options for affordable, high-quality medical care and coverage. It is also essential that there is competition in the marketplace," Dr. Winkenwerder stated.

# **DIVIDER SHEET**

### **Highmark Statement on WPAHS Financial Restructuring Issue**

We remain firmly committed to an affiliation between Highmark and West Penn Allegheny Health System (WPAHS). We believe that the proposed affiliation is in the best interests of both parties, and more importantly, the entire community – physicians, employees of WPAHS, Highmark subscribers, WPAHS patients and employers in the region.

We continue to believe that the affiliation agreement with WPAHS remains in place. We urge WPAHS to change their position and disavow their claim of an affiliation breach, so that we can continue talks regarding a financial restructuring or an alternative proposal to address the Pennsylvania Insurance Department's (PID) concerns about the short-term and long-term financial condition of WPAHS. It's these concerns that could cause the PID to not approve the transaction. Highmark is committed to closing the affiliation with WPAHS if and when the PID offers approval.

Dated: October 11, 2012

# **DIVIDER SHEET**



October, 12, 2012

BY HAND DELIVERY  
BY US MAIL

John S. Isherwood  
Chairman of the Board  
West Penn Allegheny Health System  
30 Isabella St., Suite 300  
Pittsburgh, PA 15212

Dear Jack:

Highmark continues to be committed to an affiliation with WPAHS and for many months has been seeking to obtain the necessary approvals from the Pennsylvania Insurance Department (PID) and other regulators so that it can consummate this affiliation. Highmark has already funded more than \$200 million of its commitment to WPAHS under our Affiliation Agreement. It also has provided an additional \$33 in funding to WPAHS which it was not required to fund, as well as expending an enormous amount of time, energy, and resources to help ensure that WPAHS can be a strong competitor in the marketplace for many years to come. We embrace the vision of a well-managed clinically driven regional health care system with the outstanding physicians and nurses of WPAHS at its core.

Your decision to claim that Highmark breached the Affiliation Agreement came as a surprise and great disappointment to us, especially in light of the above noted commitments our company has made, and the commitments we stand ready to perform under the Affiliation Agreement. Your Board, for reasons we do not understand, appears to have completely misconstrued the presentation we made on September 27. What we intended and presented was a plea and a plan to jointly approach your major creditors about a debt restructuring. The proposals we discussed would fully protect the pensions of all WPAHS employees. That you would not agree to this eminently reasonable approach to attempt to assure PID approval – as well as the long-term survival of WPAHS -- shocked us. To be clear, Highmark never left the discussions. WPAHS left the discussions when, without warning, it delivered a letter to our offices on September 28, 2012 claiming an incurable breach. Such claim has no basis in reality.

You also made it clear in the press briefing that followed and in comments that preceded these public communications that you intend to pursue a transaction with another party, and that you believe that Highmark's entire pre-closing funding now belongs to WPAHS. In light of these statements, Highmark had no choice but to file a lawsuit for injunctive relief against WPAHS.

Because we at Highmark still believe that an affiliation between us can help create a viable alternative for high quality medical care in the Pittsburgh region that would serve the larger community, we would like to see WPAHS return to discussions. It is essential that such discussions address WPAHS's continued weak financial condition and result in a plan that will meet with approval by our regulators and enable us to proceed with our envisioned affiliation.

*Corporate Offices*

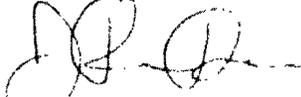
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We have had conversations with you in the past few days in which you have indicated that you are unwilling to drop your claim of a breach. This is unfortunate. We urge you to disavow this claim so that we can dismiss our lawsuit and take the steps necessary to move forward with our affiliation.

We remain concerned about the finances of WPAHS, and about your refusal to work collaboratively with us to address this issue so that PID approval can be secured and a financially strong healthcare organization can be created. We appreciate the deep commitment that the physicians, nurses, and other employees of WPAHS have made to the care of so many people in this region. We urge you to consider these commitments, the welfare of so many careers, and the welfare of the many patients we all serve.

We look forward to your response, and sincerely hope that you will move forward with us to take responsible actions.

Sincerely,



J. Robert Baum, Ph.D.  
Chairman of the Board



William Winkenwerder, Jr., MD, MBA  
President and CEO