

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF DELAWARE

IN THE MATTER OF THE PROPOSED)
AFFILIATION OF BCBSD, INC., DOING) Docket No. 1509-10
BUSINESS AS BLUE CROSS BLUE SHIELD)
OF DELAWARE, WITH HIGHMARK INC.)

**DELAWARE DEPARTMENT OF INSURANCE'S
FIRST SET OF DOCUMENT REQUESTS TO BCBSD, INC.**

Pursuant to the Scheduling Order dated January 5, 2011, the Delaware Department of Insurance (“DOI”) requests that BCBSD, Inc. (“BCBSD”) produce the documents and information requested below by February 28, 2011, or at such other time as may be agreed upon by the parties or ordered by the Hearing Officer, at the offices of Morris, Nichols, Arsht & Tunnell LLP, 1201 N. Market Street, Wilmington, Delaware 19801.

DEFINITIONS

1. “BCBSD” means the applicant BCBSD, Inc., doing business as Blue Cross Blue Shield of Delaware, and includes any and all of its predecessors, subsidiaries, divisions, affiliates, and affiliated entities, as well as the officers, directors, agents, employees, and representatives of the foregoing.
2. “Highmark” means the applicant Highmark, Inc. and includes any and all of its predecessors, subsidiaries, divisions, affiliates, and affiliated entities, as well as the officers, directors, agents, employees, and representatives of the foregoing.
3. The “Proposed Affiliation” means the transaction contemplated by the documents filed by Highmark with the DOI on October 6, 2010, and as supplemented on January 14, 2011.
4. The “Form A Application” means the documents filed by Highmark on October 6, 2010, and supplemented on January 14, 2011, and any later supplements.

5. “BCBSD’s Financial Pro Formas” means the document entitled “Blue Cross Blue Shield of Delaware Affiliation Financial Pro Formas, January 14, 2011,” which was submitted as Exhibit 9 of the Form A Application.

6. “Constituting,” “concerning” or “in connection with” are used in their broadest sense and include all matters relating to, referring to, describing, evidencing or constituting the referenced subject.

7. “Document” or “documents” as used herein shall mean every kind of recording of any form of communication or representation upon any tangible thing, including letters, words, pictures, sounds or symbols, or combinations thereof, whether recorded by handwriting, printing, photostatic or photographic means, magnetic impulse, tape, computer disk or any other form of data storage, data compilation or mechanical or electronic recording, and all other tangible things. Every draft or non-identical copy of a document is a separate document as that term is used herein.

8. “Communication” shall mean any transmission or exchange of information between two or more persons, whether orally or in writing, including without limitation any conversation or discussion by means of letter, note, memorandum, inter-office correspondence, telephone, telegraph, telex, telecopies, cable communicating data processors, e-mail, or some other electronic or other medium.

INSTRUCTIONS

1. Whenever appropriate, the singular form of a word shall be interpreted in the plural or vice versa; verb tenses shall be interpreted to include past, present, and future tenses; the terms “and” as well as “or” shall be construed either conjunctively or disjunctively, as necessary to bring within the scope of these demands any documents that might otherwise be

considered outside their scope; and words imparting the masculine include the feminine and vice versa.

2. If any privilege or immunity from discovery is claimed with respect to any responsive document, the production of which would otherwise be required by this request for document, please provide a privilege log that conforms to Delaware law.

3. If a copy of a requested document contains comments, markings, or notations not found on a prior or subsequent version, please consider the copy and any prior or subsequent versions as separate documents and produce all of them.

4. Spreadsheets shall be produced in native format. All other documents shall be produced in single page Group IV TIFFs; with the following load files: LFP, OPT, and DAT; with all reasonably available metadata; and shall be bates labeled.

5. These requests incorporate, by reference, all “informal” document requests previously made by the Delaware Department of Insurance.

6. These requests are continuing in nature so as to require prompt supplementation if you obtain or discover additional responsive documents.

REQUESTS FOR PRODUCTION

1. All documents, including worksheets, work papers and any other supporting data, used to prepare BCBSD’s Financial Pro Formas, including without limitation, all documents consulted or relied upon to prepare the “Affiliation Basis Scenario” and “Stand Alone Basis Scenario” referenced in the Overview.

2. All documents concerning the estimates and assumptions employed in developing BCBSD’s Financial Pro Formas, including, without limitation, estimates and assumptions concerning product and service development, market share, the implications of Health Care

Reform, capital expenditures, taxes, premium forecasts, claims incurred (medical expense) forecasts, general and administrative expenses, self-funded and other fees and investment income, all as discussed in Financial Statement Assumptions – Statement of Income (Statutory Basis) attachment to BCBSD’s Financial Pro Formas.

3. The 2008 report prepared by Deloitte, LLP for BCBSD, referenced in Mr. Swayze’s October 7, 2010 letter to Mr. McConnell, and the “recent update” prepared by Deloitte, referenced on page 6 of BCBSD’s Financial Pro Formas.

4. All documents that identify or discuss the “needed capability enhancements” which it is contended BCBSD needs to obtain under either of the two Scenarios discussed in the Overview of BCBSD’s Financial Pro Formas.

5. All documents concerning the potential implementation of the technology and capabilities improvements recommended by Deloitte, as referenced on page 3 of Mr. Swayze’s October 7, 2010 letter to Mr. McConnell and in BCBSD’s Financial Pro Formas, including documents concerning the estimated timing, cost and expense of the implementation.

6. All documents concerning the planned migration by BCBSD to Highmark’s information technology platforms and systems, as referenced on page 7 of Mr. Swayze’s October 7, 2010 letter to Mr. McConnell and in BCBSD’s Financial Pro Formas, including documents concerning the estimated timing, cost and expense of the migration.

7. All documents concerning the anticipated cost to be allocated annually by Highmark to BCBSD for management services and information technology as discussed in the Overview of BCBSD’s Financial Pro Formas.

8. All documents concerning the terms or circumstances under which a disaffiliation between BCBSD and Highmark could occur.

9. All documents concerning the impact, including the financial impact, on BCBSD in the event of a disaffiliation.

10. All documents concerning compensation, severance packages, or employment agreements for employees or directors of the post-affiliation entity.

11. All documents concerning the strategic review process engaged in by BCBSD, as referenced in Mr. Swayze's October 7, 2010 letter to Mr. McConnell.

12. All documents constituting or concerning the negotiations of the Proposed Affiliation, including without limitation the negotiations of the August 29, 2010 Business Affiliation Agreement, the Administrative Services Agreement, the Line of Credit Agreement, and any other agreements between Highmark and BCBSD that would be entered into in connection with the Proposed Affiliation (the "Agreements").

13. All studies, memoranda, opinions, analyses, work papers or other similar documents prepared by investment bankers, financial analysts, consultants, advisors, employees, or others relating to the Proposed Affiliation.

14. All communications with BCBSD's non-legal advisor(s) in connection with the negotiation of the Agreements.

15. The due diligence exchanged in connection with the Proposed Affiliation, including information posted in any data room or similar electronic due diligence environment.

16. All documents concerning the impact or potential impact of the Proposed Affiliation on:

- a) BCBSD stakeholders (members, providers, and the Delaware community at large);
- b) BCBSD's Delaware presence, including without limitation, market share, facilities, employees and insurance products to be offered in Delaware; and

c) the following metrics: pricing, claims handling, complaints handling, provider relations, customer service, or operating efficiencies (the “Metrics”).

17. All plans or proposals concerning the post-affiliation BCBSD entity.

18. All documents concerning plans or proposals referencing or in any way relating to BCBSD engaging in “for profit” insurance business; the liquidation of BCBSD; the sale of any of BCBSD’s assets; the consolidation or merger of BCBSD; or other material changes in BCBSD’s business, corporate structure, or management.

19. All agreements between BCBSD and Highmark, including the interim services agreement between BCBSD and Highmark, as referenced in the Form A Application, and all documents constituting or concerning the negotiation of such agreements.

20. A cash flow pro forma for BCBSD, with projections through 2015, showing Affiliation Basis and Stand Alone Basis scenarios.

21. All documents concerning the operating synergies that BCBSD anticipates in the event the Proposed Affiliation is approved.

22. Documents evidencing the guarantee by Highmark of BCBSD’s claims liability to customers.

23. All documents supporting or concerning the statements on page 3 of the Form A Application that:

a) “BCBSD determined that an affiliation with Highmark offers it an opportunity to meet all of its key objectives and to retain its not-for-profit status.”; and

b) “Highmark offers BCBSD, among other things, access to significant economies of scale; proven, state-of-the art systems and technology; and extensive experience and expertise in the development and marketing of innovative products and services geared for a changing market.”

24. All documents supporting or concerning the statements in the Overview to BCBSD's Financial Pro Formas that:

- a) "the affiliation will allow BCBSD to retain its not-for-profit status, enhance operations, maintain financial stability and continue to provide the high level of local services that its customers and providers have come to expect.";
- b) "this relationship will afford both companies greater economies of scale and the ability to streamline operations while maintaining their strong presence and focus on community support.";
- c) "an affiliation with Highmark will allow BCBSD to make investments in business processes, human capital and information technology on a more cost-effective basis than by purchasing these services on a stand-alone basis.";
- d) "the affiliation will enable BCBSD to implement, more timely and effectively, the significant changes that are required as a result of the health care reform legislation.";
- e) "the significant savings . . . and capital costs as a result of obtaining the needed capability enhancements through the affiliation will have a very positive impact on BCBSD's reserves, risk-based capital and overall financial condition."; and
- f) "finally, BCBSD's customers will benefit from the affiliation in the form of lower projected premium increases than would have otherwise occurred on a Stand Alone Basis."

25. Documents sufficient to show an annual breakdown of the estimated expenditures by BCBSD to Highmark for 2011-2015, itemized by the 23 areas listed in the "Scope of Services" section of the Administrative Services Agreement.

26. All studies, memoranda, opinions, analyses, work papers or other similar documents in your possession relating to any of the line items of the BCBSD Financial Pro Formas (i.e., member months, premiums earned, claims incurred, general and administrative

expenses, underwriting gain or loss, investment income, net income, assets, liabilities, capital & surplus, and risk-based capital ratio levels).

27. All studies, memoranda, opinions, analyses, work papers or other similar documents prepared by Blue Cross Blue Shield Association relating to risk-based capital ratio levels, reserves, capital & surplus and similar metrics deemed standard or appropriate for Blue Cross Blue Shield plans that are comparable in size and market share to BCBSD.

28. Documents sufficient to show the effect of the Proposed Affiliation on BCBSD's pension costs.

29. All documents concerning BCBSD's anticipated level of borrowing, and anticipated interest expense, under the Line of Credit Agreement.

30. BCBSD's annual statements and audited statements, since 2005.

31. BCBSD's business and strategic plans, since 2005.

32. BCBSD's current bylaws and certificates of incorporation, and any proposed amendments or changes to such bylaws or certificates in connection with the Proposed Affiliation.

33. All board minutes or board committee minutes concerning the Proposed Affiliation.

34. Blue Cross Blue Shield Association's "Guidelines to Administer the Controlled Affiliate License Agreement and Standards."

35. All documents reflecting or concerning communications between Highmark, BCBSD, and/or the Blue Cross Blue Shield Association concerning the Proposed Affiliation, including without limitation, the circumstances under which BCBSD can or will be provided a non-affiliate, separate license from the Blue Cross Blue Shield Association.

36. All documents concerning the anticipated effect of the Proposed Affiliation on competition in any line of insurance in the State of Delaware.

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January 21, 2011

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CERTIFICATE OF SERVICE

I, Leslie A. Polizoti, hereby certify that on January 21, 2011, I caused to be served true and correct copies of the Delaware Department of Insurance's First Set of Document Requests to BCBSD, Inc. on the following counsel in the manner indicated:

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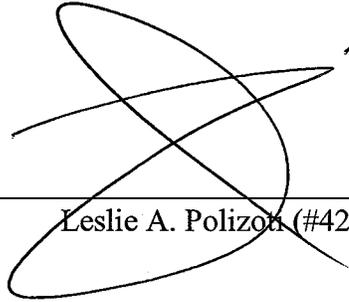
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A handwritten signature in black ink, consisting of several overlapping loops and a horizontal stroke, positioned above a horizontal line.

Leslie A. Polizon (#4299)