

EXHIBIT 26

Joint Response of BCBSD, Inc. and Highmark Inc.

To Delaware Department of Justice Questions Dated August 23, 2011*

- 1) *A comprehensive explanation of why the Proposed Affiliation will not have a negative impact on the health and well-being of residents of Delaware, both in the short term and also in the long term. In preparing such explanation, BCBSD and Highmark may include references to previously-submitted materials where appropriate, but only if and to the extent that BCBSD and Highmark clearly identify precisely which portions of the referenced materials specifically support which assertions in such explanation.*

This explanation should specifically address:

- *The impact on healthcare available in Delaware and its quality;*
- *The impact on the pricing of healthcare and health insurance in Delaware, both for BCBSD policyholders and for the overall market;*
- *Any anticipated changes in the coverage offered by BCBSD to potentially underserved populations;*
- *Any anticipated changes in agreements with healthcare providers and provider networks in Delaware, including a summary of any contact and/or negotiations with such providers to date and any anticipated agreements or changes in current agreements with hospitals in Delaware; and*
- *Any anticipated changes in employment of Delaware residents, including, separately, any reductions of Delaware BCBSD employees and any potential employment increases in growth areas.*

The five specific questions set forth above are addressed *seriatim*:

- *The impact on healthcare available in Delaware and its quality;*

BCBSD and Highmark have historically been very focused on ensuring our customers have access to high quality, cost-effective healthcare services, and we fully expect this focus to continue following the Affiliation. BCBSD and Highmark are thus committed to ensuring that the Affiliation will have a positive impact on access to healthcare in Delaware by increasing the array of products offered to different segments of the public, including the individual market and senior market, and by reducing by an estimated 3% the projected amount of future rate increases for health insurance coverage in Delaware as offered by BCBSD. BCBSD subscribers will also have access to Highmark's integrated care management services, which are designed to deliver comprehensive health management services that promote better health and

* BCBSD and Highmark reserve the right to supplement these responses in this or other formats in the future.

optimize health care investment. These programs help to prevent illness, lower risk, and slow disease progression, thus improving health outcomes and controlling costs. These programs, combining health management, pharmacy benefit and productivity management programs, include the following:

- a) A full range of wellness programs
 - b) Discounted access to national network of complementary and alternative health providers
 - c) 24x7 telephonic coaching for chronic diseases and targeted conditions
 - d) Decision support tools
 - e) Large case management services
 - f) Dedicated medical director consultative services
 - g) Reporting and clinician data analysis
- ***The impact on the pricing of healthcare and health insurance in Delaware, both for BCBSD policyholders and for the overall market;***

The cost of health insurance in Delaware has historically been and will continue to be driven primarily by underlying medical costs. The recently enacted health care reform legislation requires that insurance carriers operate at minimum medical loss ratios which will likely compress profits and administrative costs. It will be critical for insurance carriers to work collaboratively with physicians, hospitals and other key stakeholders in addressing the underlying factors contributing to the growth in medical costs.

Highmark has a demonstrated track record in working collaboratively with providers to focus on improving quality and reducing costs. Specifically, Highmark has implemented reimbursement programs and provided tools to assist providers in improving quality and reducing costs.

The parties have prepared and submitted pro forma projections which anticipate that premiums will increase in the Delaware health insurance marketplace regardless of the affiliation status of BCBSD. However, BCBSD and Highmark have projected, in Exhibit 9 to the Affiliation Statement, that these premium increases will be lower (about 3%) under the Affiliation scenario than if BCBSD were to continue on a standalone basis. BCBSD and Highmark do not project any significant changes in the costs charged by providers to their patients or their patient's insurers as a result of the Affiliation.

- ***Any anticipated changes in the coverage offered by BCBSD to potentially underserved populations***

We do not anticipate any negative impact resulting from the Affiliation related to coverage offered by BCBSD to potentially underserved populations. In fact, the parties are anticipating that the affiliation will have a positive impact in BCBSD's ability to serve these populations. In particular, the affiliation with Highmark will result in BCBSD providing a buy-in product to supplement Delaware's Children's Health Insurance Program. This product could benefit as many as 22,000 uninsured children. Highmark currently offers this type of product in Pennsylvania.

- ***Any anticipated changes in agreements with healthcare providers and provider networks in Delaware, including a summary of any contact and/or negotiations with such providers to date and any anticipated agreements or changes in current agreements with hospitals in Delaware.***

Provider contracting will remain a local BCBSD function and therefore the parties do not anticipate any changes in provider contracting as a result of the Affiliation. Any provider negotiations currently ongoing are ordinary-course negotiations having nothing to do with the Affiliation. BCBSD does anticipate that, upon transition to Highmark's technology platforms, it will be able to offer more creative reimbursement alternatives to physicians and hospitals. Additionally, BCBSD will be able to provide physicians and hospitals with access to Highmark's real-time claims adjudication capabilities. In anticipation of these offerings, there have been a number of meetings at which Delaware providers have been introduced to Highmark's senior medical and provider relations team members.

- ***Any anticipated changes in employment of Delaware residents, including, separately, any reductions of Delaware BCBSD employees and any potential employment increases in growth areas.***

Highmark and BCBSD have committed to maintaining a significant Delaware presence and to maintain the BCBSD corporate headquarters in Delaware. Furthermore, the parties have agreed to use commercially reasonable efforts to maintain employment levels that are proportionate to those in other Highmark service areas. Confirming this, Highmark is committed to the following regarding employment stability for BCBSD if the Affiliation is approved:

- a) Highmark will assure the total FTE positions in Delaware will be the same after implementation of the Affiliation is complete (approximately 18 months) as it was at the start of the Affiliation integration activities. The positions will be either BCBSD positions or Highmark positions located in Delaware.
- b) Any BCBSD employees whose positions are eliminated due to the implementation will be given the first opportunity to fill any new positions that are created in Delaware.

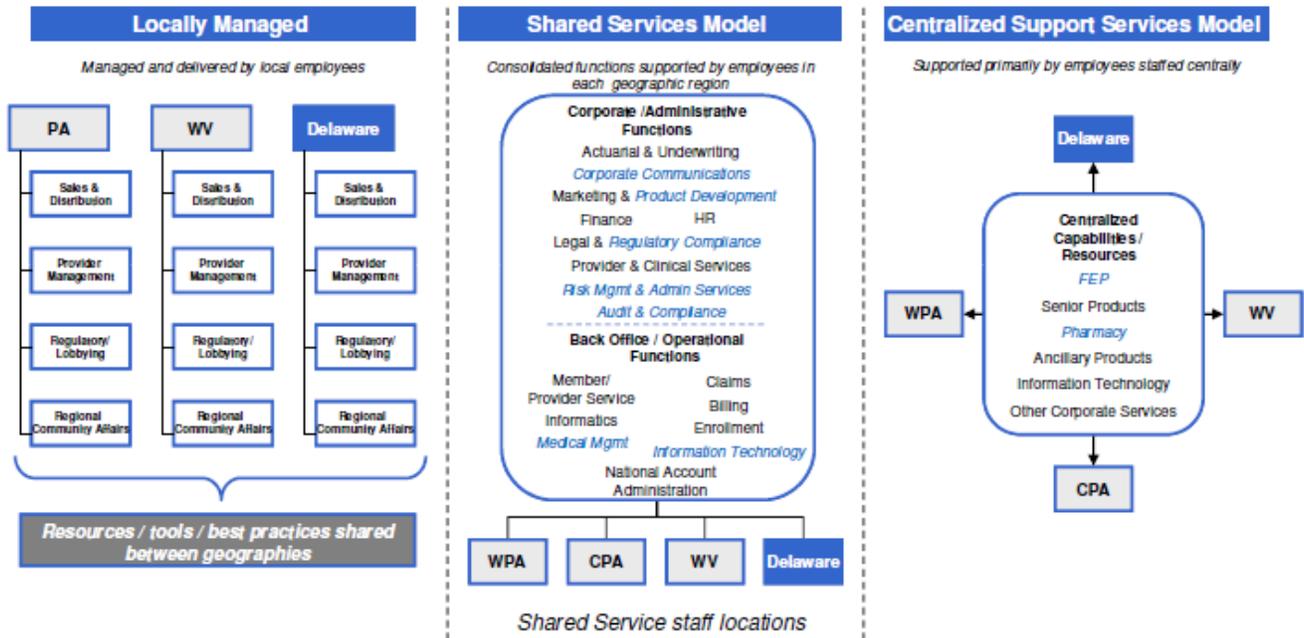
- c) If there is a significant decrease in BCBSD's enrollment or market share during the implementation period (e.g., from the loss of a large customer or substantially reduced employment within a retained customer) that results in any lost positions, Highmark will not be responsible to replace those lost positions.
 - d) Highmark will also make good faith efforts to locate additional FTE positions in Delaware as Highmark's business opportunities arise.
- 2) *A specific explanation of the cost allocation methodologies being used by BCBSD and Highmark for the Proposed Affiliation and any changes in such methodologies contemplated for subsequent to the Proposed Affiliation.*

REDACTED

REDACTED

- 3) ***Descriptions of the specific findings and proposals, and cost and allocation analyses, of the expansion and transition teams assigned by BCBSD and Highmark, and any consultants working with either or both, in connection with structuring and implementing the Proposed Affiliation.***

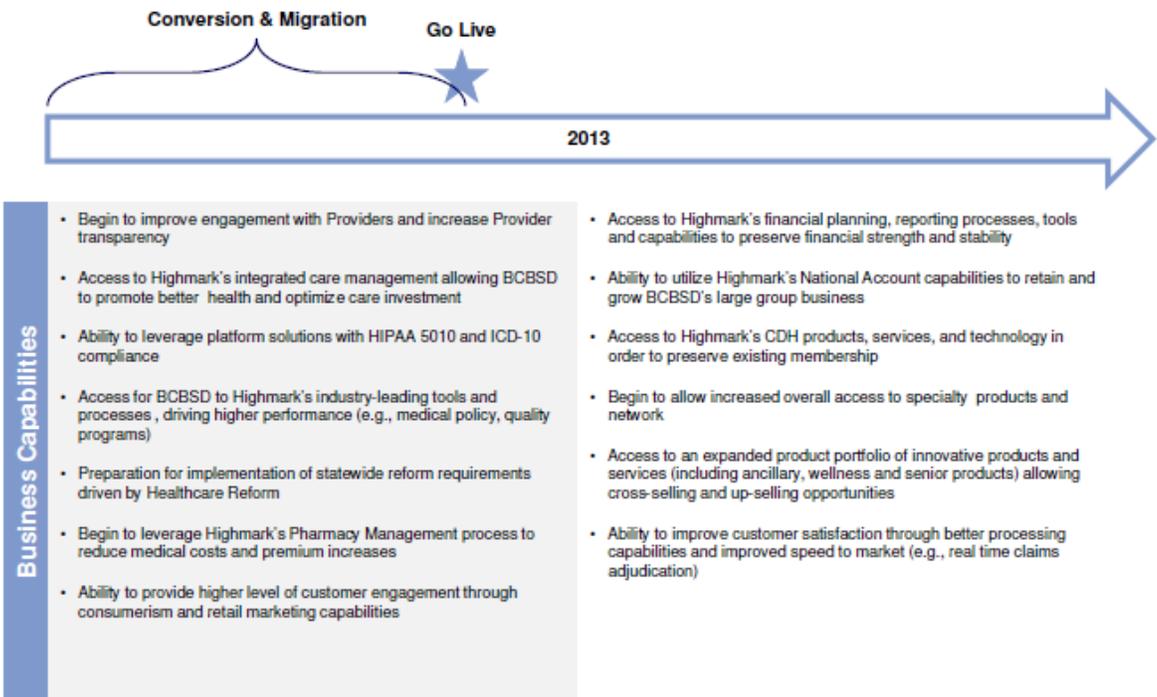
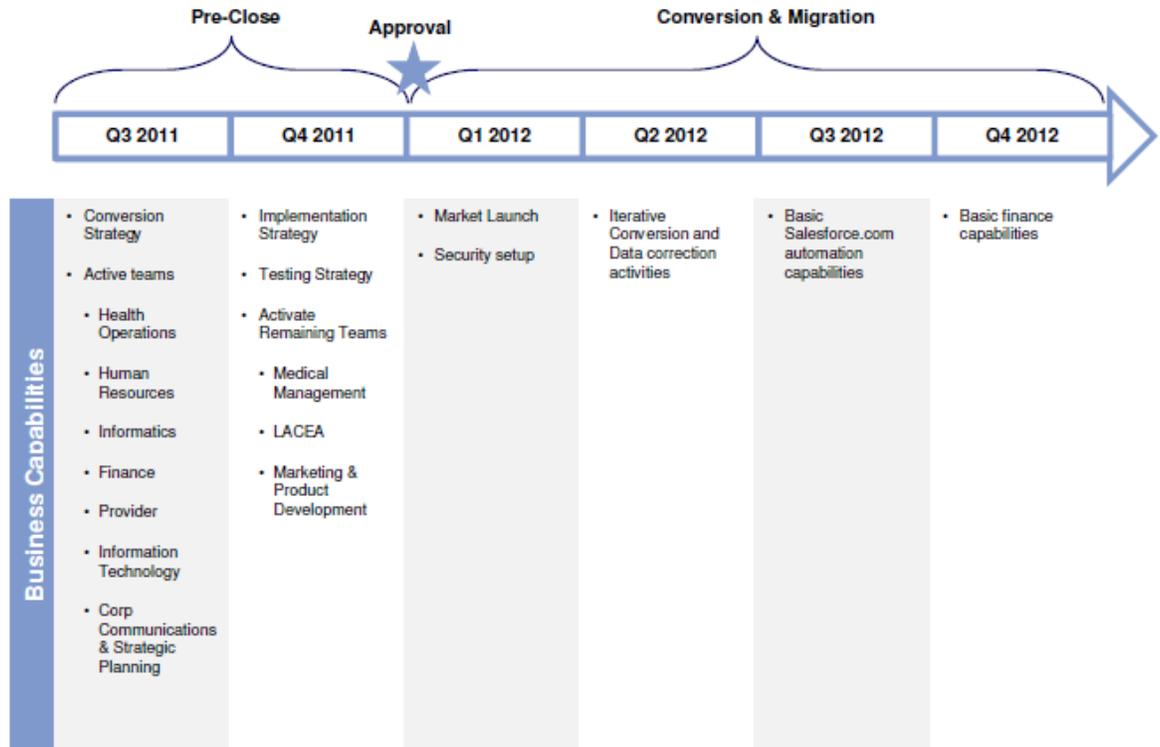
BCBSD and Highmark have been developing the business integration plan since December, 2010 in preparation for possible approval of the affiliation. The team followed the following organizational and business design structure to guide the planning process:



Eleven functional area teams and three cross functional teams, made up of representatives from both BCBSD and Highmark, looked at BCBSD current state operations and organizations and mapped these to Highmark operations and organizations to:

- identify the scope of work required for BCBSD to migrate to Highmark business solution (timing, cost, and manpower);
- identify opportunities for business synergies (administrative cost savings), and;
- identify improvements in business capabilities

A rough schedule of the proposed integration plan is provided, below. For planning purposes, the teams used January 1, 2012 as an assumed regulatory approval date. Preliminary work is underway now in the pre-approval phase to help prepare the teams for the full integration work that would begin only upon regulatory approval. This preliminary work includes finalization of conversion plans and data mapping (comparing fields on BCBSD systems to fields on Highmark systems to assist in data conversion).



Highmark initially estimated the cost for the integration would be in the \$25 million to \$45 million range. In the original financial pro forma submitted to the Department of Insurance, the figure of \$35 million was used. Over the course of the planning process,

the teams worked to clarify the scope of work to be included in the integration effort and the related costs for accomplishing the integration. That process continues and has so far confirmed the accuracy of these initial estimates:

Affiliation Integration Cost Estimates as of August 22, 2011

Total BCBSD Affiliation Resource Requirement (FTEs) ¹

| | 2011 | 2012 | 2013 |
|-----------------------------|-----------|------------|-----------|
| Highmark Incremental | 25 | 104 | 44 |
| BCBSD Incremental | 17 | 27 | 18 |
| Total | 42 | 131 | 61 |

Total BCBSD Affiliation Costs (Millions)

| | 2011 | 2012 | 2013 | Total |
|----------------------------------|--------------|---------------|---------------|---------------|
| Highmark Incremental | \$1.8 | \$13.3 | \$5.6 | \$20.7 |
| Highmark HSO ² | \$0.1 | \$3.4 | \$2.0 | \$5.5 |
| BCBSD Incremental | \$1.3 | \$3.4 | \$2.2 | \$6.9 |
| BCBSD HSO | \$0.9 | \$2.2 | \$1.1 | \$4.1 |
| Total ³ | \$4.1 | \$22.2 | \$10.9 | \$37.2 |

^{1/} FTE – 1,700hrs for full year (For 7 months in 2011 – 992 hours)

^{2/} HSO costs that were included in 2011 (not including PMO HSO costs) have been moved to 2012

^{3/} Includes PMO costs

A more detailed break out of the scope of work and related costs is provided in **Exhibit IV**. [To be provided in a subsequent communication.]

- 4) *A description of Highmark's plans with respect to BCBSD branding, including a discussion of similarities or differences as compared to the changes in branding of Highmark Blue Cross Blue Shield of West Virginia (formerly Mountain State Blue Cross Blue Shield) subsequent to its affiliation with Highmark.*

Highmark and Delaware are preparing a market launch campaign in the event the affiliation is approved. The market launch will introduce our stakeholders to the Highmark organization and the Delaware affiliate's new brand: Highmark Blue Cross Blue Shield Delaware, or Highmark BCBS Delaware.

The rebranding of BCBS of Delaware to Highmark BCBS Delaware is being prepared to effectively communicate the change to the market in a way that results in minimal disruption to members, providers, and employees. The rebranding effort will consist of several stages: pre-market launch, market launch, interim steps, and long term steps.

The start and end dates are dependent on the transaction close date and the applications' migration schedule.

In the early stages, items such as the corporate advertisements, Website, envelopes and letterhead, some marketing materials and forms, which can be re-branded quickly and be completed for the Market Launch will reflect the Highmark BCBS Delaware name. This would be accompanied by a supporting advertising campaign that would explain that the name has changed, but nothing else has - the same great service, coverage and employees from BCBSDE remain.

Regarding the brand name and logo, all references to “Blue Cross Blue Shield of Delaware” will be eventually be replaced with “Highmark Blue Cross Blue Shield Delaware”. All references to 'Delaware' will be replaced with 'Highmark Delaware'. All references to BCBSD will be replaced with Highmark DE or Highmark BCBS DE.

In some branding contexts, the “word marks” (i.e. “Blue Cross” and “Blue Shield” are not used, and only the “symbol marks” are used. In such instances, the new logo or symbol marks for Highmark Blue Cross Blue Shield Delaware would be as shown below.



This brand strategy is consistent with the strategy recently deployed successfully in West Virginia. When Highmark Blue Cross Blue Shield of West Virginia became an affiliate of Highmark, Highmark initially branded it as Mountain State Blue Cross Blue Shield, a Highmark affiliate, because there was not significant business integration planned at that time. Highmark completed a Systems Migration, and operated that way for several years. Within the past few years, there was a focus on the West Virginia Business Integration into Highmark, to realize administrative efficiencies.

Highmark recognized that it needed to capitalize on the strong corporate Highmark market brand (in addition to the Blue Cross and Blue Shield logos), and embarked on a project late last year to re-brand Mountain State as Highmark BCBS West Virginia. There was an advertising campaign in West Virginia to reflect that "the name has changed, nothing else has", featuring recognizable WV landmarks, along with a market launch to stakeholders and re-branding efforts throughout the company. The logos and wording changed from Mountain State BCBS to Highmark BCBS West Virginia. Highmark and Highmark BCBS West Virginia have executed a project to make those changes throughout all areas of the corporation and it will wrap up by year-end 2011.

5) ***A description of areas of anticipated growth for BCBSD.***

The updated financial *pro formas* filed with the Department of Insurance reflect our most recent estimates of potential growth in BCBSD core business in the event of an affiliation. The *pro formas* suggest the company will experience incremental growth in all current core business segments as a result of having access to superior Highmark resources, notably:

- a) Improved call center access, consumer engagement tools, market segmentation analysis, and product development resources are expected to lead to incremental growth in the Individual Over 65 (Medigap), Individual Under 65, and Small Group markets.
- b) Improved medical informatics, account reporting capabilities, worksite management and national account servicing are expected to lead to incremental growth in the large group insured and self-funded markets.

In addition, Highmark and BCBSD are evaluating potential growth in Delaware in markets currently not served by BCBSD, including: Medicare Part D, Medicare Advantage, and Medicaid. We also expect growth in markets BCBSD currently serves but with very low penetration, including Stop Loss, Vision, and other ancillary coverage.

Finally, we expect that Highmark's resources will successfully position BCBSD to meet the marketplace needs in the Health Insurance Exchange environment under the extensive changes anticipated beginning in 2014 under the Patient Protection and Affordable Care Act.

6) ***A description of plans by BCBSD and Highmark to ensure the preservation of Delaware public benefit assets within Delaware for the benefit of residents of Delaware.***

BCBSD and Highmark have structured the Affiliation such that BCBSD remains a Delaware not-for-profit corporation continuing to be subject to Delaware insurance laws and regulation. Accordingly, assuming, *arguendo*, that any part of BCBSD's assets are "public benefit assets", such assets will remain dedicated for the benefit and protection of BCBSD subscribers to the same degree as they are currently. In this respect, the Affiliation changes nothing. Moreover, while Highmark will become the sole member of BCBSD for purposes of corporate governance, it will not have a "membership interest" as that term is defined in 8 *Del. C.* § 114(d)(2). Therefore, Highmark will not be entitled to any distributions or dividends from BCBSD.

More importantly, the Affiliation, by partnering BCBSD with a much larger not for profit entity having a state-of-the-art information technology platform, will enable BCBSD to preserve tens of millions of dollars that would otherwise be expended making IT capital improvements and other capability enhancements. By the end of 2015, the *pro formas* project that BCBSD's surplus will be \$226 million under the Affiliation Basis versus \$89 million under the Stand Alone Basis.

7) ***A description of Highmark's community reinvestment and charitable programs, including information regarding Highmark's foundation, past and anticipated future initiatives in West Virginia, and also information regarding reinvestment, foundations, initiatives and spending levels expected for Delaware.***

For more than 70 years, Highmark's commitment to the community has been among the company's highest priorities as it strives to positively impact the communities where it does business. Highmark consistently supports community health-related and human services organizations and activities. In 2010, the company provided financial support of \$175.1 million for community programs, including \$146.8 million to help hold down the cost and expand access to health care coverage for lower-income families, older adults and uninsured children. Highmark's reinvestment in the community is channeled through three core outlets, Corporate Giving, the Highmark Foundation and the Highmark Caring Foundation.

Highmark's Corporate Giving supports initiatives aligned with fulfilling the company's mission and building strong relationships within the communities where customers and employees live and work. Through strategic giving, community programming, employee volunteerism efforts and collaborations with community partners; Highmark addresses important community needs and our social responsibility expectations as a corporate citizen in our ever changing community.

In-kind contributions and community service donations make up the current Highmark West Virginia corporate giving initiative, providing funding in communities where Highmark does business.

The Highmark Foundation is a charitable organization and private foundation funded solely by Highmark Inc. The Foundation's principal purpose is to support programs aimed at improving the health and well-being of the communities served by Highmark. The Foundation seeks to support evidence-based programs that impact multiple counties, produce replicable long-term models and attract collaborative funding by community partners by addressing four key areas of health care concern, chronic disease, communicable disease, family health and service delivery systems.

The Highmark Foundation has made children's health promotion a priority. Through a \$100 million initiative commitment, Highmark Healthy High 5 addresses five critical issues – nutrition, physical activity, grieving, self-esteem, and bullying prevention.

In 2010, the Highmark Foundation Board of Directors approved the expansion of the Foundation's footprint to include Highmark West Virginia. As a result, West Virginia communities have increased access to funding that will be strategically targeted. The first endeavor to address needs in West Virginia through the Highmark Foundation is a grant to the city of Parkersburg in Wood County, W.V in collaboration with the *Let's Move!* Campaign.

The Highmark Caring Foundation is a champion for children, working to identify and address the unmet needs of children in our community through innovative programs. An

affiliate of Highmark, the Highmark Caring Foundation operates as a charitable organization to care for children in need. The Highmark Caring Place, A Center for Grieving Children, Adolescents and Their Families provides programs and services at no cost to the families, by the Highmark Caring Foundation, at four sites throughout Pennsylvania.

While Highmark is still under affiliation negotiations with Delaware, a community assessment template has been developed and will be utilized as Highmark anticipates offering similar programs and initiatives.

Highmark will work with BCBSD to develop programs that leverage the lessons learned by both parties in community and charitable initiatives. The affiliation proformas submitted in conjunction with the transaction anticipate that BCBSD will continue to fulfill its current community commitments, including amounts payable to the Delaware Community Foundation in lieu of state income taxes and other budgeted community contributions of \$750,000.

8) ***A description of how Highmark plans to mitigate integration risk, ensuring data integrity and completeness, in migrating legacy BCBSD applications.***

Highmark and BCBSD subject-matter experts are engaged on each project team (Claims, Enrollment, Group Account, Provider, etc.) as Highmark and BCBSD analyze the source system data at BCBSD and "map" it to the appropriate system(s) and fields at Highmark. They discuss data definition, edits, unique requirements and data integrity. Risks are identified and actively managed throughout the Project development lifecycle that is followed, with escalation to management staff and/or the Governance team for resolution as needed.

The testing strategy and conversion timeline allow for multiple iterations of the conversion programs followed by data correction or cleanup efforts. Then the conversions are refined and re-run until the results prove that the data will convert appropriately to the Highmark systems. The Testing Center of Excellence at Highmark oversees the testing effort, automated test processes and test environment management to maximize the quality of data that results from systems projects. They coordinate all parties' involvement in the testing throughout the process, across all project teams, and manage interdependencies between them.

The process includes having Business Owners sign off that their test results are appropriate and that the systems conversions can be run for Production purposes. There is also a User Acceptance Testing phase of the project lifecycle, which occurs before the Production conversion, along with a post-production timeframe in which remaining problems can be resolved.

9) *A description of BCBSD's executive employment agreements, addressing any changes with respect to the possible departure of senior executives as a result of the Proposed Affiliation.*

Seven BSBSD executives (the President/CEO and six Vice Presidents) have employment agreements predating the Affiliation Agreement that provide severance benefits. These severance benefits are based either upon the length of time remaining on the executive's contract when a termination of employment occurs or upon a specified period; the maximum severance period is two years for five of the executives and one year for the other two executives. Upon a Change in Control, the term of each agreement for the six Vice Presidents is extended to the maximum original term or for a specified period, up to a maximum of two years. This term extension provision is not included in the President/CEO's contract. Severance benefits generally include the executive's base salary, incentive compensation, and medical benefits, which would be paid for the remainder of the contract term or a specified period, not to exceed two years. Severance benefits become payable if (1) the executive's employment is terminated without "Cause" (which would be the case regardless of whether a Change in Control has occurred), or (2) the executive submits his or her resignation following a specified material negative change in employment constituting "Good Reason" after a Change in Control has occurred and the Good Reason event is not corrected after notice of such event is provided by the executive.

If the executive becomes entitled to severance benefits, the amount of the benefits is generally the same regardless of whether a Change in Control has occurred, except that base salary continuation payments and incentive payments are paid in a lump sum, reduced to present value, within sixty days of the termination if the termination occurs within two years following the Change in Control. Otherwise, severance amounts are paid at the times they would have been payable if the executive's employment had not been terminated following a Change of Control.

In the cases of three executives who are provided nonqualified deferred compensation pursuant to their employment agreements, upon a termination of employment without cause, or for Good Reason following a Change in Control, the executives are entitled to additional credited service for the remaining term of their agreements, for purposes of calculating the nonqualified benefit. Two of the three executives are also provided accelerated vesting of all unvested but accrued nonqualified deferred compensation benefits upon a termination of employment without cause or for Good Reason following a Change in Control. If the executive is younger than age 55, the amount payable will be reduced to the present value of the amount payable at age 55.

BCBSD and Highmark have no present plans to terminate any of the BCBSD executives following the Affiliation or to materially and negatively change their employment such that severance benefits become payable. Of course, the synergies and economies of scale that are principal benefits of the Affiliation may, at some point, cause employment changes or reductions in force that impact one or more of the seven executives with employment agreements. In preparing documents as part of the review of the proposed affiliation, BCBSD obtained estimates of a "worst case scenario," in the highly unlikely

event that all seven executives were terminated immediately after closing, thus being entitled to their maximum possible 12 to 24 months' severance benefit. In that hypothetical scenario, the potential total lump sum severance payments owed to the seven executives would be \$5,960,000 if all seven left immediately after closing.

REDACTED

Exhibit I

REDACTED

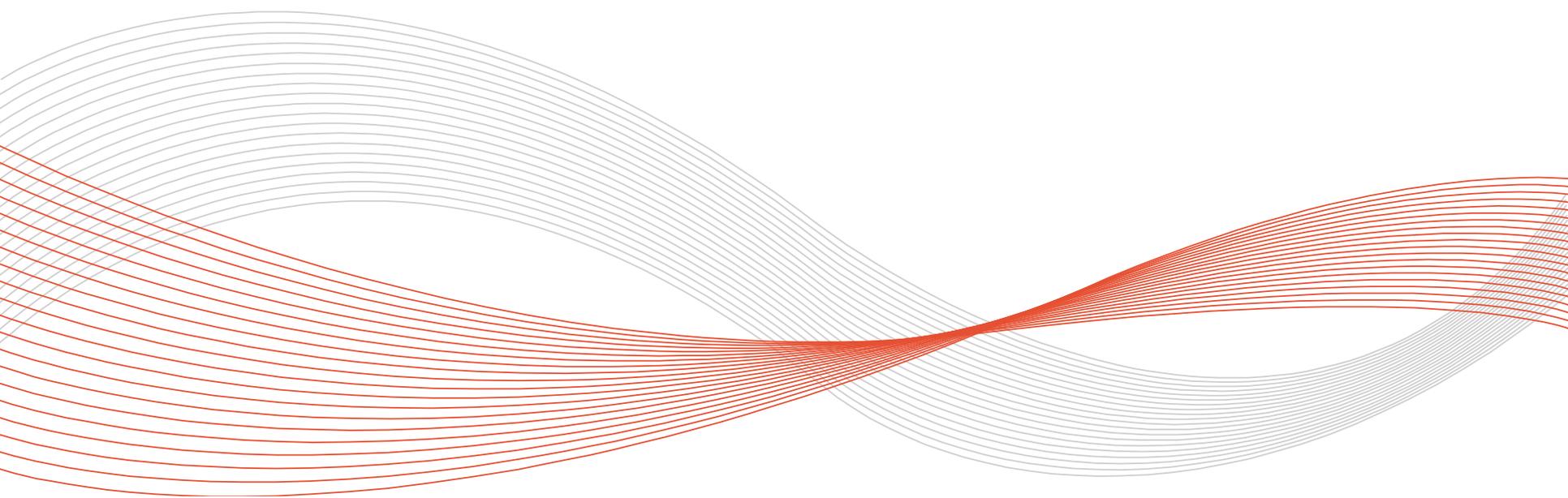
EXHIBIT 27



BlueCross BlueShield
of Delaware

REDACTED

EXHIBIT 28



Competitive Compensation Assessment

REDACTED

EXHIBIT 29

AMENDED AND RESTATED
OFFICER EMPLOYMENT AGREEMENT

REDACTED

EXHIBIT 30

AMENDED AND RESTATED
OFFICER EMPLOYMENT AGREEMENT

REDACTED

EXHIBIT 31

REDACTED

REDACTED

REDACTED

EXHIBIT 32

BCBSD Associate Retention Bonus Plan
Background Information

| Individual Name (to be redacted in favor of letters: Employee A, Employee B, etc.) | Individual's specific employment function (displayed in full) | Reason for Individual's inclusion in Plan (displayed in full) |
|--|--|--|
| Employee A | Primary lead for account relationship with Company's largest client (State of Delaware) | The account relationship with the State is critical to BCBSD (it is roughly one third of our local membership), and the program is going out to bid within a few weeks. The Company believes it is critical to assure continuity in this relationship, and this individual has established a good working relationship with the client. |
| Employee B | Primary lead for account relationships with several of the Company's other largest clients | The Company has a disproportionate amount of its business in a few key clients. For the same reason as with the State of Delaware account, it is considered critical to maintain continuity to demonstrate its ongoing commitment to them as it makes the transition to Highmark, and this individual has established good working relationships with the clients. |
| Employee C | Primary lead for the Company's Underwriting function | This individual has the Company's most comprehensive background and knowledge of its rating and underwriting policies, procedures and strategies. Retaining this knowledge is critical to avoiding market disruptions as BCBSD makes the transition to Highmark rating and pricing platforms. |
| Employee D | Senior actuarial professional | The Company currently has only two full time employees in its Actuarial department; this individual handles the greatest volume of its actuarial workload and has the most comprehensive knowledge of its pricing history and strategies. |
| Employee E | Primary lead for Company's overall Human Resource function | The Company believes it is of critical importance to assure strong employee communications and relations as it goes through the affiliation process; this individual has the knowledge and skills to do this. |
| Employee F | Primary internal expert on the Company's employee benefits as well as Highmark's | A significant component of the employee integration effort is the migration of BCBSD employees onto Highmark benefits; this individual will be critical to effective benefits-related coordination between the two companies. |
| Employee G | Primary leader of the Company's internal and external communications function | The affiliation process will place extreme demands on the Company to maintain timely and consistent communications over an extended period with key internal and external stakeholders, including Highmark and the media. This individual has the institutional knowledge and experience to do so in that environment. |
| Employee H | Primary non-physician leader of BCBSD's medical management and quality assurance programs | The Company believes it is of critical importance to avoid lapses in any of these extremely important areas during the affiliation process. This individual has demonstrated the leadership skills to assure this. |

Additional background:

- BCBSD utilized Mercer to assist it in evaluating a potential Retention Bonus Program
- The goals of the program are as follows:
 - Retain key employees and ensure business continuity
 - Allow associates to focus on their jobs by easing their termination concerns
 - Recognize the additional efforts and add-on responsibilities of employees during a transition
 - Ensure that the company continues to operate at a high level during the period of time from the affiliation announcement until closing (this will likely be over 15 months)
- Eligibility was determined as follows:
 - Associates that would be difficult to replace, particularly during the period from the affiliation announcement until closing
 - Associates with unique skills sets or institutional knowledge
 - Associates who are part of critical operational or strategic functions