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ANNE MILGRAM
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October 14, 2008

VIA FAX & REGULAR MAIL

John H. Campbell
Senior Vice President,
General Counsel and Secretary
Horizon Blue Cross Blue Shield of New Jersey
Three Penn Plaza East PP-16D
Newark, N.J. 07105-2200

Re: Proposed Conversion of Horizon Healthcare Services, Inc. d\b\ Horizon
Blue Cross Blue Shield of New Jersey

Dear Mr. Campbell:

We hereby acknowledge receipt of your August 15, 2008 letter and accompanying petition for review of a foundation plan (the "Petition") relating to the proposed conversion of Horizon Healthcare Services, Inc. d\b\ Horizon Blue Cross Blue Shield of New Jersey ("Horizon"), a New Jersey non-profit health service corporation, to a domestic stock insurer authorized to issue accident and health insurance pursuant to N.J.S.A. 17:48E-49, et seq. You concurrently filed a plan of conversion (the "Conversion Application") with the Commissioner of the State of New Jersey Department of Banking and Insurance (the "Commissioner"). We look forward to having a cooperative working relationship with Horizon in this process.

In accordance with N.J.S.A. 17:48E-67, the Attorney General has sixty (60) days from the submission of the Petition to advise the health service corporation whether the Petition is complete, and, if not, what additional information is required.

The Attorney General is mandated to review the Petition to determine if it is in the public interest and may either support the proposed foundation plan, with or without any specific modifications, or if she finds that it is not in the public interest, oppose the foundation plan in the Superior Court proceeding to be commenced by Horizon in accordance with N.J.S.A. 17:48E-67(f).



We have conducted a preliminary review of the Petition and have determined that it is incomplete. In order to more fully understand all aspects of the proposed foundation plan and plan of conversion, and, therefore, to determine the position the Attorney General will take with respect to the Petition, we will require additional information from Horizon. The following set of initial questions are designed to elude the information and documentation we will require based on the information submitted to date. We ask that you provide the following information to this office in hard copy (six copies) and in electronic form in accordance with the Commissioner's Order No. A08-116. The documents should be Bates-stamped and indexed sequentially in accordance with our questions. In responding to our questions, you may make reference to documents you have already submitted by citing to the specific document by title, page number and paragraph. However, please also submit a properly indexed and Bates-stamped copy of the document.

Concurrently, you will be receiving a letter from the Department Of Banking and Insurance (the "Department") requesting that Horizon furnish additional items relating to the plan of conversion. To the extent that information you submit to the Department is fully responsive to any of the questions set forth below, you may so advise us (citing to the specific document by Bates number, title, page number and paragraph) and may refrain from sending duplicate information to us.

We reserve the right to require further supplementation of the Petition and require the submission of additional information from Horizon in our examination of the Petition. In responding, please use the definitions set forth in Appendix A.

(1) Names, addresses, business phone numbers, occupations and business affiliations of all members of the board of directors and executive and senior level management of Horizon and the proposed holding company which will hold all of the capital stock of the converted company (the "Holding Company"), including, for Horizon, for each position, persons holding said position during the three years preceding the Conversion Application;

(2) Articles of incorporation, bylaws, and any other governing documents of Horizon, including those of its predecessor health service corporations, and any entities that are their members;

(3) Please provide any amendments to the chart of the organizational structure of Horizon and each partner, affiliate, parent, subsidiary or related corporate entity under the control of or under common control with Horizon submitted on August 15, 2008;

(4) Any and all board agendas, meeting packages, and minutes of meetings or other documents of the Board of Directors/Trustees of Horizon and its affiliates, including the Horizon Charitable Foundation, Inc., for the three years preceding the Conversion Application, include copies of any resolution from a board which authorized or approved the proposed conversion;

(5) Any and all agendas, meeting packages and minutes of meetings for the following committees, task forces, working groups or other bodies of Horizon and its affiliates for the three years preceding the Conversion Application, include copies of any resolution which authorizes or approves the proposed conversion,

- (a) finance committee;
- (b) strategic planning committee;
- (c) any other committees which existed and/or were formed to study and/or discuss the proposed conversion; and
- (d) any committees which existed and/or were formed to study any merger, affiliation or sale between Horizon and any other entity;

(6) A list of all committees, task forces, subcommittees, or working groups of Horizon and its affiliate boards, together with a detailed description of the function of such committee, task force, etc. for the three years preceding the Conversion Application;

(7)(a) Any and all documents, reports or opinions from accountants, actuaries, investment bankers, appraisers, legal counsel and any other consultants or experts presented to Horizon and/or its affiliate Boards of Directors/Trustees and/or the committees listed in subparagraphs (5) and (6) above, which examines or analyzes the proposed conversion or alternatives to the proposed conversion and/or relates to the due diligence or deliberative process engaged in by the Board or Committee in determining whether or not to engage in the proposed conversion or any other merger, acquisition, consolidation or restructuring considered by the Board or Committee;

7(b) Any and all documents, reports or opinions from legal counsel and any other consultants or experts presented to Horizon and/or its affiliate Boards of Directors/Trustees and/or the committees listed in subparagraphs (5) and (6) above, which examines or analyzes the proposed conversion or alternatives to the proposed conversion and/or relates to the due diligence or deliberative process engaged in by the Board or Committee in determining whether or not to engage in the proposed conversion or any other merger, acquisition, consolidation or restructuring considered by the Board or Committee;

(8) A complete copy of all proposed written agreements, contracts, Letters of Intent, Memorandums of Understanding and all related documents entered into or proposed to be entered by Horizon, its affiliates or the Holding Company that relate to or effectuate any part of the proposed conversion;

(9) Conflict of interest policies and procedures for Horizon and all related documents;

(10) Copies of audited financial statements, and most current unaudited financial statements, IRS Form 990's, business projection data, and current capital asset valuation data for Horizon for the three years preceding the Conversion Application together with detailed descriptions of the post-conversion financing structure of Horizon and the Holding Company, including pro forma post-conversion balance sheets, equity contribution, debt restructuring, stock issuance, partnership interests, stock offerings and the like;

(11) A full description of any contracts, arrangements or understandings with respect to any voting security of Horizon or the resulting entities in which Horizon, its affiliates or any person listed in Item #1 is involved post-conversion including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom such contracts, arrangements or understandings have been entered.

(12) List Horizon's surplus in each of the calendar years or part thereof for 2005-2008 and describe in detail whether the surplus in each of the calendar years is in excess of NAIC and BCBSA guidelines. If so, (i) identify the amount of the excess as to each applicable guideline, (ii) describe how maintenance of the excess furthered Horizon's purpose as a charity, and (iii) describe any other benefits of the excess to Horizon's subscribers.

(13) Copies of all documents related to (a) identification of any and all charitable assets of Horizon or its affiliates, (b) accountings for all charitable assets of Horizon or its affiliates and (c) distribution of the charitable assets of Horizon or its affiliates, including but not limited to endowments, restricted, unrestricted and specific purpose funds, for the three years preceding the Conversion Application;

(14) Any and all documents, agreements, contracts or the like, formal or informal, reflecting any current and/or potential employment or compensation relationship between or among Horizon, the Holding Company and any and all employees, directors and executives;

(15) Any and all severance and/or retirement agreements, contracts for consulting services or covenants not to compete and all related documents, executed or to be executed by any of Horizon's employees, directors, executives or other personnel, in connection with, or following completion of, the proposed conversion;

(16) Any and all documents which refer or relate to and/or describe the mission and purposes of Horizon, its affiliates, and the communities it serves;

(17) Copies of any and all documents, whether formal or informal, regarding possible mergers, conversions, and/or strategic partnerships or affiliations involving Horizon, including but

not limited to the following:

- (a) by members of Horizon's management;
- (b) by members of Horizon's Board of Trustees;
- (c) by experts or consultants of Horizon;

(18) Any and all memoranda, studies, analyses and all related documents, which refer or relate to the feasibility, advantages and disadvantages of Horizon entering into an affiliation, merger, conversion, purchase or other relationship with any other entity, including any health service corporation;

(19) Any and all documents, reports or other materials discussing or analyzing whether or not the proposed conversion would benefit Horizon's subscribers, its employees or its management and whether or not it would enhance Horizon's mission and purposes.

(20) Any and all documents which refer and/or relate to proposals, discussions, analyses, etc., regarding potential and/or actual strategic planning by Horizon and/or its affiliates, to expand any and/or all of Horizon's services to a wider geographic area, including resources required and capital needs therefore, the potential for such expansion, and economic and demographic factors relating thereto;

(21) Is Horizon currently taxed for federal income tax purposes pursuant to Internal Revenue Code Section 833? How will conversion affect Horizon's federal, state and local tax status?

(22) Describe in detail the names of persons currently holding a position as an officer, director, board member, or senior level manager who will or will not maintain said position with the converted insurer and whether any said person will receive any salary, severance, stock offering, or any financial gain, current or deferred, as a result of or in relation to the proposed conversion;

(23) Any and all reports, memoranda, letters or other documents reflecting any and all deliberative or due diligence efforts with respect to the proposed conversion and describe in detail all deliberative or due diligence efforts with respect to the proposed conversion and the criteria established by the Board of Directors on which it based its determination to pursue the proposed conversion;

(24) Describe in detail any request for proposals issued by Horizon relating to pursuing any proposed conversion, merger, affiliation consolidation or strategic relationship in the last three years;

(25) Copies of documents or descriptions of any existing entity or proposed plan for any entity to be created to hold the charitable assets of Horizon, including, but not limited to endowments, restricted, unrestricted and specific purpose funds, and the proposed articles of incorporation, by-laws, mission statement, program agenda, method of appointment of board members, qualifications of board members, duties of board members, and conflict of interest policies of said entity;

(26) Current, signed original conflict of interest forms or statements from all directors, members of the board and senior management of Horizon, and consultants and experts engaged by Horizon in connection with the proposed conversion, in a form to be approved by the Attorney General, specifically relating to the proposed conversion, indicating if any such person (or their family members) had a conflict or duality of interest relating to the proposed conversion and stating whether any such person will derive any benefit, in cash or in kind, from the proposed conversion;

(27) Names, addresses, business phone numbers and EIN numbers of consultants engaged in connection with the proposed conversion and copies of any and all contracts, letters of engagement, memoranda and/or other documents referring, reflecting and/or relating to the scope of services to be rendered by each such expert or consultant and how they have been or will be compensated;

(28) Any and all financial assessments or evaluations of any potential strategic partners or acquirers performed in anticipation of any proposed affiliation, purchase, conversion, merger, or other such transaction for the three years preceding the application;

(29) Copies of all documents relating or referring to the reasons why any potential strategic partner or acquirer was excluded from further consideration;

(30) Copies of each proposal received by the applicant from any potential acquirer or strategic partner suggesting the terms of a potential transfer of Horizon, and any analysis of each such proposal;

(31) Copies of any requests for opinions to the Internal Revenue Service or related documents concerning rulings attendant to this conversion and any Internal Revenue Service responses thereto;

(32) Appendix A of the plan of conversion refers to Horizon's status as the exclusive licensee of the Blue Cross Blue Shield Association ("BCBSA") in New Jersey;

- (a) Please provide a copy of the current license agreement between Horizon and BCBSA and any addendum thereto;
- (b) Please submit a copy of the "capital, ownership and operating requirements of BCBSA" that are referred to in Appendix A, including all requirements relating to converted Blue Cross Blue Shield plans; and
- (c) Please provide a copy of the BCBSA rules, identifying those that require restrictions on stock ownership following conversion;

(33) A list of BCBSA committees and subcommittees which Horizon is on. Include the size of the committees and subcommittee, and a description of the voting power of Horizon in relation to other committee and subcommittee members;

(34) Has Horizon notified the BCBSA of the proposed conversion? Has the BCBSA approved or otherwise commented on any aspect of the proposed conversion? Attach copies of all communications (including electronic communications) with the BCBSA regarding the proposed conversion;

(35) A summary breakdown of Horizon's subscribers for years 2004 through 2008, including numbers for different types of individual insurance products and group insurance products, State of New Jersey Medicare and Medicaid, and for the largest institutional and corporate group members.

(36) Describe in detail the estimated market value of all cash, property, stock, notes, assumption or forgiveness of debt, and any other thing of value held by Horizon and each of its affiliates;

(37) Describe in detail the estimated market value of Horizon and all affiliates and subsidiaries or any other asset held by Horizon at the time of the proposed conversion;

(38) Describe in detail the methods used by Horizon to determine the market value of any assets involved in the proposed conversion;

(39) Provide any appraisals as to the value of Horizon and its affiliates in the last three years;

(40) Provide reports, analyses and any other documents that refer or relate to the valuation of any asset involved in the proposed conversion and state the projected total value of the assets of the proposed conversion foundation;

(41) Describe in detail how the value described in the answer to question (40) was calculated. In particular, report what amount was assumed as the initial capitalization of the proposed foundation for New Jersey;

(42) List any real or potential financial ties (employment, special compensation, ability to purchase shares, etc.) between Horizon officers/directors/employees and any identified potential buyer of stock company shares, investor, management company, potential contractor with the converted entities, or provider of services to the conversion effort.

(43) Describe in detail and provide copies of any proposals relating to the voting structures or systems for the boards of the converted entities.

(44) Provide a list of the conversion costs and expenses by appropriate accounting classification incurred to date or to be incurred by Horizon and/or any other of the applicant's entities involved, with respect to the proposed conversion. Include in the response:

- (a) Amounts incurred to date, by classification with a description for each classification and the amount by payee incurred to date, paid to date, and current balance; and
- (b) Projected additional amounts, through closing, by category and payee;

(45) Provide copies of all agreements, understandings or related documents between the resulting entities after the conversion and any director, officer senior manager of Horizon relating to consulting or other services, pension arrangements, buy-outs, stock offerings, or any other arrangement involving financial benefit, current or deferred, regardless of the form of consideration. Include all agreements of understandings entered into within the past 12 months and agreements or understandings proposed or likely to be entered into if the proposed conversion is consummated. If the agreement or understanding is not in writing, describe the agreement or understanding.

(46) To the extent not provided in the response to the previous question, provide any additional documents or other information necessary for the Attorney General to consider whether the conversion will result in the enrichment of any individual.

(47) Provide the information necessary for the Attorney General to consider whether any management contract to be engaged in under the conversion is for reasonably fair value.

(48) Provide copies of any separate asset allocations or valuations and any separate financial statements (including consolidating statements) of Horizon's affiliates, prepared or performed in connection with, or following, the conversion.

(49) State whether the valuation included any analysis based upon the number of Horizon members. If it did, please describe in detail how the number of members was taken into account. If it did not, please explain why not.

(50) Provide any document prepared by or for Horizon prior to the date on which the Horizon Board resolved to enter into the proposed conversion that discusses whether Horizon should conduct an auction for Horizon.

(51) Explain the necessity for the Foundation to form the "Holding Company", "which shall organize a wholly owned subsidiary..." (Plan of Conversion, page 1.), i.e., why is it necessary for the Foundation to form another entity under the Holding Company?

(52) Explain the reason for the Holding Company's issuance of 50 million shares of preferred stock and how this will affect the value of the conversion Foundation's stock?

(53) Provide the governing documents for the Horizon Charitable Foundation, Inc. ("Horizon Foundation"). Advise as to the value of the charitable assets of the Horizon Foundation, including both restricted and unrestricted funds. Provide gift instruments for any restricted funds. Provide audited financial statements and Form 990's for 2005 through 2007. What types of activities will the Horizon Charitable Foundation engage in post-conversion, what will be its funding sources, will there be any change to its governing documents or to the composition of its Board of Trustees? What will be the post-conversion relationship between the Horizon Foundation and the Holding Company?

(54) Describe in detail any and all necessary regulatory approvals (other than approval under N.J.S.A. 17:48E-49, et seq.) required to effectuate the conversion of Horizon to a domestic stock insurer, provide a copy of any applications for such approvals and describe the status of all such approvals.

(55) Describe in detail how and the extent to which community and public interest groups have been consulted about the proposed conversion and provide copies of any comments received from public interest groups or members of the public.

In addition to the foregoing, we will need to have further discussion and resolution with Horizon regarding a variety of topics relating to the Foundation, the Voting Trust and Divestiture Agreement and the Registration Rights Agreement and future monetization strategies, including, but not limited to:

- (a) the Foundation's ability to have representation on Horizon's board;

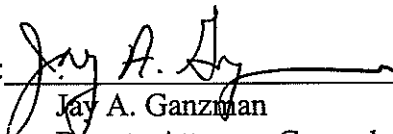
- (b) the Foundation's ability to vote its shares in connection with any "Change of Control Proposal" or "Acquisition Proposal";
- (c) the Foundation's ability to vote its shares in connection with equity compensation plans;
- (d) Horizon's right to purchase the Foundation's shares upon notice by the Foundation of a demand registration; and
- (e) the participation of the Foundation in the process by which the initial and final pricing is established for the initial public offering of Horizon.

These items are subject to supplementation upon retention of consultants by the Attorney General.

If you have any questions about the foregoing, please direct them to me at 609-292-8564.

Sincerely yours,

ANNE MILGRAM
ATTORNEY GENERAL OF NEW JERSEY

By: 
Jay A. Ganzman
Deputy Attorney General

c: The Honorable Steven M. Goldman, Commissioner
Richard J. Sandler, Esq., Davis Polk & Wardwell
Jeffrey H. Becker, Esq., Epstein Becker & Green P.C.

APPENDIX A

A. Instructions and Definitions

1. The term “documents” shall mean all records and other tangible forms of expression in your possession or custody or subject to control, whether drafts or finished versions, originals, copies or annotated copies, however created, produced or stored (manually, mechanically, digitally, electronically, or otherwise), including, but not limited to, books, papers, files, notes, account statements, opinion letters instruction letters, transcripts, lists, agendas, correspondence, drawing, charts, confirmations, memoranda, analyses, articles, reports, computer tapes, computer discs, computer software, computer print-outs, photographs, tape recordings, videotapes, telegrams, telexes, telecopies, facsimile copies, electronic mail messages, telephone logs, contracts, agreements, calendars, datebooks, notes or records of conversations or meetings, minutes of meetings, corporate records, payroll records, wire transfer forms, bank records, worksheets, summaries, invoices, paid or unpaid bills, purchase orders, checks, wire transfers, drafts for money, records of payments, cash receipts, cash disbursement ledgers, magnetic tape, disks, diskettes, optical disks, disk packs and other electronic media, microfilm, microfiche and storage devices.
2. “Communication” means the transmittal of information (in the form of facts, ideas, inquiries or otherwise). Communication includes correspondence in all forms, including, but not limited to, e-mail and instant message correspondence.
3. The term “describe in detail” means to give a complete a full description concerning the matter about which the inquiry is made, including the full names of persons involved and, if appropriate, the dates, times and amounts and other particulars that make the answer to the inquiry meaningful.
4. The terms “all” and “each” shall be construed as all and each.
5. The connectives “and” and “or” shall be construed either disjunctively or conjunctively as necessary to bring within the scope of the Subpoena all responses that might otherwise construed to be outside of its scope.
6. The use of the singular form of any word includes the plural and vice versa.