



**BlueCross & BlueShield  
United of Wisconsin**

An independent licensee of the Blue  
Cross and Blue Shield Association

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Commissioner Connie O'Connell  
Commissioner of Insurance  
Office of Commissioner of Insurance  
121 East Wilson Street  
P.O. Box 7873  
Madison, WI 53707-7873



**Re: Comments to the Final Report of the Appraisal Committee  
In the Matter of the Blue Cross & Blue Shield United of Wisconsin ("Blue Cross")  
Conversion Application – Case No. 99-C26038**

Dear Commissioner O'Connell:

You have invited comment on the Final Report ("Report") of the Appraisal Committee in the Blue Cross conversion. We appreciate the opportunity to do so. This letter represents our comments on the Report.

First, we want to acknowledge the time and work devoted to this project by the Appraisal Committee. We know that the three members of the Appraisal Committee have full time commitments to their own jobs, and that this additional assignment required a substantial devotion of time and work. Likewise, we want to acknowledge the work of the OCI staff in bringing this matter to a close. We know that the staff spent many hours over and above their normal duties attending to this project. Finally, we want to acknowledge the team from DuetscheBanc. They brought considerable experience and analytical expertise to the project. Their work was thorough and exhaustive.

Overall, we believe that the Report exemplifies a studied and careful review of our plan. The comments and recommendations were made in an effort to improve upon an already carefully constructed and thoughtful plan of conversion.

We were pleased to see that the Appraisal Committee concluded "... that the Foundation's ownership of 10 million issued and outstanding common shares of United Heartland Group ("UHG") does in fact constitute the full value of Blue Cross & Blue Shield United of Wisconsin." Similarly, we were pleased that the Appraisal Committee determined that the "...net economic result of having financed the growth of UWS [United Wisconsin Services], first inside BCBSUW and then, post 1991, in the public arena, was overwhelmingly positive [for Blue Cross]." These two conclusions should put to rest forever any notion that the contribution of

100% of the stock does not constitute 100% value of the company, and that the growth of UWS came at a price to BCBSUW.

Recognizing that the Blue Cross Board of Directors has not yet approved any changes to the plan of conversion, as that discretion is given to them in Chapters 611 and 613 of the Wisconsin Statutes, we offer management's perspective on the Report. By commenting on these recommendations we neither intend to waive, nor do we waive any objections we may have to conditions imposed in an order of conversion that are not contemplated by the statutes.

Our comments are as follows:

**Recommendation 2(i) and 2 (ii):**

We appreciate the changes made by the Appraisal Committee in their final report to the recommendations which (1) reduced the requirements relating to the public float in the case of a merger, and (2) reduced the size of an offering if the public float falls below the designated level. We also agree with the change that permits the discretion of the Commissioner to extend the time period for completion of the liquidity transaction.

Upon receipt of approval for the conversion it is our intention to proceed with negotiations of a merger transaction between a newly formed UHG and United Wisconsin Services, Inc. We estimate that completion of the necessary approvals and filing requirements will consume a minimum of five months. If market conditions are not favorable for managed care companies at the end of this process, additional months may be required to complete the recommended concurrent follow-on offering.

The remaining concern is the requirement for the follow-on offering to achieve at least a \$50 million level. If a combination of a merger and a follow-on offering result in a public float of \$90 million, but they are each in increments of \$45 million, then the recommendation of the Appraisal Committee would not be met. And if the size of the offering is a condition of the conversion, then the conversion could not be accomplished. Considerable time and financial resources have been expended to date and even more will be expended in pursuing a merger and follow-on offering. Our concern is that the conversion may fail if we achieve a reasonable level of float, but do not meet the minimum levels recommended by the Appraisal Committee. The alternative of starting over at that point is economically not viable.

Accordingly, we urge you and your advisors to work with us during the liquidity process and to reserve yourself adequate flexibility and discretion to allow the conversion to proceed even if the \$50 million size level for the follow-on offering is not met.

**Recommendations 2 (ii), 3 (UHG)(i), 3(UHG)(ii), and 3(UHG)(iii):**

We have shared the Appraisal Committee Report with the BlueCross and BlueShield Association ("Association"). They have informed us that these recommendations, if approved by the Commissioner as proposed, would cause concern for the Association. As acknowledged in

the Report, the value of the BlueCross and BlueShield servicemarks and logos are economically important to the company. As such, it is important that any changes to the plan do not violate the rules of the Association. Violation of the rules may result in termination of the Blue Cross and Blue Shield licenses and expose the company to considerable economic harm.

Some of the recommended changes do not violate the rules, and were approved for other plans when they converted. However, not all of the recommended changes fall into this category. It is also important to note that the Association views each plan of conversion on an individual basis, and that each exception granted by the Association has been provided in the context of that plan's overall plan of conversion. To pick and choose individual changes that have been granted to other plans, ignores the context of that plan's other provisions and the consideration by the Association of the overall plan of conversion.

**Recommendation No. 2(ii):** The Association expressed a general concern that the implementation of this recommendation will need to take into account the Association's licensure requirements.

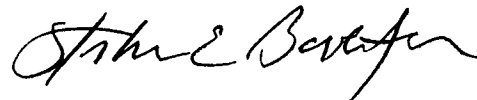
**Recommendation No. 3(UHG)(i):** The Association expressed concern regarding the undefined scope of the "observation rights" and "consultation rights" contemplated under this recommendation.

**Recommendation No. 3(UHG)(ii):** The Association expressed a clear preference that the 80% level of Independent Directors be retained.

**Recommendation No. 3(UHG)(iii):** To the extent that this recommendation contemplates the Foundation having the right to vote its shares for the removal of a director, the Association advises that it has never consented to a Foundation having this right, under any standard. Regarding the "Cause" definition for removal, the Association expressed a clear preference to retain the definition set forth in the original Plan of Conversion submitted to OCI, which mirrors the definition set forth in the RightCHOICE conversion documents.

We ask that you take our comments into consideration as you make your decision. We urge you to allow yourself the flexibility and discretion to work with the company and the Association as you consider adopting the recommendations of the Appraisal Committee.

Respectfully submitted,



Stephen E. Bablitch

cc: Joe Branch, Foley & Lardner  
Randy Blumer, Deputy Commissioner, OCI  
Gunther Ruch, Division Administrator, OCI  
Fred Nepple, General Counsel, OCI