



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson  
Governor

Connie L. O'Connell  
Commissioner

December 23, 1999

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MR STEPHEN E BABLITCH  
VICE PRESIDENT, SECRETARY, AND  
GENERAL COUNSEL  
BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN  
401 W MICHIGAN STREET  
MILWAUKEE WI 53202

Re: Case # 99-C26038  
Response to OCI December 7, 1999, letter

Dear Mr. Bablitch:

We are in receipt of your response to the Office of the Commissioner of Insurance ("OCI"), December 7, 1999, letter requesting information and documentation of prior transactions of Blue Cross & Blue Shield United of Wisconsin and its affiliates. The documents submitted appear to only partially respond to our request.

As you know, reference has been made in numerous instances to prior inter-company transactions affecting the value of Blue Cross for purposes of the proposed conversion. It is important that a complete and thorough review be made of these transactions as part of the review process for the application for conversion.

We understand that much, if not all, of the documentation we requested in our December 7, 1999, letter is also in our files. However, as we explained, we requested that you provide OCI with this information to facilitate our timely review of the application for conversion of Blue Cross. Following, is a summary of the information we requested and our assessment of the completeness of your response:

- A brief description of each transaction, along with a description of the consideration or benefit received by each party to the transaction, including specific dollar amounts, if applicable.

Partial response -- We could not find your description of the transaction except as contained in the original filing documents.

- A statement of the basis on which BCBSU complied with s. 617.21 (1) (a), Stat.

No response

- Correspondence to and from OCI specific to the transaction

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Partial response -- In some cases the letters contained in the files refer to specific correspondence that is not attached

- Any documentation that may serve to clarify the nature of the transaction or otherwise substantiate the transaction.

For each current member of Blue Cross's holding company system:

- The date of incorporation

Sufficient response

- A brief history, if the entity's purpose and activities once differed from current ones (in regards to member of Blue Cross' holding company system at the present time).

No response

- The capitalization structure as requested in our December 7, 1999, letter

Sufficient response

- All service, management, cost allocation, or any other form of written agreements currently in effect with affiliates.

You have provided a binder for 1998 but require OCI to find all additional current agreements as "subsumed in Form D filings."

- For any affiliate that has more than one shareholder, the names of each shareholder with a beneficial interest or ownership of 5% or more of the common capital stock.

Partial response -- Your reply stated that this was given to Deutsche Banc in November. We are aware that the information was based upon September 1999, information and since that time there has been changes in 5% or greater shareholders. Please provide the current names of each shareholder with a beneficial interest or ownership of 5% or more as requested.

- A complete historical summary of direct investments made by BCBSU from inception to date in each affiliate that is currently a member of the holding company system, and a summary of dividends and capital gains that were not reinvested, but rather retained for Blue Cross' own use.

Based upon initial review of the response, it appears that your response is reasonably sufficient.

Finally, and in general, we note that you indicate your record disposition guidelines are such that transactions prior to 1991 are not readily available. However, you will continue your search for these records and provide us with them should you discover any.

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As outlined above, you can see that the information provided on December 17, 1999, was incomplete. In order for us and our investment banking firm to review the requested information in a timely manner, we ask that you please provide the remaining information by no later than December 30, 1999.

Sincerely,

Guenther H. Ruch, Administrator  
Division of Regulation and Enforcement

cc: Randy Blumer  
Fred Nepple  
Joe Branch, Foley and Lardner  
Thomas W. Johnson, Deutsche Banc