



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson
Governor

Connie L. O'Connell
Commissioner

November 23, 1999

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
http://badger.state.wi.us/agencies/oci/oci_home.htm

Advanced Via Facsimile

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: Application for Conversion of Blue Cross & Blue Shield United of Wisconsin (Case No. 99-C26038)

Dear Mr. Bablitch:

Responses to the following items are requested in connection with this office's review of the Application for Conversion of Blue Cross & Blue Shield United of Wisconsin.

Governance Issues

1. Under the stock holding company's articles of incorporation, shareholders have no right to remove any director or the whole board unless the director or the entire board is convicted of a felony or found liable for gross negligence or willful misconduct in a matter of substantial importance to the corporation, where such adjudication is no longer subject to direct appeal. Even then, the holders of 75% of the issued and outstanding common shares must vote in the affirmative to remove the director or offending board. Is this a specific requirement of the BlueCross BlueShield Association? On what basis should this provision be considered reasonable?
2. Under Article IV of the stock holding company's articles of incorporation, each director has immunity for breach of fiduciary duty on any votes for or against any proposal or course of action that, in his judgement, would breach any requirement of the Blue Cross and Blue Shield Association or lead to the termination of any license issued by that organization. In the Voting Trust and Divestiture Agreement, the public health foundation is required to assert in the recitals that the Blue Cross and Blue Shield licenses will contribute substantially to the stock holding company's value and its future prospects. What is the purpose of allowing the directors to take actions that would breach the requirements of the BlueCross BlueShield Association? How does the plan protect or compensate the public health foundation for any diminution of value resulting from such decisions?

Role of the Limited-Life Public Health Foundation

3. The public health foundation is obliged to pay numerous expenses on its own behalf, including, but not limited to the following: its share of the fees and expenses of the trustee of the voting trust, expenses related to the registration and sale of its share holdings in the stock holding company, and the expenses of seeking extensions to the divestiture schedule from the BlueCross BlueShield Association. How will the public health foundation achieve sufficient liquidity prior to the sale of its shares in the stock holding company?
4. What staffing needs are anticipated for the limited-life public health foundation? How will these needs be met?
5. Who is the intended trustee of the voting trust that will hold the stock holding company's shares on behalf of the proposed public health foundation?

Ultimate Successors to the Nonprofit Interests of Blue Cross

6. How does the plan for the use of conversion proceeds meet the test of not being contrary to the public interest?
7. An article in the Milwaukee Journal-Sentinel dated Monday, October 4, 1999, quotes Linda Brei, a spokeswoman for UW-Madison, as saying there will be a supervisory committee for Blue Cross conversion funds. What criteria will UW-Madison use to select the Annual Stewardship review panel, and who will appoint them?
8. What ongoing provisions does the plan of conversion provide for the successor nonprofits' accountability and responsiveness to Wisconsin's health care needs in general, and particularly with respect to the five-year reviews after the limited-life public health foundation ceases to exist?
9. Please provide a copy of the board minutes and resolution evidencing the adoption of the report on the intended use of foundation resources from the University of Wisconsin Medical School and The Medical College of Wisconsin, following board approval of the same.
10. What criteria will be used to appoint The Medical College of Wisconsin's Endowment Fund Commission?
11. How will the grant review committee of the University of Wisconsin's Enhancing Community and Rural Health Fund be appointed?
12. How will The Medical College of Wisconsin's Institute of Public and Community Health engage in public outreach, particularly with respect to providing funding in collaborative efforts with other organizations?

Miscellaneous

13. What is the opinion of Blue Cross' management with respect to the tax consequences of the conversion transaction?

Mr. Stephen E. Bablitch
November 23, 1999
Page 3

14. Does Blue Cross need to notify any regulatory agencies other than OCI of the proposed conversion?
15. Have any side agreements, written plans, or assurances been made concerning staff retention, salaries and benefits, or severance packages, for the officers or employees of Blue Cross & Blue Shield United of Wisconsin?
16. Does the company have any plans, within the foreseeable future, to enter into discussions or negotiations with other entities carrying the Blue Cross trademark concerning the purchase, sale, merger, or affiliation with such entities? Is the company aware of any such entities which have an interest to acquire control or merge with Blue Cross & Blue Shield United of Wisconsin after its conversion, should such conversion be approved?

If you have questions on this or any other matter, my direct line is (608) 267-4388.

Sincerely,

Steven J. Junior
Senior Insurance Examiner
Bureau of Financial Analysis and Examinations

cc: Joseph C. Branch, Foley & Lardner
Thomas M. Rose, Foley & Lardner