CHICAGO
DENVER
JACKSONVILLE
LOS ANGELES
MADISON
MILWAUKEE
ORLANDO

FIRSTAR CENTER
777 EAST WISCONSIN AVENUE
MILWAUKEE, WISCONSIN 53202-5367
TELEPHONE (414) 271-2400
FACSIMILE (414) 297-4900

SACRAMENTO
SAN DIEGO
SAN FRANCISCO
TALLAHASSEE
TAMPA
WASHINGTON, D.C.
WEST PALM BEACH

WRITER'S DIRECT LINE
(414) 297-5837

EMAIL ADDRESS
jbranch@foleylaw.com

CLIENT/MATTER NUMBER
016125-017

February 11, 2000

VIA FACSIMILE

Mark Femal
Executive Director
Wisconsin Insurance Security Fund
2445 Darwin Road, Suite 101
Madison, WI 53704

Patricia Lipton
Executive Director
State of Wisconsin Investment Board
121 E. Wilson Street
Madison, WI 53707-7873

Randy Blumer
Deputy Commissioner
Office of the Commissioner of Insurance
121 E. Wilson Street
Madison, WI 53707-7873

Re: Blue Cross & Blue Shield United of Wisconsin
Case No. 99-C-26038
Appraisal Committee

Dear Mr. Femal, Ms. Lipton and Mr. Blumer:

This is written to you in your capacity as members of the Appraisal Committee appointed by the Commissioner of Insurance in conjunction with the application of Blue Cross & Blue Shield United of Wisconsin ("BCBSUW") to convert from a Chapter 613.80 corporation to a stock insurance corporation. We recognize and appreciate the considerable work of the Committee and OCI staff and your investment bankers in getting to where you are today. We also recognize and appreciate that we will have the opportunity to review the finalized report of the Appraisal Committee and have a formal opportunity to comment thereon. However, a couple of matters were brought to our attention yesterday while observing the Appraisal Committee's meeting that we wanted to bring to your immediate attention for your consideration before the report of the Appraisal Committee is in fact finalized.

First and most importantly, we are very concerned about Recommendation no. 2 of the Draft of the Appraisal Committee Report and specifically the "Mechanism to Ensure Adequate Short Term Liquidity" for the Foundation. It provides oversight by the OCI for a monetization event either (A) an IPO of United Heartland Group, Inc. (UHG) or (B) a Merger of UHG with United Wisconsin Services, Inc. (UWS) with the provision that the "Conversion only becomes effective upon the completion of (A) or (B)."

The discussion of this provision at the Appraisal Committee on February 10 focused on the required public float of a stand-alone or merged UHG. In the event of a merger in which the resulting public float was less than $75 million, the recommendation requires UHG or the merged entity to execute an offering of "newly issued UHG shares in such amount when multiplied by the offering price results in an offering value of $75 million."

We understand the desire of the Appraisal Committee for an orderly offering that produces adequate float, liquidity and analyst coverage. However, the reality may be that the market's appetite for an offering may not rise to the $75 million level. We could then be in a position where a merger agreement has been negotiated between UWS and UHG, the Hart Scott Rodino requirements have been met, UWS shareholders have approved a merger, the offering documents have been distributed but the underwriters advise us that the market will accept only $50 million in common stock. Under this scenario, the conversion would fail to become effective due to inadequate offering size. Note that the offering size is independent of the existing market float of a merged UWS and UHG.

Forcing common stock on the market for the sake of effectuating a conversion would not be in the best interest of the Company or of the Foundation. We agree with the goal of providing the Foundation with an opportunity to sell its shares into an orderly market but believe that this goal can be accomplished without setting artificial limits on float or offering size which, if a condition for the conversion, may bring down the conversion in its entirety.

Additionally, relative to recommendation no. 6, the prohibition on the awarding of stock options, the company does not object to the concept of a prohibition against equity grants in contemplation of the conversion. In fact the company is already taking steps to comply with the recommendation. However, we would observe that the exception noted in footnote 10 only pertains to directors, and not officers. There may be times during the black out period that the company needs to hire or replace officers. It has been historical practice to make initial grants of stock options to new officers, as well as directors. It would make sense to include officers in the exception. Also, it has been historical practice to award grants each year as a part of the overall compensation package. An averaging of the last two or three years of option grants would be one way in which to keep with historical practices and satisfy the Committee's concern that excessive awards not be granted.

We understand the Appraisal Committee is scheduled to meet again at 4:00 p.m. Monday. We are planning on attending to observe and will be available to answer any questions the Committee may have.

Thank you for your consideration of these comments.

Very truly yours,

Joseph C. Branch

Enclosure(s)

cc: Guenther Ruch, OCI
Fred Nepple, OCI
Thomas W. Johnson, Deutsche Banc Alex Brown
David Platter, Donaldson Lufkin
Stephen E. Bablitch, Blue Cross
Gail L. Hanson, Blue Cross
Thomas M. Rose, Foley & Lardner