



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor  
Connie L. O'Connell, Commissioner

Wisconsin.gov

March 12, 2001

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## Advanced Via Facsimile

Mr. Joseph C. Branch, Esq.  
Foley & Lardner  
Firststar Center  
777 E. Wisconsin Avenue  
Milwaukee, WI 53202-5367

Re: Blue Cross Conversion – Compliance with Order

Dear Mr. Branch:

This office acknowledges receipt, on March 8, 2001, of the documentation associated with the medical schools' administration of the conversion proceeds. We also acknowledge receipt, on March 9, 2001, of your hand-delivered correspondence wherein you state that your client is now in full compliance with each and every provision of Commissioner O'Connell's March 28, 2000, Order. The following is our review of your March 9, 2001, correspondence. Please note that, as of the writing of this letter, there are a number of significant matters requiring resolution prior to conversion:

1. You state that the Wisconsin United for Health Foundation, Inc. (Foundation) met and approved, among other items, the articles and bylaws of the Foundation. We need copies of the final and approved versions of the amended and restated articles of incorporation and bylaws of the Foundation, as revised subsequent to the January 16, 2001, filing. The Board of the Foundation must also certify that it is fully functional and able to discharge its responsibilities effectively. Finally, we need a copy of the agreement with the trustee that is to administer the voting trust, proof that initial fees have been paid, and resolution of responsibility for ongoing payment of the trustee's fees.
2. You state that the public float requirement contained in the Order has now been met. As we all agree, a sustainable and adequate public float of Cobalt shares is essential if the Foundation is to achieve a fair and reasonable return on the sale of its endowment within the mandatory divestiture schedule. Achieving the required public float is also consistent with Blue Cross' own business objectives. The float required by the Order is reasonably demonstrated if the daily closing share price of UWS stock is greater than or equal to \$5.50 per share for at least 20 trading days in a consecutive 30 trading day period, excluding those days during which Blue Cross or UWS directs the purchase of shares of UWS stock pursuant to their pension or 401(k) plans and excluding any trading day on which any director, or member of senior management, of Blue Cross, UWS or any affiliate, or any immediate family member of any such person, directly or indirectly, purchases shares (the "Measurement Period"). The closing share price of UWS stock must also be greater than or equal to \$5.50 per share on the final trading day of the Measurement Period. Once Blue Cross has satisfied the minimum float requirement by meeting the terms of the Measurement Period, the Commissioner has five (5) trading days to review Blue Cross' determination regarding the float. If the Commissioner is satisfied that all terms of the Order have been met and approves the transaction, Blue Cross shall effectuate the conversion within five (5) trading days of the Commissioner's decision. In addition, we require appropriate representations with respect to excluded trading activity.

3. Your letter states that your client has now asked Bear Stearns for a fairness opinion on the transaction. A Bear Stearns opinion as to whether the proposed conversion transaction is fair, from a financial point of view, is essential for this office to provide final approval of the transaction. The timing of the fairness opinions is a matter that has been and continues to be under discussion.
4. You state that the Board of Directors of the BlueCross BlueShield Association will meet on March 15 and 16, 2001, at which time it will vote on a resolution approving the final terms of the transaction. We require documentation of what action, if any, the Board takes on the transaction at that meeting before we may issue the certificate of incorporation and certificate of authority that will effectuate the conversion.
5. We understand that the amended and restated articles of incorporation and bylaws of Cobalt Corporation, the Voting Trust and Divestiture Agreement, and the Registration Rights Agreement have been amended subsequent to the January 16, 2001, filing. In addition, we understand that the Consent to Jurisdiction required under the Order has been drafted. We require the final versions of these documents before this office may provide final approval of the transaction.
6. I have attached copies of Blue Cross' written commitment to fund the Foundation up to \$2,000,000 dated December 7, 1999, October 24, 2000, and January 8, 2001. The December 7, 1999, representation was part of the conversion application approved by the Commissioner. Nevertheless, the Order allows the Commissioner to give final approval if the \$2,000,000 is placed in escrow with irrevocable instructions to the escrow agent to disburse funds to the Foundation as directed at the sole discretion of the Commissioner to fund the Foundation's operations. The \$2,000,000 must be either paid into the Foundation or paid into an escrow account, with escrow documentation approved by OCI, prior to the date of conversion.
7. Blue Cross recently informed OCI that it has changed its plan for disposition of its UWS stock interest as part of its conversion. Blue Cross plans to retain a significant stock investment in its own parent, Cobalt Corporation. Blue Cross must include Cobalt stock held by Blue Cross within the terms of the Registration Rights Agreement. The Registration Rights Agreement must be amended to include not only Cobalt Corporation, but also affiliates under Cobalt's control.

I believe that these issues can be resolved and clear the way for a conversion that complies with the March 28, 2000, Order. We look forward to working with you and your client to outline the remaining steps necessary to effectuate the conversion. If there is anything you are waiting on from this office or, if you have any questions, please call Steve Junior at (608) 267-4388.

Sincerely,



Guenther H. Ruch  
Administrator  
Division of Regulation and Enforcement

Enclosures