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CLIENT/MATTER NUMBER
016125-0107

September 7, 1999

VIA HAND DELIVERY

Steven J. Junior
Senior Insurance Examiner
Bureau of Financial Analysis & Examination
State of Wisconsin
Office of the Commissioner of Insurance
121 East Wilson Street
P.O. Box 7873
Madison, WI 53707-7873

Re: Blue Cross Conversion – Case No. 99-C-26038

Dear Mr. Junior:

This letter serves to formally respond to your letter of July 6, 1999, a copy of which is attached for your convenience. The responses set forth herein correspond to the questions in the order as set forth in your letter. Accordingly, please note as follows:

1. Attached as exhibit 1 is a copy of Joe Branch's letter, dated August 17, 1999, addressed to you. This letter outlines the willingness of BlueCross BlueShield Association ("BCBSA") to provide to OCI the BCBSA guidelines, subject to OCI's agreement with such guidelines will not become part of the public record and will not be made available to third parties. In response to your expanded request regarding the use of such guidelines, BCBSA has since agreed to (a) the release of its guidelines to the authorized representatives of OCI, and (b) the general reference to BCBSA guidelines in official OCI documentation or reports related to the conversion, including reference in the official Recommendation Memorandum, the Proposed Decision if necessary (including the Proposed Findings of Fact, Proposed Conclusions of Law, and Proposed Order), and the Final Decision and Order. BCBSA has indicated its willingness to expand OCI's use of BCBSA's guidelines in such a fashion subject to an explicit understanding with OCI that specific provisions in the guidelines, other than general topical references, will not become part of the public record and that the guidelines will not be made available to third parties, other than authorized representatives of OCI.

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2. Copies of each amendment and amendment and restatement made to the articles of incorporation and the bylaws of Blue Cross & Blue Shield United of Wisconsin (“BCBSUW”) as Associated Hospital Service, Inc. to the present were transmitted to OCI on August 6, 1999. A copy of Joe Branch’s cover letter transmitting such documentation to you is attached as exhibit 2. Due to the voluminous nature of the records previously submitted, I have not included an additional copy as part of this submission. However, if you require an extra copy, please advise.
3. BCBSUW most recently revised its articles of incorporation pursuant to a unanimous written consent action of the Board of Directors. Copies of such consent action and the corresponding transmittal letter to the members of the BCBSUW Board of Directors were had delivered by Stephen Bablitch to OCI on August 12, 1999. Additional copies of such materials are attached as exhibit 3.
4. As noted in the Plan for Conducting Insurance Business in the conversion application, BCBSUW intends to continue to operate in accordance with its historical practices in offering a full range of health-related products following the conversion. To operate as such, BCBSUW will need to be licensed to write life and disability insurance as contemplated under Wis. Admin. Code s. INS 6.75(1)(c) which addresses: “[d]isability insurance – insurance covering injury or death of persons caused by accident, or insurance covering health of persons.”
5. The legal name of the holding company is still unresolved. We will supplement our response to formally notify you when the name is selected.
6. The capital structure in the holding company’s proposed articles was modeled upon the capital structure currently in place for United Wisconsin Services, Inc. With respect to the transactions contemplated in the conversion application, BCBSUW does not have any specific intent regarding the inclusion of preferred stock in the holding company’s capital structure. Rather, preferred stock is included as a potential capital structure component in order to accommodate future flexibility in raising acquisition currency.
7. The legal name of the public health foundation will be “Blue Cross & Blue Shield United of Wisconsin Public Health Foundation, Inc.”
8. A lead underwriting manager will be identified as contemplated in Section 5(b) of the Registration Rights Agreement by the public health foundation board at the time of the relevant post-conversion liquidation event. The investment banker engaged by BCBSUW in connection with the conversion transaction may be, but need not be, the managing underwriter agreed upon.
9. There are no such specific plans for additional investment bankers at this time. If necessary, any additional investment banking firms engaged for distributing the public health foundation’s stock holdings will be selected and retained in advance of the relevant post-conversion liquidation event.

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10. The public health foundation will need liquid assets sufficient to cover its expenses during the period from its creation to the first liquidation event. Amongst the available options to provide such liquidity, BCBSUW currently contemplates that the holding company may (a) declare a dividend in an acceptable amount payable to the foundation, or (b) extend a loan, in a sufficient amount and at generally accepted terms and conditions. Alternatively, the foundation may independently obtain financing from a third-party commercial lender.
11. The trustee of the voting trust that will hold the stock holding company's shares on behalf of the public health foundation has not been determined to date. Further information will be provided upon the selection of such trustee.
12. The intended minimum shareholders' equity requirement of the trustee of the voting trust will be dependent upon the trustee appointed. Further information will be provided upon the selection of such trustee.

Very truly yours,

Thomas M. Rose

Enclosure(s)

cc: Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin
Joseph C. Branch, Foley & Lardner
Gail L. Hanson, Blue Cross & Blue Shield United of Wisconsin
Tom Luljak, Blue Cross & Blue Shield United of Wisconsin
Mark Orloff, BlueCross BlueShield Association