



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

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DATE: April 12, 2016 – PUBLIC (REDACTED)
TO: Rebecca Easland, Richard Hinkel
FROM: Kristin Forsberg
SUBJECT: Form A – Acquisition of Control of Gundersen Health Plan, Inc. by University Health Care, Inc., and Unity Health Plans Insurance Corporation by Gundersen Lutheran Health System, Inc.

Form A Filing Contact:

Table with contact information for Noreen J. Parrett, including address, phone, and email.

Acronyms: The following acronyms are used throughout this memo to refer the applicable parties involved with this transaction:

Parties to the Transaction***:

- List of acronyms and full names: GHP, GHS, GLAS, UHC, Unity, Quartz.

*GHP and Unity (collectively, the "Wisconsin Domestic Insurers")
**GHS and UHC (collectively, the "Applicants")
***GHP, GHS, GLAS, UHC, Unity and Quartz (collectively, the "Parties")

Form A Regulators:

- OCI: Wisconsin Office of the Commissioner of Insurance

Form A Exhibits (filed with the Wisconsin OCI on December 22, 2015):

- Exhibit A: Exchange Agreement (between GHS and UHC) **[Redacted]**
- Exhibit B: Stockholders Agreement (between Unity, GHS and UHC)
- Exhibit C: Members Agreement (between GHP, GHS and UHC)
- Exhibit D: Stock Transfer Power (Quartz)
- Exhibit E: Stockholders Agreement (between Quartz, GHS and UHC)
- Exhibit F: Management Agreements (between GHP and Quartz, and Unity and Quartz)
- Exhibit G: Employee Lease Agreements (between Quartz and Unity, and Quartz and GLAS)
- Exhibit H: GHP – Amended and Restated Bylaws
- Exhibit I: GHP – Second Amended and Restated Articles of Incorporation
- Exhibit J: Unity – Amended and Restated Bylaws
- Exhibit K: Quartz – Amended and Restated Bylaws
- Exhibit L: UHC – Current Organizational Chart
- Exhibit M: GHS – Current Organizational Chart
- Exhibit N: UHC and GHS – Pre- and Post-Transaction Organizational Charts
- Exhibit O: UHC – Directors and Principal Officers
- Exhibit P: GHS – Directors and Principal Officers
- Exhibit Q: GHP – Proposed Directors and Officers
- Exhibit R: Unity – Proposed Directors and Officers
- Exhibit S: GHP and Unity - Biographical Affidavits for Proposed Directors and Officers **[Confidential]**
- Exhibit T: UHC – Audited Financial Statements (2010 – 2014); Unaudited (as of 9/30/15)
- Exhibit U: GHS (Obligated Group) – Audited Financial Statements (2010 – 2014); Unaudited (as of 9/30/15)
- Exhibit V: GHP-MN – Audited Financial Statements (2012 – 2014); Unaudited (as of 9/30/15)
- Exhibit W: Unity and GHP – 5-Year Financial Projections **[Confidential]**
- Exhibit X: UHC and GHS – Board Resolutions approving the transaction
- Exhibit Y: Form E, Pre-Acquisition Notification Statement of Potential Competitive Impact of a Proposed Merger or Acquisition **[Confidential]**

Background

Parties to the Transaction:

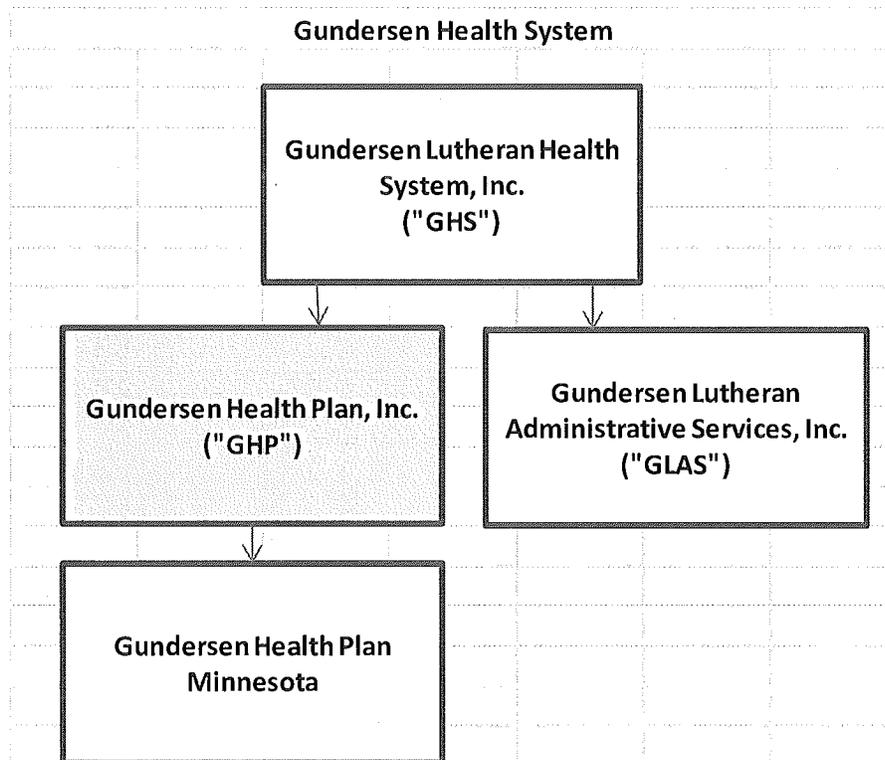
The Acquirers (collectively, the "Applicants"):

Gundersen Lutheran Health System, Inc. ("GHS" or "Gundersen"): GHS is a physician-led, non-profit, non-member healthcare system consisting of hospitals, clinics and nursing homes located in western Wisconsin, Iowa and Minnesota. Gundersen's flagship campus, Gundersen Lutheran Medical Center, Inc., located in La Crosse, Wisconsin, is also the designated Western Clinical Campus for the University of Wisconsin School of Medicine and Public Health.

GHS controls Gundersen Health Plan, Inc. ("GHP") through its exercise of 100% of the membership rights in GHP, including the right to appoint GHP's board of directors. GHS also controls Gundersen Lutheran Administrative Services, Inc. ("GLAS") through the exercise of 100% of its membership rights, and controls Gundersen Lutheran Health Plan of Minnesota indirectly through its control of GHP. GHS' address is:

Gundersen Lutheran Health System, Inc.
1900 South Avenue
LaCrosse, WI 54601

Below is an abbreviated organizational chart of the Gundersen Health System (excluding hospitals and clinics):

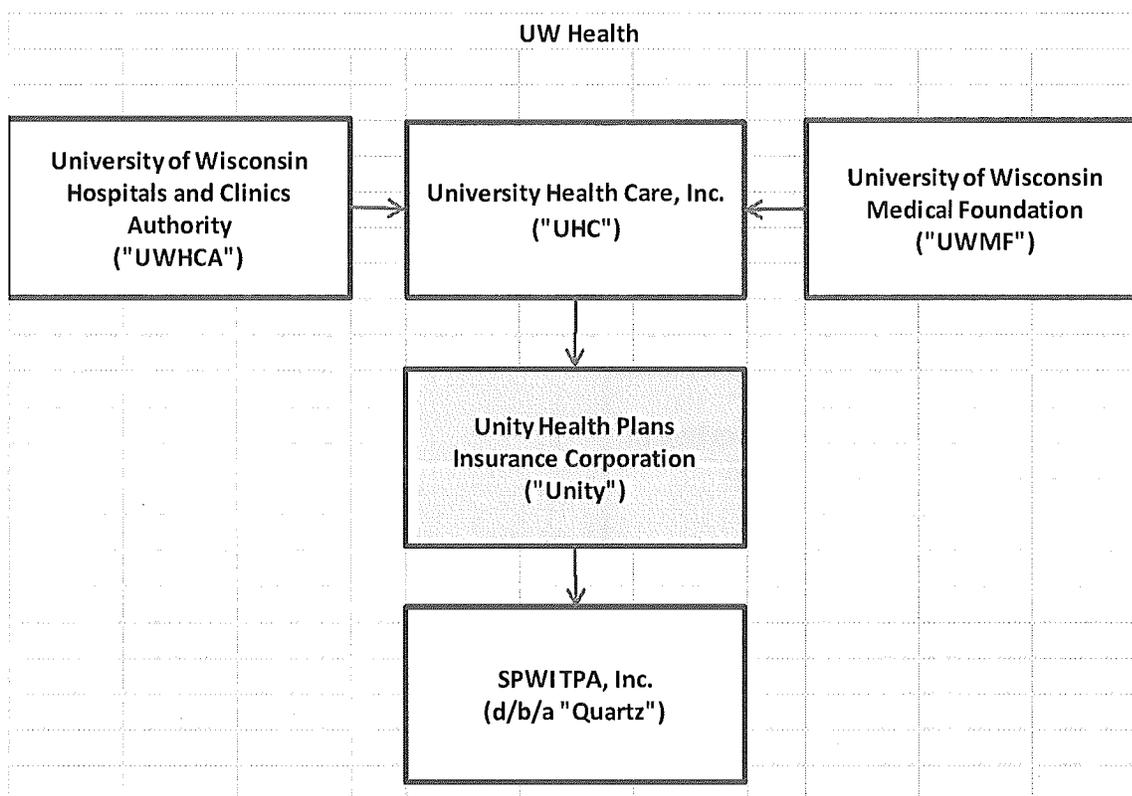


University Health Care, Inc. ("UHC"): UHC is a not-for-profit membership corporation and the entrepreneurial arm of UW Health (the academic medical center and health system for the University of Wisconsin). UHC's business includes furthering the teaching, research, and service functions of the University of Wisconsin School of Medicine and Public Health, the University of Wisconsin Hospitals and Clinics Authority ("UWHCA") and the University of Wisconsin Medical Foundation ("UWMF").

UHC is jointly and equally controlled by UWHCA and UWMF, and currently owns 100% of Unity Health Plans Insurance Corporation ("Unity"). UHC's address is:

University Health Care, Inc.
 301 S. Westfield Road
 Madison, WI 53717

Below is an abbreviated organizational chart of the UW Health system (excluding hospitals and clinics):^{1 2}



¹ UHC direct subsidiaries not shown in the above chart include: (1) E-Care of Wisconsin, LLC (100%), Health Professionals of Wisconsin, Inc. (100%).

² In addition to UHC, UWHCA and UWMF have joint control (50/50) over Regional Division, Inc. (f/k/a University Health Care, Inc.), a Wisconsin non-stock, member corporation. Regional Division, Inc., in turn, owns AboutHealth LLC (12.5%), UW Cancer Center Johnson Creek, LLC (33%), and is the sole member for SwedishAmerican Health System Corporation (an Illinois not-for-profit corporation).

Gundersen Health Plan, Inc. (“GHP”): GHP was incorporated in 1995, and is organized under Chapter 613 of the Wisconsin Statutes as a non-stock, not-for-profit health maintenance organization (HMO). Besides HMO and point-of-service (POS) products, GHP also offers Medicare Advantage and Medicare Part D prescription drug plans and third-party administrative services. GHP also contracts with the Wisconsin Department of Health Services (DHS) to provide services to its BadgerCare Plus members.

GHP’s product offerings for 2014, as a % of premiums earned, were as follows:

- Commercial (Individual and Group): 50.2%
- Medicare Supplement: <0.1%
- Medicare Advantage: 41.3%
- Medicaid: 8.4%

GHP is authorized to do business in the following Wisconsin Counties (counties highlighted overlap with Unity’s service area):

Buffalo	Jackson	Richland
Chippewa	Juneau	Sauk
Crawford	La Crosse	Trempealeau
Grant	Monroe	Vernon

In addition to the Wisconsin counties listed above, in 2006, GHP expanded into five counties in Northeast Iowa.³ In 2011, a subsidiary of GHP, Gundersen Health Plan Minnesota, became licensed in Minnesota.⁴

Unity Health Plans Insurance Corporation (“Unity”): Unity was incorporated in 1983, and is organized under Chapter 611 of the Wisconsin Statutes as a stock, for-profit health maintenance organization (HMO). Unity offers a variety of HMO, preferred provider organization (PPO) and point-of-service (POS) medical products to employer groups and individuals in the State of Wisconsin. Unity also offers individual health plans, and Medicare Supplement plans.

Unity’s product offerings for 2014, as a % of premiums earned, were as follows:

- Commercial (Individual and Group): 96.3%
- Medicare Supplement: <0.4%
- Medicare Advantage: 0.0%
- Medicaid: 3.3%

Unity is authorized to do business in the following Wisconsin Counties (counties highlighted overlap with GHP’s service area):

³ The only filing required by the Iowa Insurance Department is an after-closing informational letter with a copy of the regulatory approval from the Wisconsin Office of the Commissioner of Insurance. Iowa does not require Form E filings.

⁴ Minnesota does not require Form A filings for HMOs. Rather, HMOs are governed by Chapter 62D of the Minnesota Statutes. Section 62D.03, subd. 4, requires HMOs to file certain documents with the Minnesota Dept. of Health. By letter dated January 25, 2016 to Darcy Miner, Director the MN Dept. of Health, Division of Regulation, the Applicants described the proposed transaction. The Applicants have received a preliminary indication from the MN Dept. of Health that the Department does not find any conflict in the transaction with Minnesota law.

Adams	Fond du Lac	Jefferson	Rock
Columbia	Grant	Juneau	Sauk
Crawford	Green	Lafayette	Vernon
Dane	Green Lake	Marquette	Walworth
Dodge	Iowa	Richland	Waukesha

Below is a summary of the individual and combined membership, net premiums, and capital & surplus for each Insurer as of 12/31/14:

<i>As of December 31, 2014:</i>						
	Membership	%	Net Premiums	%	Capital & Surplus	%
Unity	167,426	74%	752,583,625	72%	59,141,685	73%
GHP	58,798	26%	295,525,932	28%	22,069,743	27%
	226,224	100%	1,048,109,557	100%	81,211,428	100%

The Proposed Transaction⁵

The Applicants intend to enter into a partnership to share management and administrative services with respect to the insurance operations of both health plans. Some of the key goals cited in support of the proposed partnership include:

- Promote the health and overall well-being of the health care consumers who purchase insurance products from the Insurers by promoting each Insurer's best products and services.
- Efficiently use the data of each sponsoring health system to facilitate superior clinical outcomes.
- Achieve a more competitive position for each Insurer regionally and statewide through economies of scale through the combination of back-office functions such as claims management, regulatory, data warehouse, underwriting and sales.
- Develop a geographically cohesive care network in Wisconsin and contiguous states.

Transaction Documents

The proposed transaction will be effected through an **Exchange Agreement** (dated December 18, 2015), as well as other supporting agreements (which will become effective on the Closing Date) [collectively, the "**Transaction Documents**"]. Below is a high level description of the Transaction Documents.

⁵ GHS and UHC Board Resolutions approving the proposed transaction were included as Exh. X.

- **Exchange Agreement (Exhibit A)**: The Parties will accomplish the partnership through an agreement to exchange the membership rights in GHP with the stock of Unity. GHS will take a 25% interest in Unity, and UHC will take a 75% interest in GHP through the exchange of Unity stock and GHP member interests, pursuant to the terms of this Exchange Agreement.
- **UHC/GHS Agreements (Exhibits B and C)**: In conjunction with the Exchange Agreement, UHC and GHS will enter into the following ownership/membership agreements setting-forth each party's ownership/membership rights, respectively, in Unity and GHP:
 - **Unity Stockholders Agreement [Exhibit B]**
 - **GHP Members Agreement [Exhibit C]**
- **Quartz Agreements (Exhibits D and E)**: Also in conjunction with the Exchange Agreement, Unity will transfer all of its issued and outstanding shares in its wholly-owned subsidiary (SPWI TPA, Inc. d/b/a "Quartz") to UHC. [Quartz is a management services company which will provide management and administrative services to both Insurers post-transaction.] Quartz will subsequently become a subsidiary of UHC and GHS, pursuant to the following agreements:
 - **Stock Transfer Power [Exhibit D]**: On the closing date of the transaction, UHC will transfer 25% of its shares in Quartz to GHS pursuant to a Stock Transfer Power. [As a result, GHS will own 25% and UHC will own 75% of the issued and outstanding shares in Quartz.]
 - **Quartz Stockholders Agreement [Exhibit E]**: On the closing date of the transaction, UHC and GHS will enter into the Quartz Stockholders Agreement governing their relationship as stockholders of Quartz.
- **Unity/GHP Management Agreements (Exhibits F and G)**: The Insurers will enter into the following management agreements with Quartz pursuant to this transaction:
 - **Insurers' Management Agreements (Exhibit F)**: Each Insurer will enter into agreements with Quartz, whereby Quartz will provide management and administrative services to the Insurer. [Note: The Insurers intend to consolidate, to the extent feasible, management and administration of the Insurers in Quartz.]
 - **Employee Leasing Agreements (Exhibit G)**: GLAS and Unity will enter into Employee Leasing Agreements for the provision of services to the Insurers until January 1, 2017 (at which time management and administrative employees of GLAS and employees of Unity will become employed directly by Quartz).
- **Amended Articles and Bylaws – GHP, Unity and Quartz (Exhibits H – J)**: Pursuant to the transaction, the following Articles and Bylaws will be amended to conform with the Transaction Documents:
 - **GHP Bylaws and Articles (Exhibits H and I)**
 - **GHP Articles (Exhibit I)**
 - **Unity Bylaws (Exhibit J)**

Item 1: Method of Acquisition; Transaction Documents

The proposed transaction will be effected through an Exchange Agreement (dated December 18, 2015), as well as other supporting agreements described above (which will become effective on the Closing Date) [collectively, the “**Transaction Documents**”].

Exchange Agreement (Exhibit A):

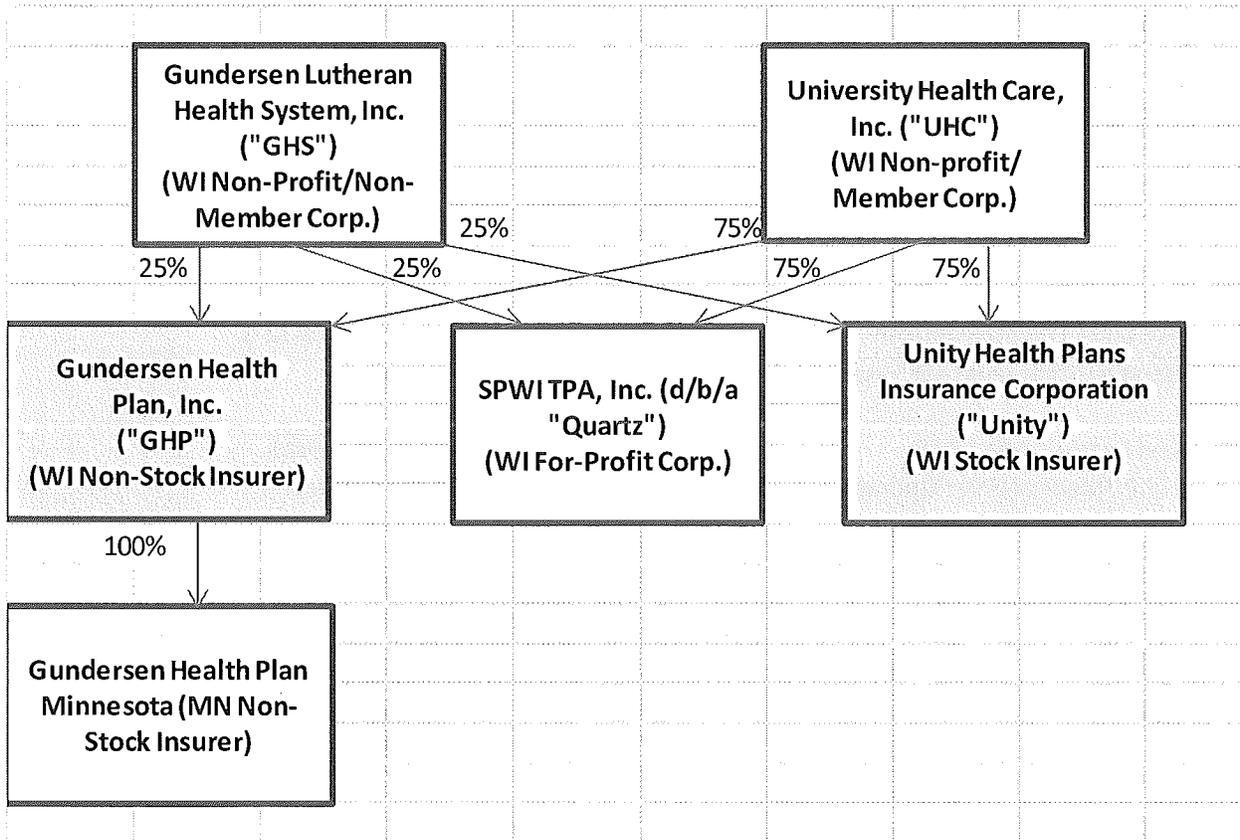
GHS, the ultimate controlling person of GHP, and UHC, the ultimate controlling person of Unity, intend to enter into an Exchange Agreement under which UHC will transfer 25% of its stock in Unity to GHS, and GHS will transfer 75% of its membership rights in GHP to UHC. Material terms regarding the exchange are restated below:

- 1.1 (b) – Exchange at Closing: Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date (i) GHS shall cause GHP to deliver to UHC free and clear of all Liens (excluding any Liens imposed pursuant to the Restated Organizational Documents), and UHC shall acquire and accept from GHP, seventy-five percent (75%) of all Membership Rights of GHP, (ii) UHC shall contribute, transfer, assign, convey and deliver to GHS free and clear of all Liens (excluding any Liens imposed pursuant to the articles of incorporation, bylaws and shareholder agreements of or related to Unity), and GHS shall acquire and accept from UHC, twenty-five percent (25%) of all issued and outstanding capital stock of Unity, and (iii) GHS shall contribute an amount of cash to GHP equal to the GHS Closing Contribution (the transactions contemplated by the foregoing clauses (i), (ii) and (iii), the “Exchange”). “GHS Closing Contribution” means the amount of cash necessary to make the Closing GHP Capital and Surplus plus the GHS Closing Contribution equal to one-third (1/3) times the Closing Unity Capital and Surplus.
- 1.3 – Exchange Adjustment:
 - (a) Promptly after they become available, (i) UHC shall deliver to GHS and the Chief Financial Officer of Quartz (or such other financial officer as agreed to by the Parties) the Audited Unity 2015 Financial Statements, and (ii) GHS shall deliver to UHC and the Chief Financial Officer of Quartz (or such other financial officer as agreed to by the Parties) the Audited GHP/GHM 2015 Financial Statements. Promptly after the RI-RA Payments Report becomes available to the public (but no later than thirty (30) days after such time), the Parties shall cause the Chief Financial Officer of Quartz (or such other financial officer as agreed to by the Parties) to deliver to the Parties his or her good faith calculation of Audited Adjusted GHP Capital and Surplus and Audited Adjusted Unity Capital and Surplus, in each case together with supporting information therefor.
 - (b) Promptly after delivery to the Parties of the calculations of Audited Adjusted GHP Capital and Surplus and Audited Adjusted Unity Capital and Surplus as contemplated by Section 1.3(a) (but no later than ninety (90) days after the RI-RA Payments Report becomes available to the public), (i) if Audited Adjusted GHP Capital and Surplus is less than one-third (1/3) of Audited Adjusted Unity Capital and Surplus, then GHS shall contribute an amount of cash to GHP equal to the Adjustment Contribution, and (ii) if Audited Adjusted GHP Capital and Surplus is more than one-third (1/3) of Audited Adjusted Unity Capital and Surplus, then UHC shall contribute an amount of cash to Unity equal to the Adjustment Contribution. “Adjustment Contribution” means the amount of cash necessary to make the Audited Adjusted GHP Capital and Surplus equal to one third (1/3) of the Audited Adjusted Unity Capital and Surplus.

(c) If there is a restatement of the Audited Unity 2015 Financial Statements or the Audited GHP/GHM 2015 Financial Statements prior to the payment of the Adjustment Contribution, such restated financial statements shall be used for the calculation of the Adjustment Contribution and for the adjustment contemplated by this Section 1.3. If there is a restatement of the Audited Unity 2015 Financial Statements or the Audited GHP/GHM 2015 Financial Statements after the payment of the Adjustment Contribution, such restated financial statements will not result in an adjustment pursuant to this Article I and recourse with respect to such restated financial statements shall only be available pursuant to the terms of Article X [Indemnification].

Item 2: Identity/Background of the Applicants; Pre- and Post-Transaction Organizational Structure

The identities of the Applicants were previously discussed. Current (unabbreviated) organizational charts for UHC and GHS were provided as **Exhibits L and M**. The post-transaction organizational chart was provided as **Exhibit N**, and is depicted below:



There are no court proceedings involving a reorganization or liquidation pending with respect to any entities shown in **Exhibits L through N**.

Item 3: Identity and Background of Individuals Associated with the Applicant

Officers and Directors of the Applicants

A list of the principal officers and directors of Applicant UHC was included as **Exhibit O**.

A list of the principal officers and directors of Applicant GHS was included as **Exhibit P**.

Proposed Officers and Directors of the Insurers

Pursuant to the proposed transaction, the Board of Directors for both Insurers will change. Each Insurer (GHP and Unity) will have nine (9) directors, selected as follows:

- 3 Directors designated by GHS
- 3 Directors designated by UHC
- 3 Independent Directors

The Bylaws of both Insurers provide for 3 classes of directors, with one director each from GHS and UHC, and one independent director in each class.

Proposed GHP Directors & Officers:

<i>GHS Appointed Directors:</i>	<i>UHC Appointed Directors:</i>
Jerry Arndt Retired Gundersen Lutheran Health System, Inc.	Michael E. Dallman, FACHE President, UHC Sr. V.P. Regional Affairs, UW Health
Dara Bartels Interim Chief Financial Officer Gundersen Lutheran Health System, Inc.	Robert W. Flannery Chief Administrative Officer & CFO UW Medical Foundation
Michael J. Dolan, MD, FACP Exec. V.P./Medical Chief Operating Officer Gundersen Lutheran Health System, Inc.	Jonathan Jaffrey, MD, MS, MMM Chief Population Health Officer UW Medical Foundation
<i>Independent Directors:**</i>	<i>Proposed GHP Officers*</i>
James Falck Consultant - Personal Finance and Credit Decorah, Iowa	Terry R. Bolz (President & CEO) (Unity) Gary Lenth, MD (Chief Medical Officer and EVP) (GHP) James L. Hiveley (V.P. Finance/Treasurer/CFO) (Unity) Christine C. Senty (V.P./Secretary/Gen. Course) (Unity)
Director - Open	
Director - Open	*Except for Dr. Lenth, the proposed officers will hold the same position they currently hold with Unity or GHP.

****Note:** Pursuant to the requirements of Iowa law pertaining to directors of HMOs, 30% of the directors are required to be enrollees who are independent from the HMO. As such, GHP's Bylaws provide that 3 of the 9 directors shall be independent enrollees of the HMO, who shall be appointed by a vote of no less than 5 of the sitting directors. UHC and GHS have appointed one of these positions, and are seeking a candidate to fill the second. They have chosen to leave the third independent enrollee director position vacant until the GHP board's first meeting.

Proposed Unity Directors & Officers:

<i>GHS Appointed Directors:</i>	<i>UHC Appointed Directors:</i>
Jerry Arndt Retired Gundersen Lutheran Health System, Inc.	Michael E. Dallman, FACHE President, UHC Sr. V.P. Regional Affairs, UW Health
Dara Bartels Interim Chief Financial Officer Gundersen Lutheran Health System, Inc.	Robert W. Flannery Chief Administrative Officer & CFO UW Medical Foundation
Michael J. Dolan, MD, FACP Exec. V.P./Medical Chief Operating Officer Gundersen Lutheran Health System, Inc.	Jonathan Jaffrey, MD, MS, MMM Chief Population Health Officer UW Medical Foundation
<i>Independent Directors:**</i>	<i>Proposed Unity Officers*</i>
John Sickel Executive Vice President River Valley Bank	Terry R. Bolz (President & CEO) (Unity) Gary Lenth, MD (Chief Medical Officer and EVP) (GHP) James L. Hiveley (V.P. Finance/Treasurer/CFO) (Unity) Christine C. Senty (V.P./Secretary/Gen. Counsel) (Unity)
Director - Open	
Director - Open	*Except for Dr. Lenth, the proposed officers will hold the same position they currently hold with Unity or GHP.

****Note:** Pursuant to the Unity Bylaws, UHC and GHS will each appoint one of the independent directors. The third independent director is appointed by a vote of no less than five of the sitting directors. UHC and GHS have chosen to leave the ninth director position vacant until the Unity board's first meeting. In addition, the individual chosen by GHS as an independent director is now unable to participate and GHS is seeking another individual to serve in this position.

Biographical Affidavits were obtained and reviewed for all Officers and Directors of UHC and GHS, and the proposed Officers and Directors of Unity and GHP (Biographical Affidavits that were previously filed with OCI and are incorporated herein). Review of the Biographical Affidavits did not identify any exceptional responses requiring further comment.

Item 4: Nature, Source and Amount of Consideration

As previously discussed, the proposed transaction entails an exchange of 75% of GHP's membership rights to UHC, and 25% of Unity's capital stock to GHS. The Transaction also anticipates a possible cash contribution by GHS to GHP or cash contribution by UHC to Unity at closing, which will be equal to the amount necessary to make GHP's statutory capital and surplus equal to one-third of Unity's statutory capital and surplus on the Closing Date.⁶ [In the event that GHP's statutory capital and surplus is greater than one-third of Unity's, UHC will make the necessary cash contribution to Unity.]

The amount to be contributed by GHS at Closing will be based on a formula that is specified in Section 1.1(b) of the Exchange Agreement. All funds contributed by GHS to GHP (or from UHC to Unity) will come from existing GHS operating funds (no funds will be borrowed). The final calculation will be based on the audited December 31, 2015 statutory statements, plus/minus the CMS reported Risk Adjustment and Reinsurance (reported in June 2016), plus any additional capital contributed by GHS or UHC. [The intent is to allocate ownership of the two Insurers 75%/25% to UHC and GHS, respectively.]

Item 5 – Applicant's Future Plans for the Insurer; Management/Administration

The Parties have no current plans to declare an extraordinary dividend, liquidate the Insurers, sell the Insurers' assets, or merge the Insurers. Proposed changes to the corporate structure and management are discussed in other sections of the Form A.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

⁶ The Management of Unity and GHP agreed that statutory book value is the appropriate value for this transaction. Management worked with external tax advisors and an external valuation firm to determine whether the various transactions involved with this agreement are factually sound. The valuation firm valued each transaction using various methods: Residual Income Analysis, Comparable Public Company analysis, and Comparable Transaction Analysis.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Management and Administrative Services: The Insurers will each enter into separate management agreements with Quartz (**Exhibit F**), whereby Quartz will provide certain specified management and administrative services to each Insurer. Each Insurer's Board of Directors will retain oversight authority over the management and administrative services provided by Quartz. Quartz will be reimbursed for services provided based on the actual cost of providing such services. In the event of termination, both management agreements require Quartz to continue to provide the services for a period reasonably necessary for the Insurers to transfer the services to a different provider.

Item 6 – Voting Securities to be Acquired; Governance Documents

As previously discussed, pursuant to the Exchange Agreement, GHS will acquire from UHC a 25% equity interest in Unity and Quartz.⁷ GHS's 25% equity interest in Unity will equal 25,000 issued and outstanding Unity shares, and its 25% equity interest in Quartz will equal 25 issued and outstanding Quartz shares.

In addition, UHC will acquire a 75% membership interest in GHP. The Bylaws of GHP provide for 100 membership rights in GHP. UHC's 75% of GHP's membership rights will equal 75 membership rights.

The Applicants will enter into a Members Agreement (**Exhibit C**) with respect to the governance of their membership rights in GHP. In addition, the Applicants will enter into Stockholders Agreements (**Exhibits B and E**) with respect to the governance of their equity holdings in Unity and Quartz, respectively. The Members and Stockholders Agreements address mandatory and elective capital contributions, restrictions on transfer and the right of first refusal, certain payments with respect to potential loss of the Wisconsin Dept. of Employee Trust Funds business, corporate governance, reserve powers, and dispute resolution.

The Bylaws of GHP, Unity and Quartz (**Exhibits H, J, and K**) and GHP's Articles (**Exhibit I**) will be amended on the Closing Date to conform with the Transaction documents.

Item 7 – Ownership of Voting Securities

Other than as described in the Form A filing, neither of the Applicants nor any of their affiliates nor any persons identified in Item 3 have any right to acquire beneficial ownership in the Insurers.

Item 8 – Contracts, Arrangements, or Understandings with Respect to Insurer Voting Securities

Other than as described in the Form A filing, neither of the Applicants nor any of their affiliates nor any persons identified in Item 3 have any contracts, arrangements or understandings with respect to any voting security of the Insurers.

Item 9 – Recent Purchases of Voting Securities

Neither of the Applicants nor any of their affiliates nor any person identified in Item 3 has purchased any voting securities of the Insurers.

⁷ In conjunction with the Exchange Agreement, Unity will transfer all of its issued and outstanding shares in its wholly-owned subsidiary (SPWI TPA, Inc. d/b/a "Quartz") to UHC. A 25% equity interest in Quartz will then be subsequently transferred to GHS through a Stock Transfer Power (**Exhibit D**).

Item 10 – Recent Recommendations to Purchase

Neither of the Applicants nor any of their affiliates nor any person identified in Item 3, nor anyone else based on interviews or at the suggestion of the Applicants, their affiliates, or any person identified in Item 3, have made any recommendations to purchase any voting security of the Insurers during the twelve calendar months preceding the filing of this Form A.

Item 11 – Agreements with Broker-Dealers

Neither of the Applicants nor any of their affiliates have any contract, understanding, or agreement with any broker-dealers with respect to the solicitation of any voting securities issued by the Insurers.

Item 12 – Financial Statements/Financial Projections

UHC's consolidated audited financial statements for 2010 – 2014, and the 2015 year-to-date unaudited financial statements through September 30, 2015 were submitted as **Exhibit T**. Review of the financial statements did not identify any significant concerns pertaining to the acquiring Party UHC's recent financial trend, or financial condition.

The combined audited financial statements for the GHS obligated group (which excludes the ultimate parent company Gundersen Lutheran Health System, Inc., GHP, and other affiliates that are not included in the obligated group), and the 2015 year-to-date unaudited financial statements through September 30, 2015 were submitted as **Exhibit U**. The Applicant also submitted the Statement of Financial Position for the entire Gundersen Health System as of December 31, 2014, and September 30, 2015 in response to OCI's January 29, 2016 follow-up letter. [Per the Applicant, GHS has neither audited nor unaudited financial statements for the entire Gundersen Health System for the years prior to 2014.] Review of the financial statements did not identify any significant concerns pertaining to the acquiring Party GHS's recent financial trend, or financial condition.

5-Year Pro forma financial projections (2016 – 2020) for Unity and GHP were submitted as **Exhibit W**. The Pro Formas anticipate \$21 million of capital contributions into Unity from 2016 – 2018, with UHC contributing 75% and GHS contributing 25% of any capital contributions. Management estimates that \$21 million will be needed by the entities to address three main areas: (a) ITS integration for both entities involving infrastructure systems, claim/enrollment processing systems, data warehouse systems, web portal systems, telecom systems and security; (b) branding and marketing of the new entity; and (c) research, development and selling the new products across all markets. Review of the financial projections did not identify any significant concerns pertaining to the Insurers' financial condition or ability to satisfy statutory capital requirements prospectively.

Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3) (am), Wis. Stat. (Grounds for Disapproval):

- a) After the change of control, the domestic stock insurance corporation, or any domestic stock insurance corporation controlled by the insurance holding corporation, would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed?

Did the Filing Adequately Address this Concern? Yes

Comments: Review of the Pro Forma financial statements for Unity and GHP did not raise any significant concerns regarding the ability of the Wisconsin Domestic Insurers to satisfy Wisconsin's licensure requirements.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

Did the Filing Adequately Address this Concern? Yes

Comments: The UHC and Gundersen service areas do not have significant overlap. Moreover, the plan is to have Unity focus on commercial business, and GHP on government program business. Therefore, the acquisition is not likely to have a significant impact the competitive market in Wisconsin. [Note: The transaction did not meet the reporting thresholds under the Hart-Scott-Rodino Antitrust Improvements Act.]

- c) The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders?

Did the Filing Adequately Address this Concern? Yes

Comments: Review of the Form A did not raise any significant concerns regarding the financial condition of either UHC or Gundersen.

- d) The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest?

Did the Filing Adequately Address this Concern? Yes

Comments: Review of the Form A did not indicate any plans or proposals that would jeopardize the Wisconsin Domestic Insurers, their policyholders, or the public interest.

- e) The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of policyholders of the corporation and of the public to permit the merger or acquisition of control?

Did the Filing Adequately Address this Concern? Yes

Comments: Review of the Biographical Affidavits did not raise any concerns regarding the competence or integrity of the Officers and Directors of the Applicants, nor the proposed Officers and Directors of the Wisconsin Domestic Insurers.

Hearing: Per s. 611.72 (3m), Wis. Stat.: “A hearing is not required under sub. (3) before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer.” If a hearing required for this filing?

Yes. Applicant Gundersen will acquire 25% control of Unity, and Applicant UHC will acquire 75% control of GHP. Therefore, the controlling persons of Unity and GHP will change; a hearing is required.

Follow-up Items

The Applicant, per letter dated February 19, 2016, adequately addressed the issues identified in OCI’s January 29, 2016 application follow-up letter.

Conclusion

It is recommended that the proposed acquisition of control of Unity Health Plans Insurance Corporation by Gundersen Lutheran Health System, Inc., and the proposed acquisition of control of Gundersen Health Plan, Inc. by University Health Care, Inc., be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.

