

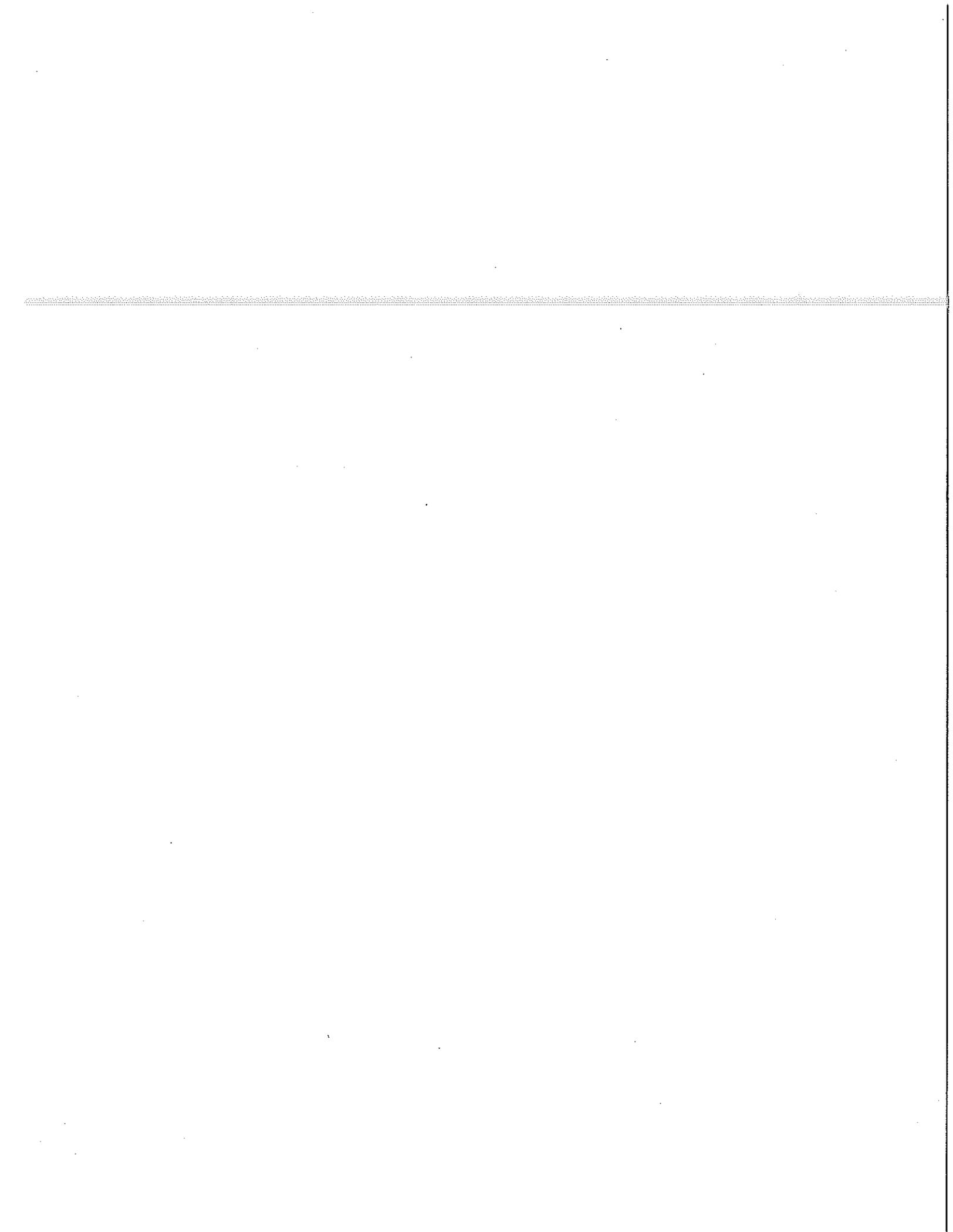
Exhibit 28

[REDACTED]

**Applicant's Response dated January 6, 2015 to OCI's Form A follow-up
letter dated December 30, 2014**

[Re: Exhibits 6-15]

Exh #	28
Date	1-12-15
Case	15-C40481
Ins. Comm.	





33 East Main Street
Suite 900
Madison, Wisconsin 53703
608.251.5000
Fax 608.251.9166
www.quarles.com

Attorneys at Law in
Chicago
Indianapolis
Madison
Milwaukee
Naples
Phoenix
Scottsdale
Tampa
Tucson
Washington, D.C.

Writer's Direct Dial: 608.283.2434
E-Mail: william.toman@quarles.com

January 6, 2015

**VIA EMAIL (KRISTIN.FORSBERG@WISCONSIN.GOV;
PETER.MEDLEY@WISCONSIN.GOV)
READ RECEIPT REQUESTED**

Kristin L. Forsberg, Insurance Financial Examiner
Peter Medley, Deputy Director
Bureau of Financial Analysis and Examinations
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53707-7873

**RE: Form A - Acquisition of Control of MercyCare Insurance Company and
MercyCare HMO, Inc. by Interstate Alliance, Inc.**

Dear Ms. Forsberg and Mr. Medley:

Thank you for your letter dated December 30, 2014 regarding this Form A filing. Your inquiries are set forth in bold below followed by the responses of Interstate Alliance.

1. **Rockford Health System ("RHS"): RHS is a non-stock Illinois corporation. Please identify:**

(a) **The corporate members of RHS, and their representation on the RHS board of directors, or alternatively,**

RHS has no members. See Article II of the RHS bylaws attached as Exhibit 6 (continuing the exhibit numbering of the Form A).

(b) **If RHS has no corporate members, please discuss how the RHS board members are chosen.**

All RHS directors except the RHS President and Chief Executive Officer -- who is automatically a director in an ex officio capacity with vote -- are elected by the

RHS board of directors from individuals nominated by the governance advisory committee (or by another committee established pursuant to the RHS bylaws. See § 3.4 of the RHS bylaws attached as Exhibit 6.

(c) Please provide a current copy of the RHS Bylaws.

A copy of the current RHS bylaws is enclosed as Exhibit 6.

2. Purpose of the Proposed Transaction: Please state:

- (a) What are the objectives RHS hopes to achieve if the proposed transaction is consummated? How will the proposed transaction specifically benefit RHS and its subsidiaries?**
- (b) What are the objectives Mercy Alliance, Inc. ("MAI") hopes to achieve if the proposed transaction is consummated? How will the proposed transaction specifically benefit MAI, and MCIC and MCHMO?**

Many of the objectives of the proposed transaction are shared by both parties, and are set forth below. The objectives specific to each party are set forth on the enclosed Exhibit 7.

Founded within months of each other, in 1883, Mercy Health System and Rockford Health System have a long and proud tradition of excellence and community service. The new combined system both honors those legacies and creates a new and exciting shared future that will continue the tradition of excellence in patient care both organizations have built.

The merger was motivated by each organization's desire to more fully serve patients. It provides significant benefits for both parties and their respective patients. Both will retain their mission and identity while simultaneously expanding the services available to patients throughout northern Illinois and southern Wisconsin. The merger protects the legacy of care each system has built and builds upon those legacies.

The new combined system creates a strong multi-regional health system offering a tremendous breadth and depth of services, with nationally recognized quality outcomes. As neighboring systems in the Stateline area, this merger builds on the patterns of how people live, work, play and shop within the geographic footprint. It provides to both systems, the opportunity to innovate, take advantage of synergies, explore economies of scale, recruit excellent providers, improve community health and effectively respond to healthcare reform.

Patients will continue to experience the high quality care they have come to expect from Mercy Health System and Rockford Health System. Going forward,

patients will have access to more services and specialties than ever before, with the added benefit of seamless coordination of care that is most optimally achieved through a close partnership. Access to additional services, plus the coordination and streamlining of care, will benefit patients and the communities the two health systems serve.

3. **Prior Merger Attempts - Cadence and OSF:** It is our understanding that RHS recently entered into separate merger negotiations with Cadence Health and OSF Healthcare System, and that these negotiations were terminated prior to closure. Please discuss the rationale as to why each transaction was terminated prior to closure.

After conducting mutual due diligence, RHS and Cadence Health determined that there was not a good fit from a geographic or strategic perspective. Cadence subsequently merged with Northwestern Memorial Healthcare on September 1, 2014.

The negotiations with OSF Healthcare System terminated because it was clear that the FTC would not allow the merger given that it would diminish competition within the Rockford market area

4. **Biographical Form A's:**

- (a) Please submit signed and notarized Biographical Form A's (OCI Form 21-200 (R 09/2005)) for the Interstate Alliance directors and executive officers set forth in Exhibit 4 to the Form A. [Note: If this biographical information was previously submitted in conjunction with a Form B holding company registration statement filed with OCI -please state this in your response.]

While we are surprised that you are requesting biographical affidavits for the officers and directors of parent corporation when they are only explicitly required for the officers and directors of insurance companies, we are diligently seeking those biographical affidavits and we will provide them as soon as possible. As I mentioned, at least one of the directors is out of the country at this time, and the MAI representatives on the Interstate Alliance board – Rowland McClellan, Tom Pool, Javon R. Bea, Mark Goelzer, M.D., and Dave Syverson – have previously submitted biographical affidavits in their capacities as officers and directors of MCIC and MCHMO.

We will provide you with the biographical affidavits we have as we secure them – and we appreciate your accommodations with respect to notarization and copies – but we hope any missing affidavit or affidavits will not delay the hearing or final decision on this Form A.

- (b) Please provide a list of the current MAI board of directors.

A list of the post-transaction MAI directors is enclosed as Exhibit 8. The current MAI directors are the first seven individuals in the list.

- (c) **Please identify which RHS directors would be added to the MAI board in January 2015.**

The RHS representatives to be added to the MAI board in January 2015 are the last two individuals in the list enclosed as Exhibit 8.

5. **Ziegler Analysis:** We understand that Ziegler Investment was engaged to provide a bond rating analysis using the consolidated financial projections of MAI and RHS. Please provide a copy of this analysis.

A copy of the analysis by Ziegler Investment is enclosed as Exhibit 9.

6. **Hart-Scott-Rodino Anti-Trust (HSR) Determination:** Please provide a copy of the FTC's determination as to whether the proposed transaction will/will not adversely affect U.S. Commerce under the federal anti-trust laws (when available).

The proposed transaction is exempt from the HSR reporting requirements pursuant to 16 CFR §802.40, entitled "Exempt formation of corporations or unincorporated entities." The FTC has made no determination concerning the effect of the proposed transaction on competition in any market.

7. **Debt Service Coverage Ratio:**

- (a) **Please provide the Debt Service Coverage Ratio for both RHS and MAI for the last 5 fiscal years.**

The debt service coverage ratios for both RHS and MAI for the last 5 fiscal years are enclosed as Exhibit 10.

- (b) **Does RHS try to maintain a minimum threshold for this ratio? If so - what is the minimum threshold?**

Exhibit 10 shows that RHS bond covenants require it to maintain a debt service coverage ratio of at least 1.10. RHS performs well in excess of this debt service coverage ratio, and it seeks to maintain a ratio that is consistent with Moody's metrics for "A" rated organizations.

- (c) **Does MAI try to maintain a minimum threshold for this ratio? If so - what is the minimum threshold?**

Exhibit 10 shows that MAI bond covenants require it to maintain a debt service coverage ratio of at least 1.25. MAI performs well in excess of this debt service

coverage ratio, and it seeks to maintain a ratio that is consistent with Moody's metrics for "A" rated organizations.

8. Financial Statements:

- (a) **Please provide audited consolidated financial statements for RHS for the Fiscal Years ended December 31, 2012, 2011, 2010 and 2009, and 2014 year-to-date (unaudited) financial statements.**

Audited consolidated financial statements for RHS for the fiscal year ended December 31, 2012 are included as Exhibit 5 to the Interstate Alliance Form A. Audited consolidated financial statements for RHS for the fiscal years ended December 31, 2011 and 2010 are enclosed as Exhibit 11. Audited consolidated financial statements for RHS for the fiscal years ended December 31, 2010 and 2009 are enclosed as Exhibit 12. Audited consolidated financial statements for RHS as of September 30, 2014 are enclosed as Exhibit 13.

- (b) **Please provide audited consolidated financial statements for MAI for the Fiscal Year ended June 30, 2014, and the most recent (unaudited) 2014-15 year-to-date financial statements.**

Audited consolidated financial statements for MAI for the fiscal years ended June 30, 2014 and 2013 are enclosed as Exhibit 14. Unaudited consolidated financial statements for MAI as of September 30, 2014 are enclosed as Exhibit 15.

9. Capital Commitment - section 7.3 of the System Formation Agreement

- (a) **It was difficult to understand section 7.3. What is "the Mercy Commitment" (referred to in 7.3 (b) but not clearly defined)? Of the "at least \$250 million" in Routine Capital and Growth Capital to be spent on RHS entities in the next five years, how much is MAI expected to provide?**



[REDACTED]

[REDACTED]

- (b) We noted that RHS depreciates fixed assets up to 40 years, whereas MAI depreciates fixed assets for no longer than 25 years. (RHS may change its depreciation policies to be consistent with MAI's in the near future.) After the initial capital investment of \$250 million in RHS over 5 years, what is the expected amount of RHS' subsequent depreciation expense, for 80% of which Interstate Alliance will have an on-going obligation to fund additional capital investments (presumably funded in full or in part by MAI)?

[REDACTED]

- (c) Section 7.3 (c) appears to establish that the RMDF (which appears to control about \$132 million) is not required to fund any of the capital investments described in section 7.3. Why is there no commitment for the RMDF to contribute a specific sum to the needed capital improvements for RHS?

[REDACTED]

Kristin L. Forsberg, Insurance Financial Examiner
Peter Medley, Deputy Director
January 6, 2015
Page 7

[REDACTED]

* * * *

Please note that Exhibits 7 and 9 contain confidential information that could put Interstate Alliance, Mercy, and RHS at a competitive disadvantage if it is released to the public. Interstate Alliance, Mercy, and RHS use reasonable efforts to keep this information confidential. Therefore, the information is a "trade secret" under Wis. Stat. § 134.90(1)(c) because it "derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use [and] is the subject of efforts to maintain its secrecy that are reasonable under the circumstances." As you know, a trade secret is exempt from the public records law under § 19.36(5) and Wis. Admin. Code § Ins 6.13(2). Also, OCI may withhold this information from public disclosure under § 601.465 and § Ins 40.05. In line with these provisions, we request that you do not release Exhibits 7 or 9 to the public and, to facilitate that request, we are providing them under separate cover.

We hope this information is responsive to your inquiries. If you have any questions, please do not hesitate to contact me or Paul Van Den Heuvel, Vice President and General Counsel of Mercy Health System, at 608-756-6158 or pvandenheuvel@mhsjvl.org. Thank you for your expedited consideration.

Very truly yours,
QUARLES & BRADY LLP



William J. Toman

Enclosures
cc(w/enc.): Paul T. Van Den Heuvel

