



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: October 29, 2014 - Redacted

TO: Rebecca Easland
Steve Caughill

FROM: Kristin Forsberg

SUBJECT: Form A – Acquisition of Control of Network Health Plan and Network Health Insurance Corporation by Froedtert Health, Inc. [Case No. 14-C40237]

Form A filing contacts:

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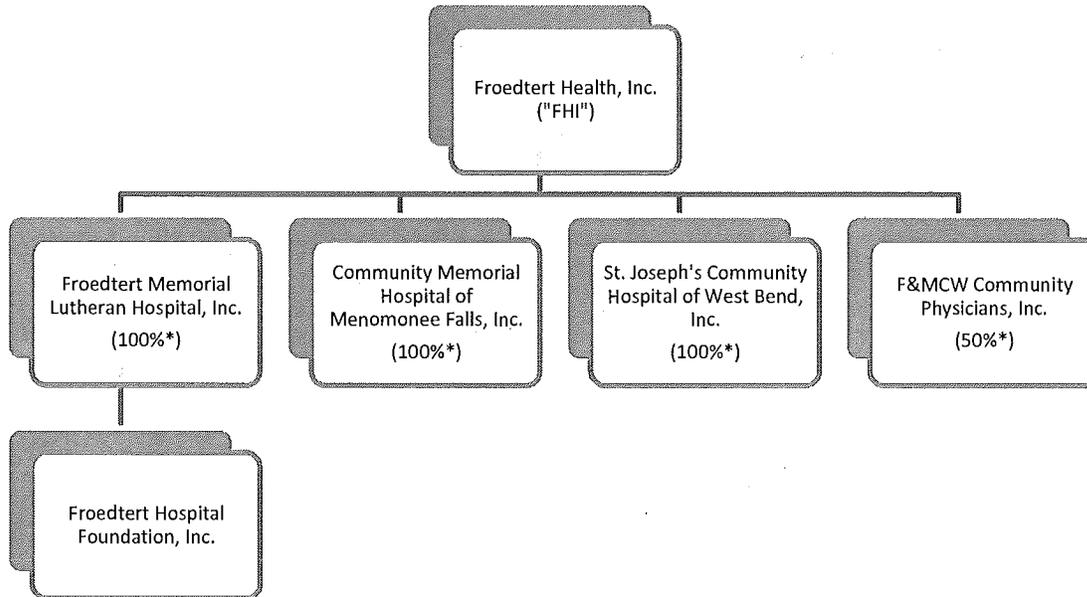
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Parties to the transaction:

The Acquirer/Applicant:

- Froedtert Health, Inc. ("Applicant" or "FHI"): The Applicant, located in Milwaukee, Wisconsin was organized as a Wisconsin non-stock corporation on December 28, 2000. The Applicant is the parent organization that controls, directly and/or indirectly, a regional health care network as depicted in the following organizational chart<sup>1</sup>:



\*Membership Interest held by FHI.

Summary of Key Affiliates:

- Froedtert Memorial Lutheran Hospital, Inc. (Milwaukee, WI): An academic hospital that is the primary adult teaching affiliate of the Medical College of Wisconsin, Inc. [WI non-stock/non-profit corp.]
- Community Memorial Hospital of Menomonee Falls, Inc. (Menomonee Falls, WI): A general acute care community hospital. [WI non-stock/non-profit corp.]
- St. Joseph's Community Hospital of West Bend, Inc. (West Bend, WI): A general acute care community hospital. [WI non-stock/non-profit corp.]
- Froedtert & The Medical College of Wisconsin Community Physicians, Inc.: A Wisconsin non-stock/non-profit corporation which owns and operates primary and multi-specialty physician clinics.
- Other corporations and legal entities: Engaged directly or indirectly in the delivery of health care and related activities and services in southeastern Wisconsin.

The Party to be Acquired (directly):

<sup>1</sup> The Froedtert Health system currently does not include an insurance company.

The Party to be Acquired (directly):

- **Ministry Holdings, Inc. ("MHI")<sup>2</sup>:** MHI is a non-stock Wisconsin holding company that was formed in 2013 pursuant to a holding company restructuring that created separate reporting structures for Ministry's insurance and medical service operations. MHI operates as the holding company for two wholly-owned Wisconsin insurance subsidiaries: **Network Health Plan ("NHP")**, and **Network Health Insurance Corporation ("NHIC")**.

MHI's sole corporate member is **Ministry Health Care, Inc. ("Ministry" or "MHC")**, headquartered in Milwaukee, WI, which is considered to be the ultimate controlling person in the non-profit holding company system for purposes of statutory holding company reporting. Ministry is a Catholic-sponsored parent corporation to tax exempt health care providers located in Wisconsin and Minnesota, as well as two Wisconsin health insurers (NHP and NHIC).

Ministry in turn is controlled by **Ascension Health**, a non-profit network of hospitals and related health facilities, headquartered in Edmundson, MO. Ascension Health is the largest Catholic/non-profit health system in the U.S., with 114 hospitals.

The Wisconsin Domestic Insurers to be Acquired (indirectly):

- **Network Health Plan, Inc. ("NHP"):** Is a Wisconsin corporation licensed under Wisconsin Statutes Chapter 611 as a for-profit health maintenance organization. NHP offers comprehensive HMO plans to individuals and groups in the Fox Valley region of Wisconsin.
- **Network Health Insurance, Inc. ("NHIC"):** Is a Wisconsin corporation licensed under Wisconsin Statutes Chapter 613 as a not-for-profit/non-stock health insurer. NHIC offers indemnity-type (POS) health plans to its commercial members and a Medicare Advantage (PPO) product to its Medicare members in the Fox Valley region of Wisconsin.

**The Proposed Transaction**

The Applicant intends to become a 50% corporate member of Ministry Holdings, Inc. ("MHI"), subject to all required regulatory approvals (including approval of this Form A by OCI), in accordance with the terms and conditions set forth in a Member Admission Agreement dated September 30, 2014 by and between the Applicant, Ministry Health Care, Inc. ("MHC" or "Ministry"), and MHI. [Since, MHI owns 100% of Network Health Plan's outstanding stock, and is the sole corporate member of Network Health Insurance Corporation, the proposed transaction would result in indirect control of two Wisconsin insurers.]

Below are the Applicant's comments regarding the objectives and benefits of the proposed transaction:

"As health care continues to emphasize population health management, the skills and resources of an entity that is involved in both health care delivery and insurance become increasingly complementary. If the proposed transaction is consummated, Froedtert hopes to develop and coordinate health care initiatives to improve the quality, delivery, and efficiency of health care in Wisconsin.

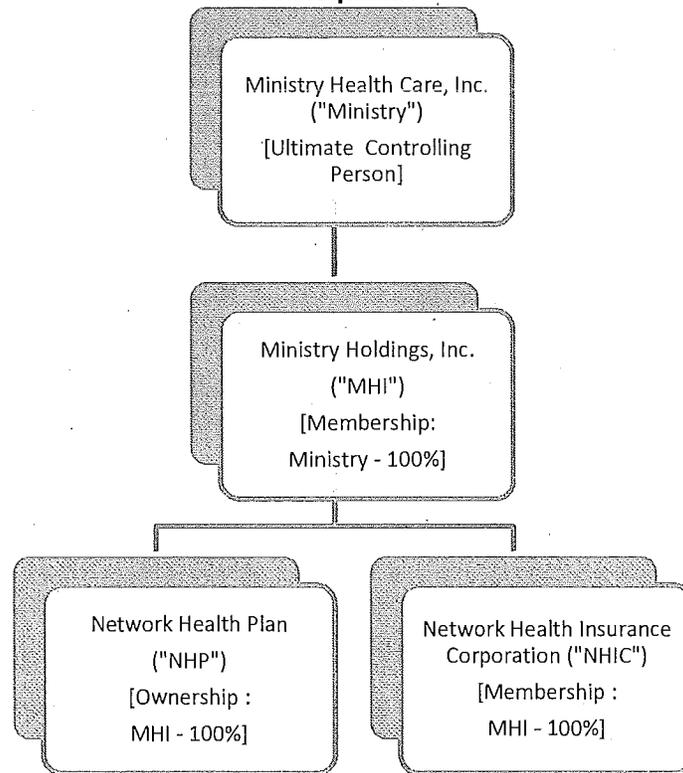
The proposed transaction will benefit Froedtert by diversifying and expanding Froedtert's (and its subsidiaries') business operations. The proposed transaction will benefit Ministry Holdings, Inc. (and its subsidiaries) by providing another strong Wisconsin health care organization to compliment Ministry Health Care, Inc. ("MHC") as the ultimate controlling entity of Network Health Plan and Network Health Insurance Corporation. The proposed transaction will also better position Network Health to expand its service area in southeastern Wisconsin and strengthen options for clinical integration."

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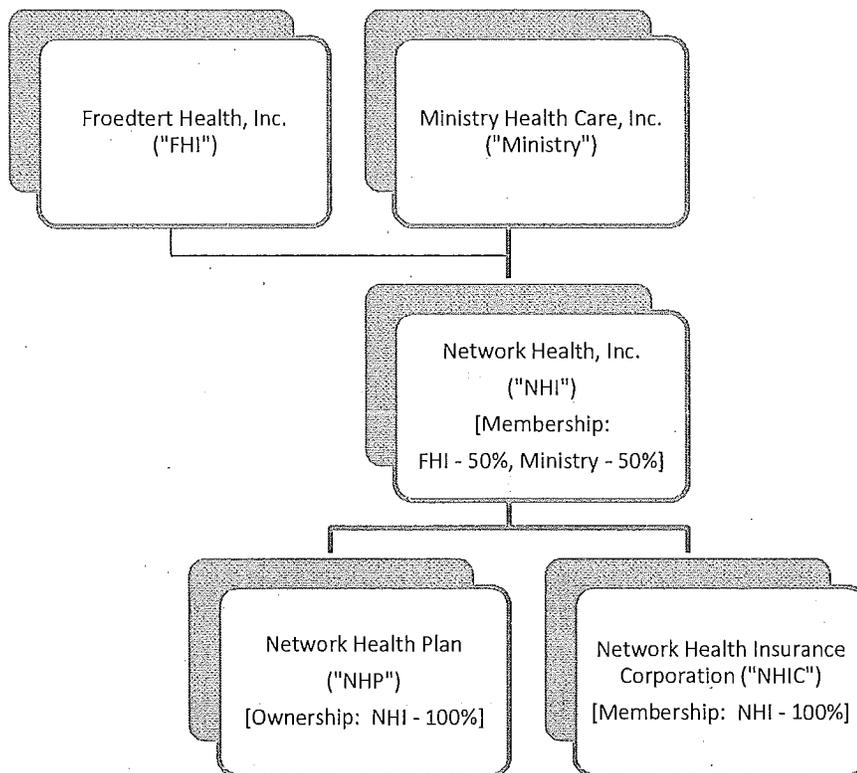
<sup>2</sup> In connection with the consummation of the transactions contemplated in the Member Admission Agreement, MHI's name will be changed to "Network Health, Inc.", and the Bylaws will be amended and restated to reflect FHI as a corporate member (in addition to MHC), and to reflect the new board composition (5 directors shall be appointed by FHI, and 5 directors shall be appointed by MHC).

**Organizational Charts – Pre- and Post-Acquisition (Abbreviated)**

**Pre-Acquisition**



**Post-Acquisition**



**Form A Filing - Analysis**

**Item 1: Method of Control: Member Admission Agreement**

Froedtert Health intends to become a member of MHI, pursuant to the terms and conditions of a Member Admission Agreement effective September 30, 2014, by and between MHC, MHI and Froedtert Health. In accordance with the Agreement, Froedtert Health will acquire a 50% interest in MHI (MHC will retain a 50% interest in MHI).

**Item 2: Identity and Background of the Applicant**

The name and address of the Applicant is:

Froedtert Health, Inc.  
9200 W. Wisconsin Ave.  
Milwaukee, WI 53226

There are currently no court proceedings involving a reorganization or liquidation pending with respect to the Applicant or any of its affiliates.

**Item 3: Identify and Background of Individuals Associated with the Applicant**

Biographical Affidavits were reviewed for the Directors and Executive Officers of the Applicant as listed below (there were no exceptional responses requiring further comment):

<i>Executive Officers:</i>			
Keith Allen	Dennis Pollard		
Catherine Mode Eastham	Peter Pruessing		
Scott Hawig	Dean Thomas		
Catherine Jacobson	Jonathon Truwit		
David Olson			
<i>Directors:</i>			
Ronald Bast	Catherine Jacobson	Mary Meehan	John Schlifske
Kurt Bechthold	David Larson	John Murphy	Kevin Steiner
Bruce Block	David Lubar	Robert Pieters	
Tonit Calaway	Vincent Lyles	Kristine Rappé	
Andre Fernandez	Gary Mecklenburg	Richard Schepp	

**Item 4: Nature, Source and Amount of Consideration**

The proposed transaction involves the execution of a Membership Admission Agreement, pursuant to which Froedtert Health will become a 50% corporate member of MHI. As consideration for this membership interest, Froedtert Health will pay MHC via wire transfer at Closing [REDACTED] to an account identified by MHC. [The consideration was determined based on arms-length negotiations between MHI, MHC and Froedtert Health, after review and consideration of independent professional appraisals engaged by Froedtert Health and MHC, and Froedtert Health's due diligence review.]

**Item 5: Future Plans of Insurer**

Froedtert Health and MHC intend that NHIC and NHP will continue to operate as they currently do, with the existing management in place. Upon closing of the proposed transaction, the Articles of Incorporation and Bylaws of MHI, NHIC and NHP will be amended and restated in full. [MHI's Articles will be amended

and restated to reflect its new name, Network Health, Inc., and its Bylaws will be amended and restated to reflect FHI as a corporate member (in addition to MHC), and to reflect the new board composition (5 directors shall be appointed by FHI, and 5 directors shall be appointed by MHC).]

After Froedtert Health is admitted as a member of MHI, MHI intends to expand certain plan offerings of NHP/NHIC into the Southeastern Wisconsin market. In order to accomplish this expansion, NHP will request OCI's non-disapproval of provider contracts and will also request OCI's approval of a business plan amendment with additional detail regarding Froedtert Health's future plans for NHP, including expansion of NHP's service area. NHP will submit to OCI a list of all contracted providers and hospitals to demonstrate the adequacy of NHP's provider network to meet the anticipated needs of NHP's members and participants in the expanded service area.

***The Applicant asserts that:***

- Froedtert Health has no current plans or proposals to declare an extraordinary dividend, to liquidate NHP/NHIC, to sell NHP/NHIC's assets, or to merge NHP/NHIC with any person or persons or to make any other material change in NHP/NHIC's business operations or corporate structure or management.
- Froedtert Health's assumption of a 50% corporate membership of MHI would be fair and reasonable (and not be contrary) to the interests of NHP/NHIC's policyholders, and would not:
  - i. Impact NHP/NHIC's ability to satisfy the requirements for the issuance of a license to write the lines of insurance for which NHP/NHIC are presently licensed;
  - ii. Create a monopoly or substantially lessen competition in insurance in Wisconsin;
  - iii. Jeopardize the financial stability of NHP/NHIC or MHI;
  - iv. Prejudice the interest of NHP/NHIC's policyholders or the public; or
  - v. Make a material change in NHP/NHIC's or MHI's business or corporate structure or management, or the competence or integrity of the persons who control the operations of NHP/NHIC or MHI.

**Item 6: Voting Securities to be Acquired**

As previously discussed, Froedtert Health will hold a 50% membership interest in MHI if this transaction is approved. MHI, in turn, will continue to be the sole owner of NHP's stock, and will remain the sole corporate member of NHIC. The fairness of the proposal was determined by arm's-length negotiations.

**Item 7: Ownership of Voting Securities**

Neither Froedtert Health, nor any of its affiliates, nor any person listed in Item 3, beneficially owns any voting securities of NHP/NHIC or has the right to acquire beneficial ownership of any voting securities of NHP/NHIC.

**Item 8: Contracts, Arrangements, or Understandings with Respect to Voting Securities of the Insurer**

Other than the **Members Agreement** (discussed below), there are no other contracts, arrangements or understandings among Froedtert Health, its affiliates or any person listed in Item 3 with respect to any voting securities of NHP or membership interest in NHIC.

**Item 9: Recent Purchases of Voting Securities**

None.

**Item 10: Recent Recommendations to Purchase**

None.

**Item 11: Agreements with Broker-Dealers**

None.

**Item 12: Financial Statements**

The Applicant submitted audited consolidated financial statements for the years ended June 30, 2008 – 2013, and unaudited financial statements for the 9 months ended March 31, 2014 for Froedtert Health and its affiliates. There were no significant issues or concerns noted that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of NHP or NHIC, or prejudice the interests of NHP or NHIC's policyholders.

Below is a summary of the 5-year consolidated financial results for Froedtert Health and its affiliates. [A summary key ratios that were used to assess the Applicant's financial trend is included in Appendix A.]

<b>Froedtert Health, Inc. and Affiliates - Consolidated Financials:</b>					
	<i>In thousands (except for ratios):</i>				
<b>For the FYE: June 30<sup>th</sup></b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Financials:</b>					
Patient Accounts Receivable	177,474	183,605	176,987	166,144	141,911
Current Assets	668,122	598,623	555,878	564,608	450,534
Total Assets	2,756,801	2,476,738	2,155,914	2,079,928	1,833,199
Current Liabilities	561,786	479,736	417,982	438,517	366,098
Long-Term Liabilities	644,338	656,251	604,322	557,980	555,003
Total Liabilities	1,206,124	1,135,987	1,022,304	996,497	921,101
Total Net Assets	1,550,677	1,340,751	1,133,610	1,083,431	912,098
Net Patient Revenue	1,588,466	1,501,898	1,378,019	1,288,749	1,173,014
Total Revenues	1,655,147	1,499,206	1,451,685	1,346,127	1,223,268
Total Expenses	1,571,406	1,414,814	1,368,793	1,303,392	1,173,728
Total Operating Gain/(Loss)	83,741	84,392	82,892	42,735	49,540
Total Non-Operating Gain/(Loss)	126,575	94,871	-8,544	113,047	55,176
Total Gain/(Loss)	210,316	179,263	74,348	155,782	104,716
Net Cash from Operations	193,151	207,845	159,121	98,308	146,452
<b>Ratios:</b>					
Total Margin	12.7%	12.0%	5.1%	11.6%	8.6%
Operating Margin	5.1%	5.6%	5.7%	3.2%	4.0%
Current Ratio	1.2	1.2	1.3	1.3	1.2
Days in Accounts Receivable	40.8	44.6	46.9	47.1	44.2
Debt Service Coverage	7.3	6.8	6.0	5.1	4.0
Equity Financing	56.2%	54.1%	52.6%	52.1%	49.8%

## Public Comments Regarding the Filing

No public comments have been received.

## Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), 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: As indicated in Item 5, the Applicant has no current plans or proposals to declare an extraordinary dividend, to liquidate NHP/NHIC, to sell NHP/NHIC's assets, or to merge NHP/NHIC with any person or persons or to make any other material change in NHP/NHIC's business operations or corporate structure or management.

- 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: Because there are no other insurers currently within the Froedtert Health holding company system, the proposed transaction will not create a monopoly, and is unlikely to substantially lessen competition in the State of Wisconsin.

- 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: There were no issues or concerns noted that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of NHP or NHIC, or prejudice the interests of their Wisconsin policyholders.

- 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: As indicated in Item 5, the Applicant has no current plans or proposals to declare an extraordinary dividend, to liquidate NHP/NHIC, to sell NHP/NHIC's assets, or to merge NHP/NHIC with any person or persons or to make any other material change in NHP/NHIC's business operations or corporate structure or management.

- 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 integrity of the Officers and Directors of Froedtert Health, Inc.

\*\*\*\*\*  
**Hearing Required? 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." Is a hearing required for this filing? (Y/N)**

Yes. The Applicant is not an affiliate of the insurer, and the proposed transaction will result in indirect control of NHP and NHIC (by becoming a 50% corporate member of MHI). Therefore, a hearing is required.

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**Follow-up Items**

The Applicant (per letters dated October 7, 2014 and October 10, 2014) adequately addressed the issues identified in OCI's September 17, 2014 and October 9, 2014 application follow-up letters, respectively.

**Conclusion**

It is recommended that the proposed acquisition of control of Network Health Plan and Network Health Insurance Corporation be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.

