



DATE: June 19, 2023
TO: Amy J. Malm
Mark McNabb
FROM: Christopher Martin
SUBJECT: Form A - Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer

Form A Filing Contact(s)

Primary Contact:

Daniel J. Lilly, CPA, JD
Gunderson Health System, Inc.
1900 South Avenue, Mail Stop FS6-004
La Crosse, WI 54601
608-775-4615

Secondary Contacts:

Peggy Barlett
Husch Blackwell LLP
33 E Main St, Suite 300
Madison, WI 53703
608-234-6018

Christine Senty, JD
Quartz Benefits
2650 Novation Parkway
Fitchburg, WI 53713
608-471-4802

Form A Exhibit(s)

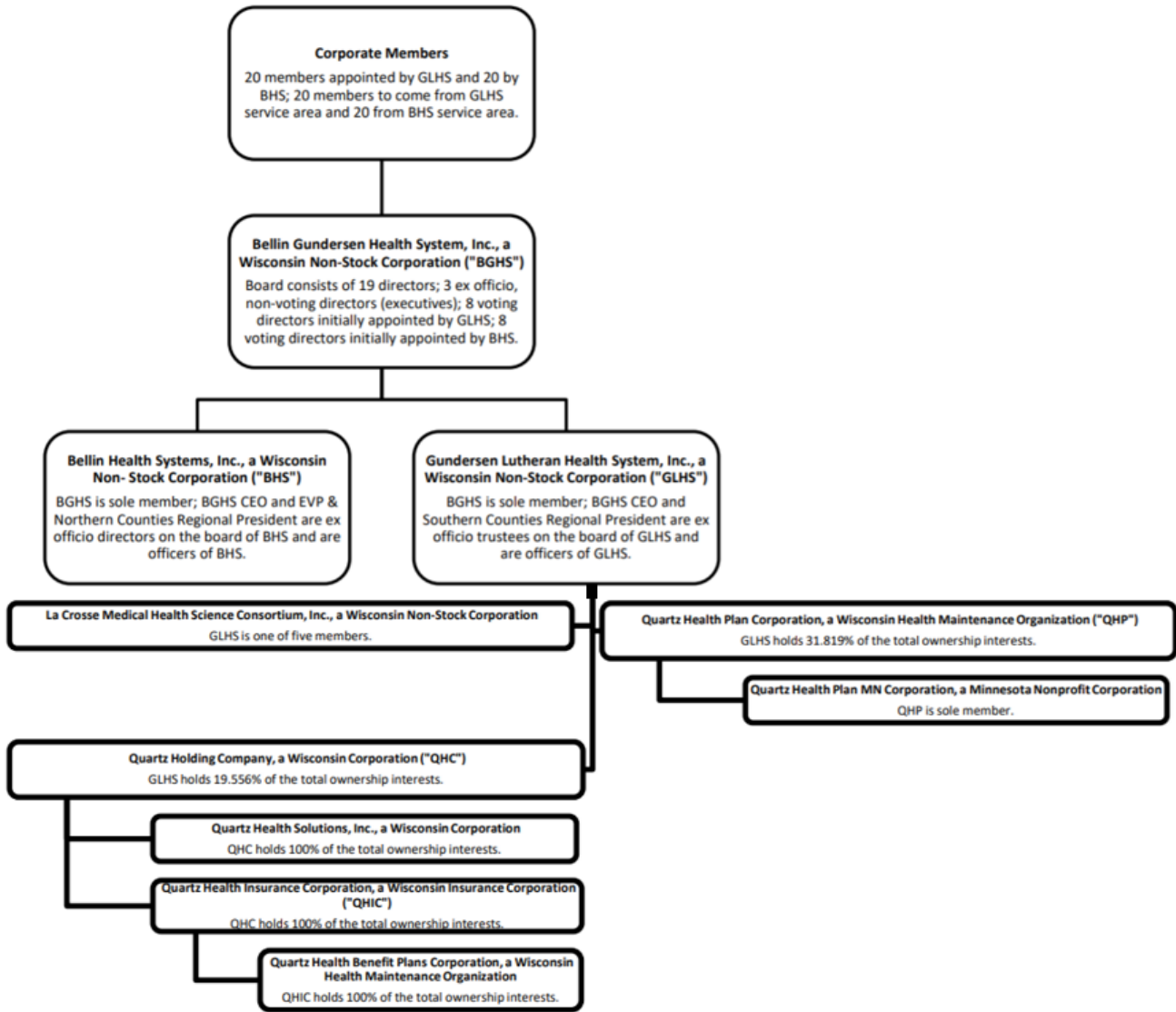
| <u>Exhibit:</u> | <u>Description:</u> |
|------------------------|-----------------------------------------------------------------------------------------------------------------|
| Ex. 1 | List of Exhibits |
| Ex. 2 | Transmittal Letter |
| Ex. 3 | Form A Filing |
| Ex. 4 | Combination Agreement (Redacted) |
| Ex. 5 | Combination Agreement (Unredacted) [CONFIDENTIAL] |
| Ex. 6 | Post-Transaction Organizational Chart |
| Ex. 7 | List of Executive Officers and Directors – Domestic Insurers |
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| Ex. 12 | Audited Financial Statements of Bellin for the five Fiscal Years Ended September 30, 2018 to September 30, 2022 |

- Ex. 13 Audited Financial Statements of Gundersen for the Five Fiscal Years Ended December 31, 2017 to December 31, 2021
- Ex. 14 Quarterly Financial Statements of Gundersen for the Quarter Ended September 30, 2022
- Ex. 15 Affiliated Agreements – Domestic Insurers [CONFIDENTIAL]
- Ex. 16 Amended and Restated Bylaws – Domestic Insurers [CONFIDENTIAL]
- Ex. 17 Amended and Restated Bylaws – Bellin [CONFIDENTIAL]
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- Ex. 19 Amended and Restated Bylaws – BGHS [CONFIDENTIAL]
- Ex. 20 Restated Articles of Incorporation – Domestic Insurers [CONFIDENTIAL]
- Ex. 21 Restated Articles of Incorporation – Bellin [CONFIDENTIAL]
- Ex. 22 Restated Articles of Incorporation – Gundersen [CONFIDENTIAL]
- Ex. 23 Amended and Restated Articles of Incorporation – BGHS [CONFIDENTIAL]
- Ex. 24 Biographical Affidavits of the Executive Officers and Directors – Domestic Insurers [CONFIDENTIAL]
- Ex. 25 Biographical Affidavits of the Executive Officers and Directors – Bellin [CONFIDENTIAL]
- Ex. 26 Biographical Affidavits of the Executive Officers and Directors – Gundersen [CONFIDENTIAL]
- Ex. 27 Biographical Affidavits of the Executive Officers and Directors – BGHS [CONFIDENTIAL]
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- Ex. 29 Three-Year Financial Projections – Domestic Insurers [CONFIDENTIAL]
- Ex. 30 Business Plan - Domestic Insurers [CONFIDENTIAL]

Executive Summary

On January 13, 2023, Bellin Gundersen Health System, Inc. (“Bellin Gundersen”, “BGHS”, and the “Applicant”), submitted a Form A filing, as required in the stipulation and order, in the matter of the acquisition of control of Quartz Holding company and Quartz Health Plan Corporation by Bellin Gundersen Health System, Inc., dated December 1, 2022. As a result of the merger between Bellin Health Systems (“Bellin”) and Gundersen Lutheran Health System, Inc. (“Gundersen”), the newly formed corporate entity Bellin Gundersen would gain controlling interests in Wisconsin regulated entities Quartz Health Plan Corporation (“QHPC”), Quartz Health Insurance Corporation (“QHIC”), and Quartz Health Benefit Plans Corporation (“QHBP”, and together with QHPC and QHIC the “Domestic Insurers”). The acquisition of control will occur as outlined in the combination agreement dated July 29, 2022, between Bellin and Gundersen.

Organizational Chart After Proposed Transaction:



Note that the OCI has removed some companies from the organizational chart in order to show the control of Quartz companies, on one page, after the proposed transactions. Please see the complete organizational chart for a full listing of the companies.

Identity and Background of the Domestic Insurers

Identity of the Domestic Insurers:

Quartz Health Plan Corporation
 2650 Novation Parkway
 Fitchburg, WI 53713

Quartz Health Insurance Corporation

2650 Novation Parkway
Fitchburg, WI 53713

Quartz Health Benefit Plans Corporation

2650 Novation Parkway
Fitchburg, WI 53713

Background of the Domestic Insurers:

Quartz Health Plan Corporation

QHPC was incorporated in 1995 and is organized under the provisions of Chapter 613 Wis. Stat. as a nonstock nonprofit HMO. The company was established to provide comprehensive health insurance for Wisconsin Insureds.

Quartz Health Insurance Corporation

QHIC is a Wisconsin corporation located in Madison, WI and is organized under the provisions of Chapter 611 Wis. Stat. QHIC operated in southern WI and Northern IL and offers Medicare Supplement products and PPO products to employer groups and individuals in the state of WI and IL.

Quartz Health Benefit Plans Corporation

QHBPC is a HMO organized for the purpose of delivering health care services to the Company's subscribers. QHBPC operates primarily in south central WI, southwestern WI, and northern IL. QHBPC offers a variety of HMO, PPO, and POS medical products to employer groups and individuals in WI and IL. The Company also offers individual plans and Medicare Supplement Plans and markets PPO and POS plans. QHBPC offers products through the health insurance exchanges established by the ACA. The provision of health care is arranged through contracts with participating hospitals and other health care providers.

Identity and Background of the Applicants

Identity of the Applicant(s):

Bellin Gundersen Health Systems, Inc.

c/o Gundersen Lutheran Health Systems, Inc.
1900 South Avenue
La Crosse, WI 54601

Background of the Applicant(s):

Bellin Gundersen Health Systems, Inc.

BGHS is a newly formed Wisconsin not-for-profit corporation formed in connection with the combination of Gundersen and Bellin to serve as the sole member of each Gundersen and Bellin. BGHS will have no active business other than serving as the corporate member of both Gundersen and Bellin.

Proposed Corporate Members of BGHS

Name

Title

Cathy Dworak*
Dean Kaczorowski*
William McKinley*

BGHS Northern Counties Class A Member
BGHS Northern Counties Class A Member
BGHS Northern Counties Class A Member

| | |
|---------------------------|---------------------------------------|
| Denis Hogan* | BGHS Northern Counties Class B Member |
| Nicole Polarek* | BGHS Northern Counties Class B Member |
| Frediric Schmidt, M.D.* | BGHS Northern Counties Class B Member |
| Mike Venne* | BGHS Northern Counties Class B Member |
| Brad Wozney, M.D.* | BGHS Northern Counties Class C Member |
| Said Hassan* | BGHS Northern Counties Class C Member |
| David Honish* | BGHS Northern Counties Class C Member |
| Michael Stroschein* | BGHS Northern Counties Class C Member |
| Cindy Van Asten* | BGHS Northern Counties Class C Member |
| Peter Vandenhouten* | BGHS Northern Counties Class C Member |
| Willam Bohn* | BGHS Northern Counties Class D Member |
| Kimber Gauthier, M.D.* | BGHS Northern Counties Class D Member |
| Paula Gruszynski* | BGHS Northern Counties Class D Member |
| Sara Wentzel* | BGHS Northern Counties Class D Member |
| Christine Woleske* | BGHS Northern Counties Class D Member |
| Jennifer Kleven, M.D.* | BGHS Southern Counties Class A Member |
| Beth Lisowski* | BGHS Southern Counties Class A Member |
| Warren Hawkridge* | BGHS Southern Counties Class A Member |
| Ben Jarman, M.D.* | BGHS Southern Counties Class B Member |
| Rick Trietley, Jr.* | BGHS Southern Counties Class B Member |
| Darlene Theisman* | BGHS Southern Counties Class B Member |
| Ben Orozco, M.D.* | BGHS Southern Counties Class C Member |
| Regina Siegel* | BGHS Southern Counties Class C Member |
| Gerald Papenfuss* | BGHS Southern Counties Class C Member |
| Francisco Perez-Guerra* | BGHS Southern Counties Class C Member |
| Ann Brandau Hynek* | BGHS Southern Counties Class C Member |
| Andrew Dahl* | BGHS Southern Counties Class C Member |
| Sig Gunderson, III, M.D.* | BGHS Southern Counties Class D Member |
| Lynn Lauer* | BGHS Southern Counties Class D Member |
| John McHugh* | BGHS Southern Counties Class D Member |
| Gerald Berge* | BGHS Southern Counties Class D Member |
| Lynn Sturm* | BGHS Southern Counties Class D Member |

Proposed Executive Officers and Directors of BGHS

| <u>Name</u> | <u>Title</u> |
|-----------------------|--------------------------------------|
| John Dykema* | Northern Counties Director |
| Barb Gilling* | Northern Counties Director |
| Terry Fulwiler* | Northern Counties Director |
| Susan M. Finco* | Northern Counties Director |
| Karl A. Schmidt* | Northern Counties Director |
| Saied Assef, MD* | Northern Counties Physician Director |
| Sherri Hoyman, DO* | Northern Counties Physician Director |
| James E. Rider, MD* | Northern Counties Physician Director |
| Gerald E. Arndt* | Southern Counties Director |
| Dan Florness* | Southern Counties Director |
| John Lyche* | Southern Counties Director |
| Richard A. Radcliffe* | Southern Counties Director |
| Teresita C. Yutuc* | Southern Counties Director |
| Chris Eberlein, MD | Southern Counties Physician Director |
| Ezana Azene, MD* | Southern Counties Physician Director |
| Robyn Borge, MD* | Southern Counties Physician Director |

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| | |
|-----------------------------------|---------------------------------------------------------------------|
| Scott W. Rathgaber, MD* | Chief Executive Officer, Director |
| Christine E. Woleske, JD* | Executive Vice President and Northern Region President, Director |
| Heather L. L. Schimmers, RN, MBA* | Southern Region President, Director |
| Gerald P. Oetzel* | Chief Financial Officer, Treasurer |
| Michael J. Dolan, MD* | Co-Chief Clinical Officer |
| Cynthia Lasecki, MD | Co-Chief Clinical Officer |
| Lisa L. Harton* | Chief Quality Officer |
| Praveen Chopra* | Chief Digital and Information Officer |
| Andrea Werner* | Chief Population Health Officer |
| William J. Farrell* | Chief Innovation and Strategy Officer |
| Daniel Lilly* | Secretary |

Executive Officers and Directors of Gunderson Lutheran Health Systems, Inc.

| <u>Name</u> | <u>Title</u> |
|-----------------------------------|--------------------------------------------------------------------------------------------|
| Scott W. Rathgaber, MD* | Trustee, Chief Executive Officer |
| Heather L. L. Schimmers, RN, MBA* | Trustee, President |
| Jennifer Kleven, MD* | Trustee, Chief Medical Officer |
| Andrea Hauser, RN* | Trustee, Chief Nursing Officer and Admin Vice President, Nursing & Systems Practices |
| Todd Kowalski, MD* | Trustee, Medical Chief Operating Officer |
| Bryan Erdmann* | Trustee, Chief Operating Officer |
| Gerald P. Oetzel | Chief Financial Officer and Treasurer |
| Daniel Lilly, CPA, JD* | Secretary |
| Mike McKee* | Admin Vice President, Ambulatory Services |
| Rachel Albrecht* | Medical Vice President, Ambulatory Services |
| Kelley Bahr, MD* | Medical Vice President, Ambulatory Services |
| Stephanie Neumann, MD* | Medical Vice President, Ambulatory Services |
| Jon Zlabek, MD* | Medical Vice President, Cross-Functional Care |
| Annette S. Lechnir* | Admin Vice President, Cross-Functional Care |
| Marilu Bintz, MD* | Medical Vice President, Community and Chief Medical Officer – Critical Access Hospitals |
| Kraig Schuster* | Admin Vice President, Community |
| Christine Waller, MD* | Medical Vice President, Acute Care and Nursing & Systems Practices |

Executive Officers and Directors of Bellin Health Systems, Inc.

| <u>Name</u> | <u>Title</u> |
|--------------------------|---------------------------------------------------------|
| Scott W. Rathgaber, MD | Director, Chief Executive Officer |
| Christine E. Woleske, JD | Director, President |
| Cynthia Lasecki, MD | Director |
| Laura Hieb | Director |
| Sharla Baenen | Director, Chief Operating Officer |
| Peter Vandenhouten | Director |
| Gerald P. Oetzel | Chief Financial Officer and Treasurer |
| Amy Dettman | Senior Vice President, Primary Care and Specialty Lines |
| Jen Macdonald | Senior Vice President, Specialty Service Lines |

Executive Officers and Directors QHBPC/QHIC/QHC/QHS

| <u>Name</u> | <u>Title</u> |
|-------------------------|---------------------------------------------------------------------------------------------------|
| Gerald E. Arndt* | Director |
| Jennifer B. Atkins* | Director |
| Heidi M. Eglash, JD* | Director |
| Susan I. Erickson* | Director |
| William J. Farrell* | Director |
| Robert W. Flannery* | Director |
| Carey M. Gehl* | Director |
| Kevin R. Hauser* | Director |
| Alan S. Kaplan, MD* | Director |
| Gerald R. Kember* | Director |
| Gerald P. Oetzel* | Director |
| John C. Sickels* | Director |
| Christine C. Senty* | General Counsel, Vice President, and Secretary |
| David S. Hanekom* | Senior Vice President and Chief Medical Officer |
| Kristie S. Breunig, JD* | Assistant Corporate Secretary and Senior Director, Deputy General Counsel, Compliance Services |
| Jeffrey A. Butcher* | Senior Vice President, Treasurer and Chief Financial Officer |

Executive Officers and Directors QHPC

| <u>Name</u> | <u>Title</u> |
|--------------------------|---------------------------------------------------------------------------------------------------|
| Gerald E. Arndt* | Director |
| Jennifer B. Atkins* | Director |
| Randy R. Bruegman* | Director |
| Susan I. Erickson* | Director |
| William J. Farrell* | Director |
| Robert W. Flannery* | Director |
| Carey M. Gehl* | Director |
| Susan R.J. Green* | Director |
| Alan S. Kaplan, MD* | Director |
| Gerald R. Kember* | Director |
| Gerald P. Oetzel* | Director |
| George H. Tervalon, III* | Director |
| Christine C. Senty* | General Counsel, Vice President, and Secretary |
| David S. Hanekom* | Senior Vice President and Chief Medical Officer |
| Kristie S. Breunig, JD* | Assistant Corporate Secretary and Senior Director, Deputy General Counsel, Compliance Services |
| Jeffrey A. Butcher* | Senior Vice President, Treasurer and Chief Financial Officer |

Note: * following an individual's name indicates that the biographical affidavit was provided for the individual and there are no outstanding significant concerns after OCI review.

OCI did not request biographical affidavits for the directors and executive officers of Bellin that are not also directors or officers of Bellin Gunderson as they would not have control over the Quartz entities as shown in the organizational chart.

Nature, Source, and Consideration

No cash consideration will be paid by BGHS, Bellin, or Gundersen pursuant to the combination agreement. The combination agreement will cause BGHS to serve as the sole member of each Bellin and Gundersen. Additionally, the Corporate Members of BGHS will have an oversight role. As a result, of the combination the Applicant will indirectly acquire 16.424% of the voting equity of QHPC and 18.385% of the voting equity of QHC, and therefore control of its wholly owned subsidiaries QHIC and QHBPC. Additionally, the Applicant will indirectly acquire 31.819% of the total equity interest in QHPC and 19.556% of the total equity interest in QHC, and therefore control of QHC's wholly owned subsidiaries, QHIC and QHBPC.

The Applicants stated in the Form A that there has not been any recent purchase of any voting securities in the Domestic Insurers in the past 12 months and there have been no other recommendations to purchase voting shares in the past 12 months. They also stated that the terms of the combination agreement were determined as the result of arm's length negotiations between the parties.

Applicants Future Plans

Subject to the terms of the combination agreement, upon closing, Gundersen and BGHS, as the sole member of the Bellin and Gundersen health systems, will control the Domestic Insurers. As stated in the Form A, following the closing of the proposed transaction, the domestic insurers will continue to be managed by the existing directors and officers, in substantially the same manner as pre-merger operations. Review of the confidential business plan provided by the Applicants further shows the expectation that the Domestic Insurers' will continue to operate in a substantially similar manner post transaction. The Applicants have no plans to declare an extraordinary dividend, liquidate the Domestic Insurers, sell the Domestic Insurers assets, or merge it with any person or to make any other material changes in the Domestic Insurers' business operations, corporate structure, or management.

Financial Highlights

Highlighted Financial Data of BGHS:

OCI did not review financial statements for BGHS as the entity was recently created related to the combination of Gundersen and Bellin.

Highlighted Financial Data of Gundersen.:

| Financial Highlights (in thousands) | Consolidated Financial Statements | | | | | |
|-------------------------------------------|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| | Q3 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total Assets | 2,089,825 | 2,269,722 | 2,223,156 | 1,997,479 | 1,813,373 | 1,797,269 |
| Total Liabilities | 671,225 | 684,235 | 759,057 | 615,981 | 585,414 | 600,483 |
| Total Net Assets | 1,418,600 | 1,585,487 | 1,464,099 | 1,381,498 | 1,227,959 | 1,196,806 |
| Total Revenue | 1,210,413 | 1,537,837 | 1,377,634 | 1,365,803 | 1,303,044 | 1,197,082 |
| Operating Income | (30,963) | 30,742 | (22,251) | 47,381 | 45,723 | 43,827 |
| Revenue in Excess of Expenses | (162,125) | 116,161 | 78,698 | 147,360 | 28,729 | 124,596 |
| Net Cash Provided by Operating Activities | (17,229) | 117,349 | 209,889 | 136,524 | 83,238 | 110,327 |

Highlighted Financial Data of Bellin:

| Financial Highlights (in thousands) | Consolidated Financial Statements | | | | |
|-------------------------------------------|-----------------------------------|-----------|---------|---------|---------|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total Assets | 987,946 | 1,020,322 | 814,699 | 744,930 | 653,355 |
| Total Liabilities | 325,868 | 352,299 | 268,543 | 245,192 | 191,683 |
| Total Net Assets | 662,078 | 668,023 | 546,156 | 499,738 | 461,672 |
| Total Revenue | 825,423 | 803,358 | 712,429 | 671,440 | 608,960 |
| Operating Income | 9,627 | 55,445 | 32,023 | 31,304 | 13,841 |
| Revenue in Excess of Expenses | (11,115) | 116,728 | 45,185 | 37,105 | 23,883 |
| Net Cash Provided by Operating Activities | 47,495 | 78,454 | 90,543 | 68,825 | 38,804 |

Financial Projections of the Domestic Insurers:

The financial projections of the Domestic Insurers are confidential. OCI reviews these projections as part of the Form A review process.

611.72 (3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. 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;
2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;
3. 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;
4. 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; and
5. 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 the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72(3)(am)1: After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

s. 611.72(3)(am)2: OCI's determined that a Form E analysis was not necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

s. 611.72(3)(am)3: Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph four requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." The Form A filing notes that the Applicants have no current plans or proposals to declare any extraordinary dividend, to liquidate the Domestic Insurer, or to sell the assets of the Domestic Insurer. Additional review of the filing by OCI staff do not indicate any significant changes to the operation of the Domestic Insurer. Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

s. 611.72(3)(am)5: Paragraph 5 requires that OCI review the Biographical Affidavits of the proposed officers and directors of the Applicants. This review did not raise significant concerns.

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|-----------------------|
| Recommendation |
|-----------------------|

The Acquisition of Control in the above-referenced Form A filing will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in s. 611.72 (3), Wis. Adm. Code. Therefore, the transaction should be approved.