



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

November 11, 2004

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Advanced Via Facsimile

Ms. Jane M. Barnett
President and Chief Executive Officer
University Health Care, Inc.
635 Science Drive, Suite 100
Madison, Wisconsin 53711

Re: Acquisition of Control of Unity Health Plans Insurance Corporation by University Health Care, Inc. (Case No. 04-C29300)

Dear Ms. Barnett:

I am writing to confirm receipt of the Form A regarding the above-captioned subject on October 1, 2004. The following items are requested in connection with this Office's review of the proposed acquisition of control of Unity Health Plans Insurance Corporation (hereinafter, "Unity").

General Documentation Request

1. Reference is made on page 6 of the Form A to "documents memorializing the transaction, which have not yet been finalized". What are these documents and what remains to be negotiated? What do you currently see as the time frame for finalizing these memorializing documents? When will you complete your filing by providing these documents?
2. Please provide the audit opinion and accompanying notes to the University of Wisconsin Medical Foundation, Inc. Consolidated Financial Statements for 1999, 2001 and 2003.

Personnel

3. Which corporations within the WellPoint holding company system function as the direct employers of those who provide services to Unity? Please describe the services that each of these corporations currently provide?
4. What are the number and location of employees that currently provide services to Unity and its policyholders?

5. Please describe plans to provide sufficient personnel and other resources to administer Unity's probable volume of business and maintain its quality of service following the proposed change in control, including but not limited to the marketing and investment functions?
6. Will Unity act as the employer for the people who provide the services necessary to run its day-to-day operations?
7. What approach is being taken on employee pension and other benefit plans? Will Unity employees simply terminate their employment with Crossroads Acquisition Corp., retaining whatever benefits they earned there and then beginning with altogether new plans sponsored by University Health Care, Inc. or Unity? Or are there arrangements to transfer funds accumulated on behalf of transferring employees to the new University Health Care, Inc. or Unity plans?
8. Have any written plans or assurances been made concerning staff retention, salaries and benefits, or severance packages, for the officers or employees who provide day-to-day services to Unity?
9. Has University Health Care, Inc. or Unity entered into any agreements with executive employees in anticipation of the acquisition of control of Unity? If so, please provide us copies of any such agreements.

The Holding Company System, its Governance, and Resources

10. For each of the following companies in the holding company system of University Health Care, Inc.:
 - a. Community Health Systems, LLC
 - b. Health Professionals of Wisconsin, Inc.

Please provide the following information:

- a. For Health Professionals of Wisconsin, Inc. only, financial statements as of the most recent two fiscal year ends (unaudited is acceptable, if that's the best available)
 - b. Description of current purpose and activities
 - c. Capitalization structure, including the number of shares authorized, and issued and outstanding for each class of common and preferred stock as well as any debt issued, if any.
11. Please provide a copy of the articles of incorporation and bylaws of University Health Care, Inc.
12. Please provide a copy of the Affiliation Agreement requiring the University of Wisconsin Hospitals and Clinics Authority to continue to support the educational, research and clinical activities of the University of Wisconsin Medical School.
13. Does University Health Care, Inc. have an economic interest in any subsidiaries other than Community Health Systems, LLC and Health Professionals of Wisconsin,

Inc.? If so, please provide a list of such subsidiaries, together with the percentage of ownership and approximate value.

14. Is it anticipated that University Health Care, Inc. or its members will contribute capital to Unity itself during 2005 or thereafter? What are the availability and sources of any additional capital that may be needed in the future?
15. Do Unity's provider contracts contain any early termination option for the providers in the event of a change in control of Unity?
16. Please describe the composition of the current Unity provider network and how this composition might change, if at all, as a result of the proposed acquisition of Unity by University Health Care, Inc.
17. What effect will the proposed transaction have on the ability of the affiliated provider networks associated with University Health Care, Inc. and its members to contract with any nonaffiliated health maintenance organization or any other health insurer that might wish to serve customers in the networks' respective service areas following the effective date of the proposed transaction?
18. After the acquisition, will the form of Unity's articles of incorporation and bylaws closely follow those currently in use by Unity? If not, please file the forms of articles and bylaws that are anticipated after the change in control.
19. Will Unity file its tax return on a consolidated basis with other affiliates following its acquisition by University Health Care, Inc. or will it file on a stand-alone basis?
20. What inter-company agreements are anticipated as necessary between University Health Care, Inc. and its other affiliates and Unity; for example, tax sharing agreements, investment management agreements, or management service agreements? What time frame is anticipated as necessary to prepare and file these agreements?
21. Is it anticipated that Unity will continue to employ the same public accounting firm and actuary that it has in the immediate past? If not, who has University Health Care, Inc. contracted with to provide these services?

Business Plan

22. Please provide a description of the types of policies that Unity currently makes available. The company's own internal descriptions of product types and customer types, that is, how the marketing department tracks the product mix, would be most helpful.
23. Which types of insurance programs and services will University Health Care, Inc. direct Unity to prioritize for growth and development following the proposed change in control?
24. Will University Health Care, Inc. direct Unity to expand its service area or increase its presence in any region of this State?

25. Which types of insurance programs and services will University Health Care, Inc. direct Unity to seek to reduce or terminate following the proposed change in control?
26. Will University Health Care, Inc. direct Unity to seek to reduce or terminate services in any region of this State in which it is currently active?
27. Does University Health Care, Inc. plan to direct Unity to purchase or sell any books of business over the next twelve months?
28. Does University Health Care, Inc. anticipate any changes to Unity's marketing practices or distribution channels?
29. What is planned level of capitalization for Unity following the change in control? What is the intended form of capitalization, that is, among common stock, preferred stock, surplus notes, gross paid-in and contributed surplus, and unassigned funds?
30. What effect, if any, would the change in control have on the factors determining rate levels?
31. Please provide the projected pro forma balance sheet and income statement for the first three years of Unity's operation following the proposed change in control.
32. Unity currently has an arrangement to handle the indemnity portion of its point of service contracts. How will the indemnity portion of Unity's point of service contracts be addressed after the proposed change in control?
33. Describe University Health Care, Inc.'s plans for Unity's charitable contributions and commitment to community outreach after the change in control in comparison to past practices.
34. Does University Health Care, Inc. have any plans, within the foreseeable future, to enter into discussions or negotiations with other entities concerning the purchase, sale, merger, or affiliation of Unity with such entities? Is University Health Care, Inc. aware of any entities that have an interest to acquire control or merge with Unity after the proposed change in control should the change in control be approved?

Source of Funds for the Proposed Acquisition of Control

35. Please provide a legal analysis supporting the authority of University of Wisconsin Hospitals and Clinics Authority to provide University Health Care, Inc. with funds to purchase a health maintenance organization. Please describe the source and governance of the funds that are to be used for this purpose.
36. Please provide a copy of the resolution of the University of Wisconsin Hospitals and Clinics Board authorizing the contribution of funds to University Health Care, Inc. for the purpose of purchasing Unity.
37. Please provide a legal analysis supporting the University of Wisconsin Medical School Foundation, Inc.'s authority to provide University Health Care, Inc. with funds

Ms. Jane M. Barnett

November 11, 2004

Page 5

to purchase a health maintenance organization. Please describe the source and governance of the funds that are to be used for this purpose.

38. Please provide a copy of the resolution of the Board of the University of Wisconsin Medical Foundation, Inc. authorizing the contribution of funds to University Health Care, Inc. for the purpose of purchasing Unity.
39. Of the \$45,100,000 required to effectuate the proposed change of control, how much will be contributed by each of the University of Wisconsin Hospitals and Clinics Authority and the University of Wisconsin Medical Foundation, Inc.? What alternative purposes or plans do these entities have for the use of these funds? Please describe the rationale for use of these funds as proposed rather than alternative purposes.
40. Are the funds that the University of Wisconsin Hospitals and Clinics Authority and the University of Wisconsin Medical Foundation, Inc. intend to provide to University Health Care, Inc. for the purpose of purchasing Unity derived from general purpose revenue or other public funding?
41. Will the contribution of \$45,100,000 to University Health Care, Inc. be an outright contribution, or does this contribution carry certain obligations beyond those implied by University Health Care, Inc.'s articles of incorporation and bylaws? If the latter is the case, please describe these obligations and provide copies of any supporting written documentation.

If you have questions on this or any other matter in which I might be of some assistance, please call me at (608) 267-4388.

Sincerely,

Steven J. Junior
Senior Insurance Examiner
Bureau of Financial Analysis and Examinations

cc: Richard M. Seligman, Michael Best & Friedrich LLP (via facsimile)
James Roberts, University of Wisconsin Hospital & Clinics Authority (via facsimile)
Claudia Sanders, University of Wisconsin Medical Foundation (via facsimile)