



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 3, 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 (hereinafter, "Unity") by University Health Care, Inc. (Case No. 04-C29300)

Dear Ms. Barnett:

I am writing to both request additional information and provide clarification with respect to the information conveyed in your letter of November 18, 2004 and its attachments.

1. Since University Health Care, Inc. indicates that its preparedness to close on the transaction is now imminent, please indicate who will serve as directors, officers and the senior management team of Unity following the merger and provide biographical affidavits for each such individual.
2. In item #3 of your November 18 letter, you indicate that legal, underwriting, sales, and human resource functions are being provided by WellPoint Health Networks Inc. and its affiliates through an administrative services agreement. What arrangements have been made for the continuation or replacement of these services following the acquisition of control? Please file any agreements with WellPoint Health Networks, Inc. regarding the assignment of sales or other staff to Unity.
3. In the redacted closed session minutes of the Finance Committee of the University of Wisconsin Medical Foundation's August 17, 2004 meeting, there was discussion that WellPoint Health Networks, Inc. changed many of Unity's policies and procedures with the implication that the previously existing policies, procedures, and systems would be restored. This seems in contravention to Item 5 of the Form A dated September 29, 2004, which stated, "Applicant intends to continue the business and operations of Unity as presently conducted. There are no plans by Applicant to make any material changes in the operations and business of Unity." Please reconcile this conflicting information with a description of the changes to policies, procedures, and systems that are anticipated following the acquisition of Unity.
4. In the redacted closed session minutes of the Finance Committee of the University of Wisconsin Medical Foundation's August 17, 2004 meeting, there was discussion of an

“overassessment” of \$4.7 million, which was to be applied to the purchase of Unity. Please describe what is meant by the use of the term “overassessment”?

5. In the Finance Committee minutes mention is made of “excess cash in the amount of \$16.8M”. What is being referred to by the term “excess cash”?
6. Item #29 of your November 18 letter indicates that Unity intends to request an extraordinary dividend in the first quarter of 2005 to reduce Unity’s risk-based capital ratio to 250%. It should be noted that risk-based capital is not an insurance industry tool for determining a target level of capital. The intended risk-based capital level suggested or being targeted is problematically low, and OCI would look very closely and might very likely not approve any dividend request until new ownership and management have posted a track record that is sufficient to evaluate their financial and operational performance.
7. If a dividend were not requested and/or approved in the first quarter of 2005, will University Health Care, Inc. or its members need to adjust its proposed method of funding the acquisition of Unity?
8. The response to question 39 includes a statement that a positive return on the acquisition investment will be a result of the transaction through “equitable provider reimbursement”. Does this response suggest a change in how providers will be reimbursed? If so please provide information regarding the changes anticipated in provider reimbursement.

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)