

**MINUTES OF THE APPRAISAL COMMITTEE  
for the Conversion of  
Blue Cross & Blue Shield United of Wisconsin**

November 5, 1999, 10:00 a.m. – 12:00 p.m.  
Conference Rm. 6 of the Lake Terrace State Office Building  
121 East Wilson Street, Madison, Wisconsin

**Committee members present:** Randy Blumer, Mark Femal, Patricia Lipton

**OCI staff members present:** Fred Nepple, Guenther Ruch, and Steven Junior

**Other members of the public present:** Bart Reuter, Jane Hamblen, and Wade Williams

Prior to the meeting, each Appraisal Committee member, OCI staff member, and public attendee received a packet of documents, including the following: a draft agenda; an Appraisal Committee mission statement; a copy of the "Notice of Hearings and Invitation for Public Comment" for the Blue Cross conversion; a twelve page summary of the Application for Conversion dated November 4, 1999; and a copy of ss. 613.75 and 611.76, Wis. Stats.

The Appraisal Committee meeting commenced shortly after 10:00 a.m.

The first order of business was the election of a chairperson for the committee. Patricia Lipton moved that Mark Femal be elected to chair the committee by unanimous consent. The motion was carried by unanimous consent.

Mark Femal explained to the public attendees that the Appraisal Committee was holding a public meeting, but not a public hearing. The Commissioner would hold public hearings as required by law. Mr. Femal then inquired of Guenther Ruch the dates, times, and locations of the public hearings. Mr. Ruch referred to the copy of the hearing notice provided to all those present. The hearings would be held in Milwaukee at the Italian Community Center on Monday, November 29, 1999, from 10:00 a.m. to 4:00 p.m., and in the University Center's Laird Room at UW – Stevens Point on Tuesday, November 30, 1999, from 10:00 a.m. to 4:00 p.m.

Patricia Lipton inquired as to whether the Appraisal Committee members would be expected to attend the public hearings. Guenther Ruch replied that, the Appraisal Committee is welcome to attend the hearings, but not required. In any event, OCI staff would prepare a summary of public commentary related to valuation issues for the committee.

Mark Femal opened discussion of how an ongoing record of the activities of the Appraisal Committee would be made and how such record would be made available to interested Wisconsin citizens. After some discussion among Appraisal Committee members, Guenther Ruch offered, and the Appraisal Committee agreed, that OCI staff would prepare minutes of committee meetings and would post minutes of the committee to the OCI web site as the committee approves such minutes.

Discussion turned to a review of the agenda that OCI staff had prepared for the committee's consideration. After a brief discussion, on the motion of Mr. Femal, the committee unanimously approved the agenda.

The next order of business was to assign the responsibility for preparation of the minutes. The committee unanimously agreed to have OCI prepare draft minutes for the committee's approval.

The chair then recognized Guenther Ruch for the purpose of summarizing the mission of the Appraisal Committee. Mr. Ruch referred to a written statement of the "Mission of the Appraisal Committee" provided to each person present. He advised the members to read the mission statement at their leisure. Mr. Ruch summarized by saying, "The mission of the appraisal committee as intended by the Commissioner of Insurance is to offer the Commissioner advice on how the conversion should be structured to achieve, for the public benefit, the fair and reasonable value of Blue Cross". He went on to say that the committee has no responsibility for, or role in, determinations related to the disposition of the conversion proceeds.

Randy Blumer offered a motion for the committee to adopt the mission statement. The motion was seconded by Patricia Lipton, and carried unanimously.

Fred Nepple provided the committee a description of statutory procedure for conversion. A description was provided concerning the role of the members of a service insurance corporation in proposing a conversion plan, and in the ultimate execution of the conversion plan. Mr. Nepple noted that in the case of Blue Cross & Blue Shield United of Wisconsin the members are the directors, and not the policyholders. Blue Cross is governed by a self-perpetuating board of directors. The statutory basis for the Appraisal Committee and the public hearing was then described. He called attention to the fact that conversion occurs upon the issuance of a new certificate of authority that recognizes the former service insurance corporation as a stock insurance corporation. After discussion to clarify the points discussed by Mr. Nepple, the committee turned its attention to a report prepared by Steven Junior.

Steven Junior referred the members of the committee to a report summarizing the Application for Conversion. Mr. Junior noted that, owing to the length and detail of the report and the complexity of the issues described therein, his oral presentation could not summarize the contents, but could only highlight certain matters. He asked committee members to call on him for clarification or additional information, should they desire to do so, at any time during or after the meeting. Mr. Junior highlighted several issues related to the principal documents of the Application over a period of several minutes.

Mark Femal asked OCI staff to assemble relevant portions of supplementary documents filed in response to OCI inquiries or as part of the Application. Guenther Ruch offered to provide committee members with the latest annual CPA audit report, recent OCI examination reports, and relevant portions of the latest holding company registration statement, in addition to the documents requested. Patricia Lipton asked that, in the future, OCI staff provide documentation and reports as far in advance of meetings as possible.

Discussion turned to the status of OCI's efforts to hire an investment banker. OCI staff explained that, while it is true that Blue Cross is required by law to reimburse the Office of the Commissioner for the costs of its review, including the expenses of independent experts, State law prohibits any agency from engaging in off-budget expenditure. Thus, having Blue Cross compensate the State's independent experts directly was not an option. Therefore, it was necessary for OCI to request a non-emergency increase in spending authority pursuant to s. 16.515, Wis. Statutes. This request was pending before the Wisconsin Legislature's Joint Finance Committee. Therefore, at the time of this meeting, it was not known how quickly OCI would receive the legislative consent necessary to execute a contract. Negotiations with Deutsche Bank Securities, Inc., a unit of the investment banking firm of Deutsche Banc Alex. Brown, were scheduled to begin at 1:00 p.m. on Tuesday, November 9, with the aim of resolving the form of contract, so that if the required approval was obtained, the contract might be promptly executed.

The committee entered into a discussion of the course of action necessary to fulfill its mission. The committee indicated its desire for OCI staff to assemble the following information:

- a. A summary of other Blue Plan conversion transactions throughout the United States.
- b. A list of valuation issues and related facts for the Appraisal Committee's consideration.
- c. An agenda for the next meeting.
- d. The latest OCI examination report for Blue Cross & Blue Shield United of Wisconsin.
- e. The latest CPA audit report for Blue Cross & Blue Shield United of Wisconsin.
- f. As the three most recent annual statements were included as an exhibit to the Application, only the most recent quarterly statement.
- g. An explanation of how compliance with the BlueCross BlueShield Association's membership requirements impact the valuation of United Heartland Group, Inc.
- h. Information on the marketplace for health insurance equities in general, and the valuations being accorded to previously converted Blue Plans in particular.
- i. Information on the federal "Patients Bill of Rights" legislation.
- j. Information, prepared in consultation with the investment banking firm, on the effect of the five-year divestiture schedule on the valuation.
- k. Information on whether an Employee Stock Ownership Plan or other employee benefit plan would be restricted to ownership of less than 10% of the common stock of United Heartland Group, Inc.

Mark Femal expressed the view that the Appraisal Committee should meet with the investment bankers after they have had an opportunity to thoroughly review and analyze the Application for Conversion with respect to valuation issues. Patricia Lipton voiced her support for a face-to-face meeting with the investment bankers, and stated that the meeting had to be one of substance, and not merely a formality. The committee arrived at unanimous consensus without motion or vote that OCI should arrange a meeting between its members and the investment bankers as soon as the investment bankers were prepared to discuss the structure of the conversion plan and its implications on valuation.

The next meeting of the Appraisal Committee was tentatively set for Wednesday, November 24, 1999, from 2:30 p.m. to 4:00 p.m. The committee members agreed to contact Steven Junior concerning their availability for future meeting dates.

Mark Femal inquired of the committee and OCI staff as to any other business. Hearing none, motion to adjourn was made by Randy Blumer, seconded by Patricia Lipton, and carried unanimously. The committee adjourned at approximately 11:30 am.