

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

November 24, 1999
Conference Rm. 6 of the Lake Terrace State Office Building
121 East Wilson Street
Madison, Wisconsin

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

OCI staff members present: Guenther Ruch, Julie Walsh, 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 an extensive packet of documents, the contents of which are summarized as Exhibit A to these minutes.

The Appraisal Committee meeting commenced shortly after 2:30 p.m.

Discussion began with a review of the proposed minutes of the November 5, 1999, meeting. Randy Blumer moved to strike the paragraph concerning the names and affiliations of public attendees, if the names were retained, without any description of affiliation, alongside the caption, "other members of the public present". The motion was seconded by Patricia Lipton, and carried unanimously.

Committee chairman Mark Femal recognized Guenther Ruch for the purpose of providing an update concerning the engagement of an investment banking firm. Mr. Ruch noted that the consent of the Legislative Joint Finance Committee had been received. Contract negotiations, as of the date of the meeting, were being conducted. Mr. Ruch indicated that it was his understanding that negotiations were nearly complete and that a contract would be signed shortly.

Mark Femal noted that it had been expected that the Appraisal Committee would prepare its report with access to the advice and assistance of an investment banking firm. In light of the delay in the engagement of an investment banking firm, Mr. Femal noted that the committee may have to reevaluate expectations concerning the time frame for issuance of its report.

Patricia Lipton requested OCI's guidance on a new time frame for preparation of the Appraisal Committee's report to the Commissioner of Insurance. Guenther Ruch indicated that every effort was being made to conclude contract negotiations with Deutsche Bank Securities. This matter would be discussed with representatives of the investment banking firm, and development of a revised time frame should be considered as an objective of the next Appraisal Committee meeting.

Patricia Lipton expressed interest in obtaining a summary of comments made during the upcoming public hearings. While her schedule would not permit her to attend personally, she was particularly interested in any comments made by members of the public concerning matters of valuation. Mark Femal noted that the approved minutes of the November 5, 1999, meeting indicated that OCI staff had made a commitment to provide such a summary. Mr. Femal indicated that he would attend the Milwaukee hearings, and share his impressions at the next meeting. Randy Blumer remarked that he would be in attendance at the hearings in Milwaukee and in Stevens Point.

Discussion turned to the list entitled, "Issues Concerning Valuation for the Appraisal Committee for the Conversion of Blue Cross & Blue Shield United of Wisconsin (Case No. 99-C26038)." The Appraisal Committee instructed OCI staff to prepare a list of valuation issues and related facts for the Appraisal Committee's consideration at the November 5, 1999, meeting. While delay in engagement of the investment banking firm made completion of this charge impossible, OCI had prepared a list of issues for the committee's consideration. The list comprised issues that the committee would consider in its review of whether the conversion plan can reasonably be expected to permit the public health foundation to realize the fair and reasonable value of Blue Cross & Blue Shield United of Wisconsin. Each item on the list was discussed in turn.

Patricia Lipton inquired of OCI staff as to whether the commissioner wanted the Appraisal Committee to treat the specific elements of the conversion plan as given, or if the committee was expected to suggest changes. Randy Blumer pointed out question #5 on the list of issues under discussion, which read, "Are there any restrictions that should be imposed to improve the likelihood that a fair and reasonable value is realized by the public health foundation in exchange for its shares?" Guenther Ruch confirmed that the Appraisal Committee was free to make any recommendations it believed to be in the interest of fulfilling its mission. OCI staff would inform the committee promptly of any public policy decisions that could have an effect on valuation.

Changes authorized by the Appraisal Committee as a product of its discussion were as follows:

1. Issue #1 would be expanded to include consideration of certain specific factors related to the question, as follows: the authorized, but not issued, common shares; possible issuance of additional shares by United Heartland Group for its own account; and the purpose for additional share issuance.
2. Issue #3 was renumbered to become Issue #2. This issue was revised to add an additional question as to how the proposed divestiture requirements compare to those applied to other converted Blue Plans.
3. Renumbered issue #3a (formerly 2a) was revised to add an additional question as to how the proposed corporate governance provisions compare to other health insurance companies in general, and converted Blue Plans in particular.
4. A new issue #3h would be created to consider the effect that percentage of ownership limitations would have on the valuation of United Heartland Group, Inc.
5. A new issue #4 was created to consider the value of the intangible asset represented by the license to use the Blue Cross and Blue Shield service marks.
6. Issue #4 was renumbered as issue #5. Issue #5g was created to consider the impact that the existence of large shareholders of United Wisconsin Services, Inc. and American Medical Security, Inc. could have on the valuation of United Heartland Group, Inc.
7. A new issue #6 was created to address how the method used to monetize the public health foundation's stake in United Heartland Group, Inc. would impact the amount likely realized. A related consideration was how the complexity of the holding company structure, in that there are already two publicly traded corporations within the holding company system, could impact the valuation of United Heartland Group, Inc.
8. Issue #7 was created to formalize the last meeting's request that OCI seek information from the investment banking firm on the conditions of the marketplace for health insurance equities

in general, and the valuations being accorded to previously converted Blue Plans in particular.

9. Issue #5 would be renumbered as necessary to remain the last item on the list.

The Appraisal Committee requested that OCI staff make the changes resolved upon and e-mail a revised draft to each member of the Appraisal Committee. Further revision would be considered after consultation with the investment bankers.

Discussion returned to the role of the voting trustee contemplated by the conversion plan. Mark Femal, with the evident consensus of the other committee members, expressed interest in the intended duration of the voting trust and the extent that anti-takeover provisions persist following the public health foundation's divestiture of the stock in United Heartland Group, Inc.

The next meeting of the Appraisal Committee was set for Thursday, December 9, 1999, from 9:00 a.m. to 12:00 p.m. (Noon).

Mark Femal inquired of the committee and OCI staff as to any other business. Hearing none, he motioned to adjourn. This motion was seconded by Patricia Lipton, and carried unanimously. The committee adjourned at 4:00 p.m. as scheduled.

**Meeting of the Appraisal Committee for the Conversion of
Blue Cross & Blue Shield United of Wisconsin
(Case No. 99-C26038)**

November 24, 1999
Conference Rm. 6 of the Lake Terrace State Office Building
121 East Wilson Street
Madison, Wisconsin

LIST OF EXHIBITS

1. List of Exhibits
2. Draft Minutes of the Appraisal Committee for November 5, 1999
3. Draft Agenda for the November 24, 1999 meeting
4. Issues Concerning Valuation for the Appraisal Committee for the Conversion of Blue Cross & Blue Shield United of Wisconsin (Case No. 99-C26038) (A draft for the committee's consideration).
5. Report of the Examination of Blue Cross & Blue Shield United of Wisconsin as of December 31, 1997
6. Notice of Hearings and Invitation for Public Comment
7. Summary of the Plan of Conversion of Blue Cross & Blue Shield United of Wisconsin dated September 8, 1999
8. Letter to Consumers Union from Thomas R. Hefty, Chairman & CEO of Blue Cross & Blue Shield United of Wisconsin dated June 18, 1999
9. Letter to Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, from Steven J. Junior, OCI, dated July 6, 1999
10. Letter to Steven J. Junior, OCI, from Thomas M. Rose, Foley & Lardner, counsel for Blue Cross & Blue Shield United of Wisconsin, dated September 7, 1999
11. Letter to Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, from Steven J. Junior, OCI, dated October 26, 1999
12. Letter to Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, from Steven J. Junior, OCI, dated November 10, 1999
13. Letter to Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, from Steven J. Junior, OCI, dated November 15, 1999
14. Letter to Steven J. Junior, OCI, from Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, dated November 15, 1999, with response to OCI letter of inquiry dated October 26, 1999, and certain financial statements.
15. Letter to Steven J. Junior, OCI, from Thomas M. Rose, Foley & Lardner, counsel for Blue Cross & Blue Shield United of Wisconsin, dated November 17, 1999
16. Letter to Steven J. Junior, OCI, from Gail L. Hanson, CFO, Vice President, & Treasurer, Blue Cross & Blue Shield United of Wisconsin, dated November 23, 1999
17. GAAP to Statutory Reconciliations, Blue Cross & Blue Shield United of Wisconsin, stand-alone basis, received of Gail L. Hanson on November 23, 1999
18. Letter to Stephen E. Bablitch, Blue Cross & Blue Shield United of Wisconsin, from Steven J. Junior, OCI, dated November 23, 1999