



REDACTED

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: July 24, 2013

TO: Rebecca Easland
Richard Hinkel

FROM: Kristin Forsberg

SUBJECT: Form A – Acquisition of Control of a Domestic Insurer
Dean Health Insurance, Inc. (NAIC # 60067) and Dean Health Plan, Inc. (NAIC #96156)

This Memo is written to support approval of the acquisition of control of the above-referenced domestic insurers by SSM Health Care Corporation, and FPP, Inc. ("Applicants") on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.

Form A filing contacts:

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Parties to the transaction:

The Acquirer(s)/Applicant(s):

- SSM Health Care Corporation ("SSM"): SSM is a Catholic, Missouri-based, nonprofit health care system based in St. Louis. SSM employs 25,800 people, and operates hospitals in Oklahoma, Illinois, Missouri and Wisconsin. [At the time of this filing, SSM owned 47.368% of DHI. If the proposed transaction is consummated, SSM will indirectly own 100% of Dean Health Insurance, Inc. and its wholly-owned subsidiary, Dean Health Plan, Inc.]
- FPP, Inc. ("FPP"): Although SSM will be the ultimate acquiring party in this transaction, the transaction will be effected through SSM's direct wholly-owned subsidiary, FPP, Inc. ("FPP") and FPP's direct wholly-owned subsidiary, FPP Acquisition Corporation ("Merger Sub"). (FPP is a Missouri corporation and Merger Sub is a Wisconsin corporation created to effectuate this transaction in accordance with Wisconsin business corporation law.)

The Sellers:

- Dean Health Systems, Inc.'s ("DHS") Physician Shareholders: The Applicants intend to acquire full control of DHS and its subsidiary insurers by acquiring all of the shares of the common stock of DHS currently owned by DHS's physician shareholders, in accordance with the terms set forth in the "Agreement and Plan of Merger". [DHS is a Wisconsin multi-specialty medical group, employing more than 500 physicians. DHS is currently owned 95% by its physician shareholders, and 5% by SSM.]

The Insurers to be Acquired:

- Dean Health Insurance, Inc. ("DHI"): DHI is a Wisconsin stock health insurance corporation that was incorporated on July 1, 1995, and commenced business on January 1, 1997. As of 12/31/12, DHI had 5,364 members. [At the time of this filing, DHI was owned 52.632% by DHS and 47.368% by SSM (the applicant).]
- Dean Health Plan, Inc. ("DHP"): DHP, a wholly-owned subsidiary of DHI, is a Wisconsin for-profit HMO that was incorporated on August 22, 1983, and commenced business on January 1, 1984. DHP offers employer group and individual health products in a broad service area throughout south-central Wisconsin. DHP is also a contracted carrier for the federal Medicare Part-B and Medicare Supplement programs, as well as the state BadgerCare Plus program. As of 12/31/12, DHP had 257,273 members.

The Proposed Transaction:

The Applicant intends to acquire sole control of DHI and DHP, subject to all required regulatory approvals, including the approval of the proposed transaction subject to this Form A filing by the Wisconsin Office of the Commissioner of Insurance ("OCI"). This transaction will be effected as follows:

Pursuant to the terms of the April 15, 2013 Agreement and Plan of Merger (the "**Merger Agreement**") between DHS, FPP, Merger Sub and Synergy SR LLC ("Shareholders' Representative"), Merger Sub will be merged into DHS (the "**Merger**"), with DHS being the surviving corporation. After the merger, SSM will control all of the outstanding shares of DHS and thereby obtain sole, indirect control of DHI and DHP (by acquiring DHS's 52.632% interest in DHI) (the "**Acquisition**").

Form A Summary

Item 1: Agreement and Plan of Merger ("Merger Agreement")

Material terms of the Merger Agreement are summarized as follows:

- DHS has the following outstanding classes and series of capital stock:
 - Class A Common Stock
 - Class B Common Stock
 - Class C Preferred Stock
 - Class R Preferred StockOwned by the Physician Employee/Shareholders
- Class S-1 Common Stock Owned by SSM
- Class S-2 Preferred Stock Owned by SSM
- Upon closing of the Merger:
 - The Class R Preferred Stock, Class C Preferred Stock, Class S-1 Common Stock, and the Class A and B Common Stock will be converted into the right to receive a portion of the Merger Consideration. **[Discussed in Item 4]**
 - The Class S-2 Preferred Stock will be cancelled for no consideration
 - Each share of the common stock of the merger sub (FPP Acquisition Corp.) will be converted into a fully paid and nonassessable share of the common stock of DHS (the surviving corporation). [The Applicants will thereby acquire all of the shares of the common stock of DHS, representing all of the issued and outstanding capital stock of DHS at the time of closing, and will thereby acquire full control of DHS, DHI and DHP.]

- At Closing, as consideration for the Stock, and subject to the terms and conditions set forth in the Merger Agreement, the Applicants will pay the Merger Consideration (currently estimated to be: [REDACTED]) to a paying agent on behalf of the selling shareholders, less:
 1. [REDACTED], which will be deposited into an escrow account (see Item #4); and
 2. [REDACTED], which will be deposited into an escrow account to be available to pay costs and expenses incurred by or on behalf of the Shareholders' Representative in the performance of its duties.
- The Merger Agreement contains representations and warranties by the parties, and imposes certain pre-closing covenants and post-closing indemnification obligations on the parties, in each case that are either customary for acquisitions of this nature or otherwise suitable for this particular Acquisition.
- The closing of the Merger is subject to closing conditions that are either customary for acquisitions of this nature or otherwise suitable for this particular Acquisition, including receipt of regulatory approvals, accuracy at the closing date of certain representations and warranties, compliance with pre-closing covenants, the absence of any Material Adverse Effect, and the delivery of specified closing documentation.
- It is anticipated that the closing of the Merger will occur on the first business day of a calendar month, which is at least two business days after the satisfaction or waiver of all closing conditions, but in any event not later than October 12, 2013, or as otherwise mutually agreed by the parties (subject to the satisfaction or waiver of all conditions precedent set forth in the Merger Agreement, including approval of the Acquisition by OCI).

Item 2: Identity and Background on the Applicant

Business Operations

- SSM: SSM is a unified health care system sponsored by the Franciscan Sisters of Mary, which is a religious institute of pontifical right under the Code of Canon Law of the Roman Catholic Church ("Canon Law") and as such is the sole Public Juridic Person and sponsor of SSM for Canon Law purposes.

SSM's principal business is the operation of a unified health care system. Based in St. Louis, MO, SSM operates 18 hospitals, has a minority interest in five hospitals, manages one hospital, has affiliations with several rural hospitals, owns two nursing homes, and has a variety of partnerships and affiliations with physicians in Wisconsin, Illinois, Missouri and Oklahoma.

- FPP: FPP is a Missouri close corporation formed in 1986. FPP is a direct, wholly-owned, subsidiary of SSM, and is subject to control by SSM.

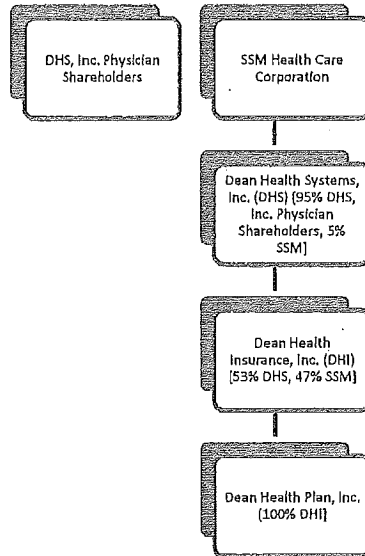
FPP's principal business is to operate as an intermediate holding company for purposes of owning, directly or indirectly, the issued and outstanding shares of capital stock of certain downstream subsidiaries of SSM.

The Applicants intend to maintain their current business operations (as discussed above) for the foreseeable future.

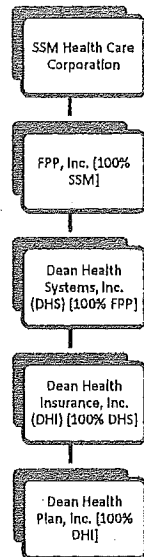
Organization Structure

Below are abbreviated charts of the organizational hierarchy (pre- and post-Acquisition):

Pre-Acquisition:



Post-Acquisition:



Item 3: Identity and Background of Individuals Associated with the Applicant

Officers and Directors

Biographical Affidavits for the following Officers/Directors of the Applicant were obtained and reviewed:

SSM Directors	Principal Occupation
David Crosby	Director of Advancement, Ninos de Mexico
Sr. Rose Dowling, FSM	President, Franciscan Sisters of Mary
Sr. Irma Kennebeck, FSM	Counselor, Franciscan Sisters of Mary
John Moten	Retired
Thomas N. Noonan	Retired
Sr. Margaret Mary O'Gorman, FSM	Spiritual Dir., St. Louis Consult. Center
Sr. Mary Jean Ryan, FSM	Chairman, SSM Health Care Corp.
Sr. Susan Scholl, FSM	Treasurer, Franciscan Sisters of Mary
Sr. Sandra Jean Schwartz, FSM	Leadership Team, Franciscan Sisters of Mary
William P. Thompson	CEO of SSM Health Care Corporation
SSM Officers	Principal Occupation
William P. Thompson	President/CEO
Steven M. Barney	Vice President
June L. Pickett	Secretary
Kris A. Zimmer	Treasurer
Charles L. Johnson, III	Interim Corp. VP-Finance and Treasury
FPP Directors	Principal Occupation
Steven M. Barney	Regional President - SSMWI
Lynn Bruchhof	Sr. VP Human Resources - SSM
Gaurov Dayal, MD	Chief Medical Officer - SSM
Paula Friedman	Sr. VP - Strategic Development - SSM
Phillip Gustafson	Reg. President - St. Mary's-Good Samaritan
Joe Hodges	Reg. President - SSMOK
Christopher Howard	Reg. President - SSM St. Louis
Thomas Langston	Sr. VP, Chief Information Officer - SSM
Michael Panicola	Sr. VP - Mission & Org Ethics - SSM
Dixie Platt	Sr. VP - Communications - SSM
William Thompson	President/CEO - SSM
Kris Zimmer	Sr. VP - Finance - SSM
FPP Officers	Principal Occupation
William Thompson	President/CEO - SSM
Steven M. Barney	Regional President - SSMWI
June L. Pickett	Secretary of SSM
Kris A. Zimmer	Treasurer of SSM

There were no concerns/exceptional responses requiring further comment.

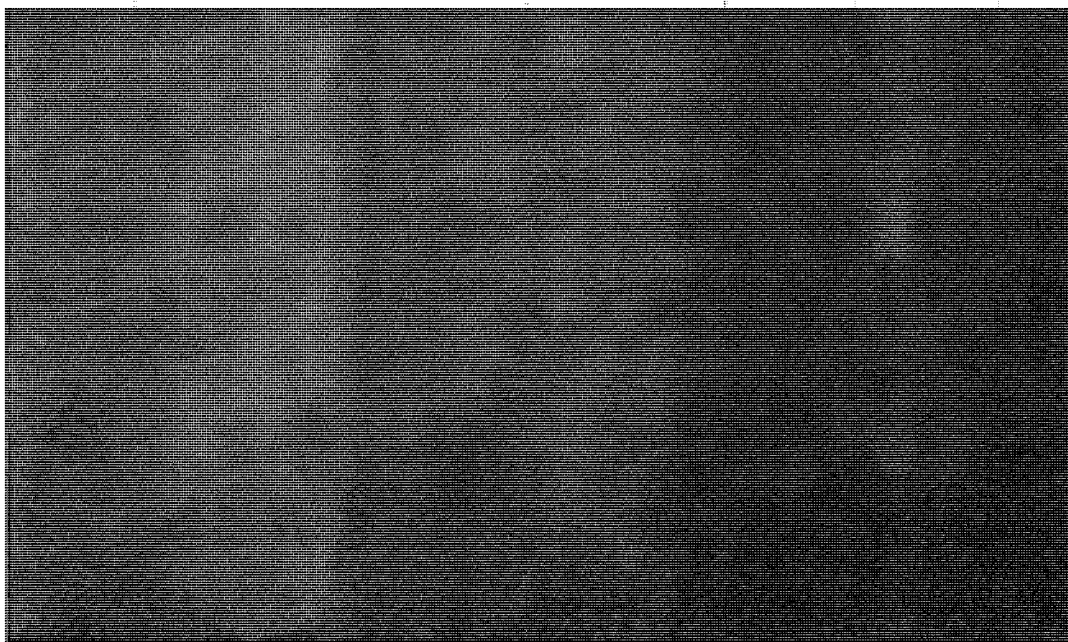
Item 4: Nature, Source and Amount of Consideration

The Applicants will pay the Merger Consideration to the DHS shareholders entirely in cash. A portion of the purchase price (the “**Escrow Amount**”) will be paid into an escrow account where it will be available, subject to the terms and conditions of the Merger Agreement to: (i) pay to Applicants any post-closing reduction in the Merger Consideration, calculated in accordance with the Merger Agreement; (ii) make a payment to the Applicants in the event physician departures exceed certain thresholds set forth in the Merger Agreement in the 18-month period post-closing; and (iii) to satisfy the Applicant’s claims for indemnification (if any) asserted within 18 months after closing. Any portion of the Escrow Amount which has not been used will be distributed to the former holders of Common Stock of DHS after the conclusion of the 18-month period during which indemnification claims can be made by the Applicants. The Applicants have sufficient cash on hand to pay the Merger Consideration without having to borrow from third parties, and the Merger Agreement contains no financing contingency. Notwithstanding that fact, SSM does intend to replenish its cash reserves through a short term loan facility of up to [REDACTED] from Citibank, N.A. (the “Citibank Loan”). The Citibank Loan will be a senior obligation under SSM’s master trust indenture, but will not be secured by any stock in, or assets of, DHI or DHP. [A copy of the term sheet for the Citibank Loan is attached as **Exhibit 4.**]

The Purchase Price is the result of an arm’s length auction process conducted by DHS and its financial advisors. Both the Applicants (collectively) and DHS were separately represented by independent financial and legal advisors throughout this process. The fairness of the Merger Consideration to the shareholders from a financial viewpoint has been confirmed in writing by DHS’ independent financial advisors. The Merger Agreement has been approved by the holders of DHS’ Class A Common Stock and Class S-1 Common Stock (constituting all of the voting stock of DHS), by approximately 97% of the voting power of such voting stock. No dissenters’ appraisal rights were exercised in connection with the Merger.

As an example using the Company’s December 31, 2012 Balance Sheet, the calculation of Estimated Merger Consideration and the amount payable at Closing would be calculated as follows:

Calculation of Estimated Merger Consideration at Closing:



Note(s):

The calculations for A-F are explained in detail in Schedule 3.01(e) to the Merger Agreement (Exhibit 1/Tab 3 of the Form A filing).

Item 5: Future Plans for the Insurers

Currently, DHS owns 52,632 shares of Class A Series A Common Stock of DHI and SSM owns 47,368 shares of Class A Series B Common Stock of DHI. Concurrently with the closing of the Merger Agreement, SSM will make a capital contribution of its 47,368 shares of Class A Series B Common Stock of DHI to FPP. Immediately following the closing under the Merger Agreement, FPP will make a capital contribution to DHS of the 47,368 shares of Class A Series B Common Stock of DHI, such that 100% of the outstanding stock of DHI will be owned by DHS. The Applicants intend that the Domestic Insurers will retain their brand identity, and will continue to operate as they do presently.

Upon closing on the Acquisition, and, as applicable, effective upon the filing of the Articles of Amendment with OCI pursuant to Wis. Stats. Section 611.29 (4): (i) the Articles of Incorporation of DHI will be amended as set forth in **Exhibit 5-A (i)**; (ii) the Bylaws of DHI will be amended and restated in full as set forth in **Exhibit 5-A (ii)**; (iii) the Articles of Incorporation of DHP will be amended as set forth in **Exhibit 5-A (iii)**, and (iv) the Bylaws of DHP will be amended and restated in full as set forth in **Exhibit 5-A (iv)**. [Copies of the Amended and Restated Bylaws of each of DHI and DHP will be filed with the Commissioner within 60 days after their adoption as required pursuant to Wis. Stats. Section 611.12 (4).] Once the amendments to the Articles of Incorporation of DHI are filed, the distinctions between Class A Series A Common Stock and Class A Series B Common Stock of DHI (all of which pertain to voting rights) will be eliminated, and DHS will own 100% of the common stock of DHI.

With one exception, the Applicants intend to retain all of the present directors of the Domestic Insurers after the closing of the Acquisition, at least through the end of 2013. The only exception is that the Applicants will appoint Gaurov Dayal, M.D. to replace Steven M. Barney on July 5, 2013, concurrently with Mr. Barney's retirement.

Except as otherwise described in the Form A, the Applicants have no other current plans or proposals to declare an extraordinary dividend, to liquidate the Domestic Insurers, to sell the Domestic Insurers' assets or to merge them with any person or persons or to make any other material change in their business operations or corporate structure or management.

Item 6: Voting Securities to be Acquired

At the effective time of the Merger, each issued and outstanding share of DHS stock will be cancelled and converted into the right to receive a portion of the Merger Consideration as set forth in the Merger Agreement, and each issued and outstanding share of stock of the Merger Sub will be converted into one share of common stock of DHS. As a result of the Acquisition, the Applicants will acquire indirect ownership and control of the 52.632% of the outstanding stock of DHI owned by DHS prior to the Merger (in addition to the 47.368% of the outstanding stock owned by the Applicants prior to the Merger), and will therefore control all of the voting securities of DHS and all of the voting securities of the Domestic Insurers.

Item 7: Ownership of Voting Securities

The Applicants currently own all of the issued and outstanding shares of Class S-1 Common Stock, as well as all issued and outstanding shares of non-voting Class S-2 Preferred Stock, of DHS. The Applicants also currently own 47,368 shares of Class A Series B Common Stock of DHI. Although the DHS Articles of Incorporation grant the holders of Class S-1 Common the right to acquire additional shares under specified conditions, this right will not be triggered or exercised in conjunction with the Acquisition. Other than as described in the Form A, neither the Applicants nor any other person listed in Item 3 has any other beneficial ownership of, or the right to acquire beneficial ownership of, any voting securities of the domestic insurer.

Item 8: Contracts/Arrangements/Understandings w/Respect to Voting Securities of the Insurer

The following is a summary of all agreements involving the Applicants with respect to the voting securities of DHS or any of the Domestic Insurers:

- Merger Agreement: The Merger Agreement (summarized in Item 1) reflects the current agreement between the Applicants and DHS in relation to the Acquisition.
- Shareholders' Agreement: SSM and DHS executed a Shareholders' Agreement dated July 27, 1995 setting forth terms and conditions pertaining to the voting securities of DHI. None of the provisions of the Shareholders' Agreement are expected to be invoked in connection with the Acquisition. Upon closing of the Acquisition, this agreement will be terminated.
- Service Agreement: DHP, DHS and SSM Health Care of Wisconsin, Inc. ("SSMWI") (a wholly owned subsidiary of SSM) are parties to a Service Agreement dated December 20, 2010, whereby DHS and SSMWI agree to provide specified covered services to DHP's members. No changes are anticipated to be made to this agreement as a result of the Acquisition.

Other than the Merger Agreement, the Shareholders' Agreement, and the Service Agreement, there are no contracts, arrangements or understandings directly or indirectly relating to any voting securities of DHS or any of the Domestic Insurers involving the Applicants, its affiliates, or any person listed in Item 3.

Item 9: Recent Purchases of Voting Securities

There have been no direct or indirect purchases of any voting securities of DHS or any of the Domestic Insurers by the Applicants, their affiliates or any person listed in Item 3 during the twelve calendar months preceding the filing of this Form A.

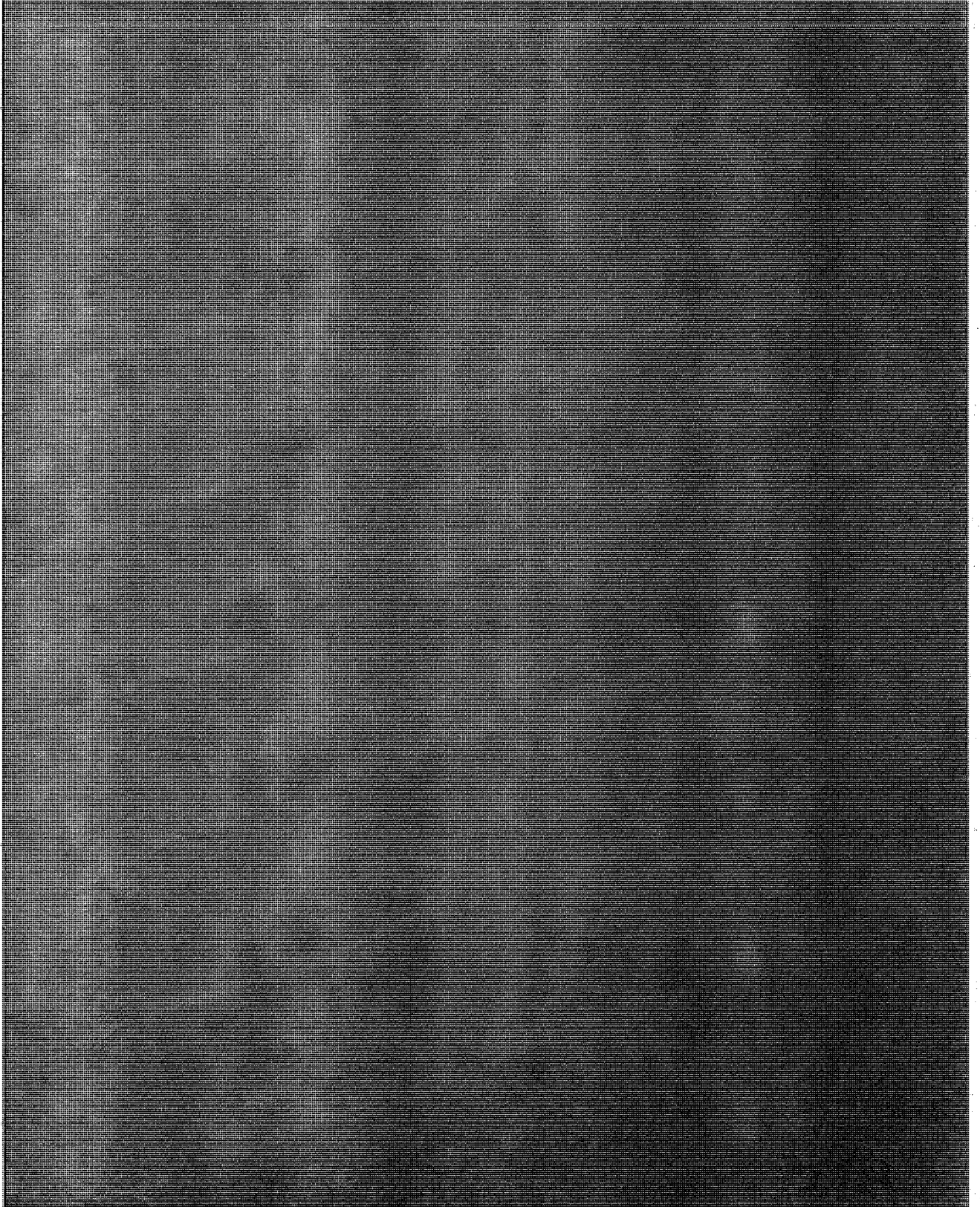
Item 10: Recent Recommendations to Purchase

Except for the Merger Agreement, neither the Applicants, their affiliates, nor any person listed in Item 3, has made any recommendations to others to acquire any shares of the voting securities of DHS or any of the Domestic Insurers during the last 12 calendar months preceding the filing of this Form A.

Item 11: Agreements with Broker-Dealers

There are no agreements, contracts, or understandings with any broker-dealer as to the solicitation of voting securities of DHS or any of the Domestic Insurers for tender.

Item 12: Financial Statements (Applicants)



Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), Wis. Stat. (Grounds for Disapproval):

- a) 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?

Did the Filing Adequately Address this Concern? Yes.

Comments: As indicated in Item 5, the Applicants do not plan to make any changes to the operations, corporate structure or management of the Domestic Insurers, and they have no plans to sell their assets or merge them with any other entities. Moreover, as indicated in Item 4, the Applicant asserts that should a short-term loan facility be required to effect this transaction, it will not be secured by any stock or assets of DHI or DHP. As such, the change in control should have no impact on the Domestic Insurers ability to satisfy the statutory requirements for the lines of insurance for which they are presently licensed.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

Did the Filing Adequately Address this Concern? Yes.

Comments: The Applicants are not insurers, and do not own any other insurance companies operating in the State of Wisconsin. As such, the acquisition will not create a monopoly, and is not expected to lessen competition in the State of Wisconsin.

- c) 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?

Did the Filing Adequately Address this Concern? Yes.

Comments: Analysis of the Applicant's financial condition (see Item 12) did not identify any concerns that are likely to jeopardize the financial stability of the domestic stock insurance corporations or their parent insurance holding corporation, or prejudice the interests of their policyholders.

- d) 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?

Did the Filing Adequately Address this Concern? Yes.

Comments: As indicated in Item 5: Except as previously discussed in the Form A filing: "The Applicants have no other current plans or proposals to declare an extraordinary dividend, to liquidate the Domestic Insurers, to sell the Domestic Insurers' assets, or to merge them with any person or persons or to make any other material change in their business operations or corporate structure or management."

- e) 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 policyholders of the corporation and of the public to permit the merger or acquisition of control?

Did the Filing Adequately Address this Concern? Yes.

Comments: As indicated in Item 3, there were no concerns noted in the Biographical Affidavits filed for the Applicant's Directors/Officers.

Hearing Required?: Per s. 611.72 (3m), Wis. Stat.: "A hearing is not required under sub. (3) Before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer." Is a Hearing required for this filing? (Y/N)

Yes. Since the Applicant is currently a minority shareholder of the domestic insurers' parent (DHS), and will control 100% of DHS after the proposed transaction, there will be a change in the controlling person if the transaction goes through, and therefore a hearing will be required

Follow-up Items

The Applicant (per letter dated July 23, 2013) adequately addressed the issues identified in OCI's July 11, 2013 application follow-up letter.

Conclusion

It is recommended that the proposed acquisition of control of Dean Health Insurance, Inc. and Dean Health Plan, Inc. by SSM Health Care Corporation and FPP, Inc. be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.