

February 19, 2016

HAND DELIVERED

Kristin Forsberg, CPA, CFE
Insurance Financial Examiner/Licensing Specialist
Bureau of Financial Analysis and Examinations
Office of Commissioner of Insurance
P O Box 7873
Madison WI 53707-7873

2016 FEB 22 AM 10:41
RECEIVED
OFFICE OF THE COMMISSIONER
OF INSURANCE

Re: Statement Regarding the Acquisition of Control
of Gundersen Health Plan, Inc. by University Health Care, Inc.
and Unity Health Plans Insurance Corporation by
Gundersen Lutheran Health System, Inc.
Pursuant to Wis. Adm. Code §§ Ins 40.02 and 40.025

Dear Ms. Forsberg:

This letter responds to your letter of January 29, 2016 on the above-captioned proposed transaction. The parties to the transaction address each of the points in your January 29 letter in the order given.

1. **Form AA – Consent to Jurisdiction: Please submit a signed consent to jurisdiction form using form AA for Applicants UHC and GHS.**

Enclosed with this letter are fully executed Form AA Consent to Jurisdiction forms for UHC and GHS.

2. **Other State Contacts**

(a) **Minnesota:** Gundersen Health Plan of Minnesota is a not-for-profit health maintenance organization (HMO) that has Gundersen Health Plan, Inc. as its sole member. The Minnesota Department of Commerce does not regulate HMOs although it does assist the Department of Health in reviewing the financial statements and condition of HMOs. Minnesota HMOs are regulated by the Department of Health. Our contact at the Minnesota Department of Health is Darcy Miner, Director, Health Regulation Division. We have also spoken and corresponded with Constance Peterson of the Minnesota Department of Commerce, Insurance Division.

Minnesota does not require a Form A filing for a change of control of HMOs. Rather, HMOs are governed by Chapter 62D of the Minnesota Statutes. Section 62D.03, subd. 4, requires HMOs to file certain documents, including articles of incorporation, bylaws and agreements between the HMO and directors/officers/shareholders, and to file any changes to those documents. By letter dated January 25, 2016 to Ms. Miner of the Minnesota Department of Health with a copy to Constance Peterson of the Minnesota Department of Commerce, we described the transaction between UHC and GHS and filed with the Minnesota Department of Health copies of the Exchange Agreement, pre- and post-transaction organizational charts and the Management Agreement. We have also informed the Department that no documents currently on file with the Minnesota Department of Health with respect to Gundersen Health Plan Minnesota are being amended or changed in any way as the immediate result of the transaction between UHC and GHS, although there may be changes in the future which we will file at that time. We have received preliminary indication from the Department of Health that the Department does not find any conflict in the transaction with Minnesota law but we are waiting for a more formal response to the filing.

- (b) **Iowa:** We have not made a Form E filing with the Iowa Insurance Department. Iowa law does not appear to require a Form E filing. A representative of the Company Division of the Iowa Insurance Department has informed us that the only filing required in Iowa is an after-closing informational letter with a copy of the regulatory approval from the Wisconsin Office of the Commissioner of Insurance.

3. **Exchange Agreement (Exhibit A):**

- (a) **Section 6.4 – Antitrust Matters: Discussion of criteria used to determine the proposed transaction is exempt under the HSR filing requirements.**

The transaction does not meet the reporting thresholds under the Hart-Scott-Rodino Antitrust Improvements Act, as amended (“HSR Act”). (See 15 U.S.C. § 18A(a)(2).) The current size-of-transaction threshold is \$76.3 million (see 80 FR 2934), and will be increased to \$78.2 million on February 25, 2016 (see 81 FR 4300). The size-of-transaction is measured as what the acquiring person will hold as a result of the transaction. Under the HSR Rules, the value of voting securities to be acquired is either the acquisition price (if one has been determined), or the fair market value. (See 16 C.F.R. § 801.10(a)(2).) The HSR Rules do not prescribe specific methodologies for determining the fair market value, but simply state that it must be determined in good faith by the board of directors of the acquiring party or its designee (e.g., a third party consultant, or a member of the entity’s finance team) within 60 calendar days prior to closing (if no filing is required). (See 16 C.F.R. § 801.10(c)(3).) Accordingly, Gundersen Lutheran Health System, Inc. (“GHS”) must determine the fair market value of the 25 percent interest in Unity that it will acquire,

and UHC must determine the fair market value of the 75 percent interest in GHP that it will acquire.

The parties engaged Valuation Research Corporation (“VRC”) to determine the fair market value of 100 percent of each of Unity and GHP. VRC estimated that the total value of GHP was in the range of \$18.1 million to \$24.7 million, which is well below the current HSR size-of-transaction threshold (and likewise, the value representing the 75 percent interest UHC will acquire would be even lower). VRC estimated that the total value of Unity is in the range of \$55.3 million to \$65.7 million, which again is well below the current HSR size-of-transaction threshold (and likewise, the value representing the 25 percent interest GHS will acquire would be even lower).

Although, these fair market valuations are slightly more than 60 calendar days old, the boards of both GHS and UHC do not believe the financial condition of either entity has changed such that the fair market valuations would be different than what VRC determined in the fair market valuations dated November 30, 2015.

(b) Section 6.13 – Risk Arrangement: What is meant by the term “assigned risk pool.” Identify the document in which the terms of this arrangement are discussed.

The parties do not currently have a formal risk pooling arrangement. Rather, they have agreed that they will develop and enter into a provider agreement later in 2016 that will provide for a formal risk pooling arrangement. Currently both Unity and GHP have formal risk pool arrangements in place today for calendar year 2016 and the parties will review those arrangements and determine the appropriate agreement for the new enterprise for 2017. Any agreement will be filed with the OCI as a Form D filing.

4. Proposed GHP Officers: Officer position that each of the following individuals will hold at GHP:

Each of the following individuals will hold the office at GHP that is indicated next to his or her name.

Terry R. Bolz – President and CEO
Gary Lenth, M.D. – Chief Medical Officer and Executive Vice President
James L. Hiveley – Vice President of Finance, Treasurer and Chief Financial Officer
Christine C. Senty – Vice President, Secretary and General Counsel

5. Proposed Unity Officers: Officer position that each of the following individuals will hold at Unity:

Each of the following individuals will hold the office at Unity that is indicated next to his

or her name.

Terry R. Bolz – President and CEO
Gary Lenth, M.D. – Chief Medical Officer and Executive Vice President
James L. Hiveley – Vice President of Finance, Treasurer and Chief Financial Officer
Christine C. Senty – Vice President, Secretary and General Counsel

6. **Biographical Affidavits:**

Biographical Affidavits are included under separate cover for the following individuals:

UHC Directors and Officers:	Robert Golden, M.D., Director Jeffrey Grossman, Director and Interim Chief Executive Officer Kenneth Mount, Director and Secretary Daniel Brzozowski, Corporate Counsel Thomas Kientiz, Assistant Secretary Stephanie Orzechowski, Vice President
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GHS Trustees ¹ and Officers:	Brad Sturm, Chair of the Board Gregory Prairie, Vice Chair of the Board Wendy Lommen, Treasurer Scott Rathgaber, M.D., Chief Executive Officer Mark Glendenning, Trustee Jerry Kember, Trustee John Lyche, Trustee Stephen B. Shapiro, M.D., FACS, Trustee Brian M. Sieck, M.D., Trustee Jon Zlabek, M.D., FACP, Trustee Brian Mulrennan, M.D., Trustee Kelley Bahr, M.D., Trustee Deb Rislow, Chief Operating Officer Kathy Klock, Senior Vice President Mark Platt, Senior Vice President
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Proposed Directors ² of GHP	Gerald Arndt, Director James Falck, Director
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All other Biographical Affidavits of the directors and officers of UHC and GHS and the

¹ Brian Rude was listed in the Form A as secretary of the Board of Trustees and a trustee of GHS; however, Mr. Rude has resigned and is no longer affiliated with GHS.

² GHP has just learned that Charles Weber will not be available to serve as a director of GHP. GHP is currently seeking a candidate to replace Mr. Weber.

proposed directors and officers of GHP and Unity are already on file with the OCI.

7. **Financial Advisors' Opinion (Item 4); Ownership:**

- (a) **Names of the external valuation and tax advisory firms used by Applicants to assess the fairness of the transaction. Identify which advisors were hired independently by UHC and GHS, respectively.**

Both parties engaged Valuation Research Corporation, Milwaukee, WI, to do a preliminary evaluation. The final evaluations will be done once the parties have received regulatory approval for the transaction. UHC and Unity engaged Grant Thornton and Michael Best and GHS and GHP engaged Ernst and Young and Godfrey & Kahn for the tax advisor review.

- (b) **Copies of any opinion letters issued by external valuation or tax advisors on fairness of the transaction.**

Valuation Research Corporation provided seven separate documents to value GHP and Unity. Those documents are included under separate cover and we request that the OCI keep the documents confidential for the reasons set out in our December 22, 2015 letter.

Neither Grant Thornton nor Michael Best provided a written tax opinion to UHC and Unity. Neither Ernst and Young nor Godfrey & Kahn provided a written tax opinion to GHS and GHP.

8. **Migration of Business (Item 5): Discuss the mechanisms that will be employed to effect the proposed migration of business.**

Please see confidential letter of same date.

9. **GHS (Obligated Group) Audited Combined Financial Statements (Exhibit U): Audited (or unaudited financial statements for the entire Gundersen Health System, including GHS, GHP, and all other affiliates.**

The Statement of Financial Position for Gundersen Health System as of December 31, 2014 and September 30, 2015 is being sent under separate cover. GHS does not release this information to the public and is requesting the OCI to keep it confidential for the reasons set out in our December 22, 2015 letter. GHS has neither audited nor unaudited financial statements for the entire Gundersen Health System for years prior to 2014.

10. **UHC's 2014 Consolidated Financial Statements (Exhibit T): Provide a copy of the Member Substitution Agreement between UHC and SwedishAmerican Health System. Explain why UHC's organizational chart (Exhibit L) does not reflect this**

ownership.

Enclosed under separate cover is a copy of the Member Substitution Agreement between UHC and SwedishAmerican Health System Corporation. We request that the OCI keep the documents confidential for the reasons set out in our December 22, 2015 letter.

Effective January 1, 2015, Regional Division, Inc. f/k/a University Health Care, Inc., became the sole member of SwedishAmerican Health System Corporation by virtue of a member substitution transaction. On January 12, 2015, Wisconsin Value Network, LLC changed its name to AboutHealth, LLC. Subsequent to January 1, 2015, AboutHealth, LLC has also admitted additional members which has diluted the respective share of each participating health system. On April 15, 2015, University Health Care, Inc. filed articles of amendment with the Wisconsin Department of Financial Institutions ("DFI") to change its name to Regional Division, Inc. Simultaneously, University Health Resources, Inc. filed articles of amendment with DFI to change its name to University Health Care, Inc. Pursuant to an agreement that was effective July 30, 2015, Regional Division, Inc. f/k/a University Health Care, Inc. withdrew as a member of the Watertown Network, LLC. This entity is now wholly owned by Watertown Medical Center, LLC or its affiliates.

UHC Organizational Chart: Why is there a discrepancy between the UHC organizational chart provided with UHC's December 1, 2014 Form A Statement and UHC's organizational chart filed with the December 22, 2015 Form A Statement?

We included a simplified organizational chart with the December 22, 2015 Form A Statement. Included with this letter is a more detailed organizational chart. The paragraph immediately above includes a description of the transactions that occurred since the December 1, 2014 Form A Statement and that are shown in the organizational chart that is included with this letter.

If University Health Resources, Inc., changed its name to University Health Care, Inc., when did this name change occur?

University Health Resources, Inc. changed its name to University Health Care, Inc. effective April 15, 2015.

What is the name of the entity which currently owns Watertown Network, LLC and UW Cancer Center Johnson Creek, LLC? [Also, did this entity change its name, and if so, when and what was the prior name?]

Regional Division, Inc. holds a one-third interest in UW Cancer Center Johnson Creek, LLC. The Regional Division, Inc. name change was effective on April 15, 2015, simultaneous with the University Health Care, Inc. name being assumed by University Health Resources, Inc. See the attached DFI screenshots.

Provide a current organizational chart showing all entities controlled by or affiliated with UWHCA and UWMF (including SwedishAmerican Health System.)

The organizational chart is included with this letter.

11. **Pro Formas – Capital Contributions to Unity: Explanation of the funding source(s) for contributions to Unity and provide the underlying reasons as to why these anticipated capital contributions will be necessary.**

The funding sources will be UHC and GHS, with UHC contributing 75% and GHS contributing 25% of any capital contributions. Management estimates that \$21 million will be needed by the entities to address three main areas: (a) ITS integration for both entities involving infrastructure systems, claim/enrollment processing systems, data warehouse systems, web portal systems, telecom systems and security; (b) branding and marketing of the new entity; and (c) research, development and selling the new products across all markets.

12. **Unity & GHP Premium & Enrollment – as of 12-31-15 (selected counties): Provide the Unity and GHP Premium and enrollment figures as of 12-31-15 for Crawford, Grant, Juneau, Richland, Sauk and Vernon counties.**

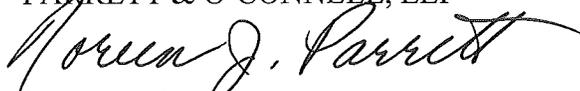
Excel spreadsheets for both GHP and Unity showing the requested information in the above-mentioned counties are included under separate cover. We ask that the OCI keep these spreadsheets confidential for the reasons set out in our December 22, 2015 letter.

As indicated above, the Biographical Affidavits, Member Substitution Agreement between UHC and SwedishAmerican Health System Corporation, and the market shares of Unity and GHP in the six counties where Unity and GHP have overlapping operations are being sent under separate cover. UHC and GHS request that those documents be kept confidential for the reasons stated in our letter of December 22, 2015.

Should you have any questions on the enclosed materials, please call or email and we will respond as quickly as possible. We appreciate your consideration of this filing.

Sincerely,

PABRETT & O'CONNELL, LLP


Noreen J. Parrett

Enclosures

Kristin Forsberg
February 19, 2016
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cc: Christine Senty (w/encl.)
Daniel Lilly (w/encl.)