



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

December 30, 2014

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ociinformation@wisconsin.gov](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

WILLIAM J TOMAN ESQ  
QUARLES & BRADY LLP  
33 EAST MAIN STREET  
SUITE 900  
MADISON WI 53703

Re: Form A – Acquisition of Control of MercyCare Insurance Company and MercyCare HMO, Inc. by Interstate Alliance, Inc.

Dear Mr. Toman:

The State of Wisconsin Office of the Commissioner of Insurance (“OCI”) has performed a preliminary review of the above-referenced Form A filing submitted on December 26, 2014 by Interstate Alliance, Inc. (“Applicant”). To ensure that the Form A review process continues to move forward expeditiously, please provide the following information at your earliest convenience:

1. Rockford Health System (“RHS”): RHS is a non-stock Illinois corporation. Please identify:
  - (a) The corporate members of RHS, and their representation on the RHS board of directors, or alternatively,
  - (b) If RHS has no corporate members, please discuss how the RHS board members are chosen.
  - (c) Please provide a current copy of the RHS Bylaws.
2. Purpose of the Proposed Transaction: Please state:
  - (a) What are the objectives RHS hopes to achieve if the proposed transaction is consummated? How will the proposed transaction specifically benefit RHS and its subsidiaries?
  - (b) What are the objectives Mercy Alliance, Inc. (“MAI”) hopes to achieve if the proposed transaction is consummated? How will the proposed transaction specifically benefit MAI, and MCIC and MCHMO?
3. Prior Merger Attempts – Cadence and OSF: It is our understanding that RHS recently entered into separate merger negotiations with Cadence Health and OSF Healthcare System, and that these negotiations were terminated prior to closure. Please discuss the rationale as to why each transaction was terminated prior to closure.
4. Biographical Form A’s:
  - (a) Please submit signed and notarized Biographical Form A’s (OCI Form 21-200 (R 09/2005)) for the Interstate Alliance directors and executive officers set forth in Exhibit 4 to the Form A. [Note: If this biographical information was previously submitted in conjunction with a Form B holding company registration statement filed with OCI – please state this in your response.]
  - (b) Please provide a list of the current MAI board of directors.

- (c) Please identify which RHS directors would be added to the MAI board in January 2015.
5. Ziegler Analysis: We understand that Ziegler Investment was engaged to provide a bond rating analysis using the consolidated financial projections of MAI and RHS. Please provide a copy of this analysis.
6. Hart-Scott-Rodino Anti-Trust (HSR) Determination: Please provide a copy of the FTC's determination as to whether the proposed transaction will/will not adversely affect U.S. Commerce under the federal anti-trust laws (when available).
7. Debt Service Coverage Ratio:
- (a) Please provide the Debt Service Coverage Ratio for both RHS and MAI for the last 5 fiscal years.
- (b) Does RHS try to maintain a minimum threshold for this ratio? If so – what is the minimum threshold?
- (c) Does MAI try to maintain a minimum threshold for this ratio? If so – what is the minimum threshold?
8. Financial Statements:
- (a) Please provide audited consolidated financial statements for RHS for the Fiscal Years ended December 31, 2012, 2011, 2010 and 2009, and 2014 year-to-date (unaudited) financial statements.
- (b) Please provide audited consolidated financial statements for MAI for the Fiscal Year ended June 30, 2014, and the most recent (unaudited) 2014-15 year-to-date financial statements.
9. Capital Commitment – section 7.3 of the System Formation Agreement
- (a) It was difficult to understand section 7.3. What is “the Mercy Commitment” (referred to in 7.3 (b) but not clearly defined)? Of the “at least \$250 million” in Routine Capital and Growth Capital to be spent on RHS entities in the next five years, how much is MAI expected to provide?
- (b) We noted that RHS depreciates fixed assets up to 40 years, whereas MAI depreciates fixed assets for no longer than 25 years. (RHS may change its depreciation policies to be consistent with MAI's in the near future.) After the initial capital investment of \$250 million in RHS over 5 years, what is the expected amount of RHS' subsequent depreciation expense, for 80% of which Interstate Alliance will have an on-going obligation to fund additional capital investments (presumably funded in full or in part by MAI)?
- (c) Section 7.3 (c) appears to establish that the RMDF (which appears to control about \$132 million) is not required to fund any of the capital investments described in section 7.3. Why is there no commitment for the RMDF to contribute a specific sum to the needed capital improvements for RHS?

[ continued next page ]

Please feel free to call Kristin at (608) 266-9896 if you have any questions.

Sincerely,

/ s /

Kristin L. Forsberg  
Insurance Financial Examiner  
Bureau of Financial Analysis and Examinations  
(608) 266-9896  
[kristin.forsberg@wisconsin.gov](mailto:kristin.forsberg@wisconsin.gov)

/ s /

Peter Medley  
Deputy Director  
Bureau of Financial Analysis and Examinations  
(608) 267-5030  
[peter.medley@wisconsin.gov](mailto:peter.medley@wisconsin.gov)

cc: Paul Van Den Heuvel, Mercy Alliance, Inc.