

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES

**ACQUISITION OF M-CARE AND M-CAID BY BLUE CARE NETWORK OF MICHIGAN and
ACQUISITION OF MICHIGAN HEALTH INSURANCE COMPANY BY
BLUE CROSS BLUE SHIELD OF MICHIGAN**

**NOTICE OF PUBLIC HEARING
Monday, November 13, 2006
Auditorium 1
Eagle Crest Conference Center
1275 South Huron Street
Ypsilanti, Michigan 48197
1:00 p.m.**

Linda A. Watters, Commissioner of the Office of Financial and Insurance Services, the Department of Labor and Economic Growth, will hold a public hearing on Monday, November 13, 2006, starting at 1 p.m. at Auditorium 1, Eagle Crest Conference Center, 1275 South Huron Street, Ypsilanti, MI 48197. The hearing will be held to receive public comments on the application of Blue Care Network (BCN) of Michigan, a wholly owned HMO subsidiary of Blue Cross and Blue Shield of Michigan, to acquire from the University of Michigan Board of Regents control of M-CARE, a Michigan HMO, to acquire control of M-CAID, a wholly owned HMO of M-CARE that specializes in Medicaid, and on the application of Blue Cross and Blue Shield of Michigan (BCBSM) to acquire all outstanding shares of the common stock and control of Michigan Health Insurance Company, a Michigan disability insurance company. All entities involved are subject to regulation by the Commissioner of the Office of Financial and Insurance Services, and all acquired entities are subject to Chapter 13 of the Michigan Insurance Code, 1956 PA 218, MCL 500.1301 *et. seq.*

Under MCL 500.1315 – available at www.legislaturemi.gov - the Commissioner must approve the applications of BCN and BCBSM proposing acquisition and control of M-CARE, M-CAID, and Michigan Health Insurance Company, unless the Commissioner determines, on the basis of information submitted, that the acquisition would result in one or more conditions found in MCL 500.1315. The conditions listed in MCL 500.1315 include whether the acquisition may jeopardize the financial stability of the insurer, prejudice the interests of policyholders or securityholders, lessen competition, create a monopoly, include terms unfair or unreasonable to policyholders and not in the public interest, or result in unqualified management.

Copies of the Form A applications of BCN and BCBSM are available at www.michigan.gov/ofis. The Exhibits attached to those applications may be examined at the Office of Financial and Insurance Services by contacting:

Mischelle Finley, Records Technician, 517-241-4490, mfinle@michigan.gov, and coming to the following address:

Department of Labor and Economic Growth
Office of Financial and Insurance Services
611 W. Ottawa Street, Third Floor
Lansing, MI 48933

Copies of the Exhibits attached to the applications may be obtained by filing a Freedom of Information Act request at the same address with Dawn Kobus, Asst. to FOIA Coordinator, 517-373-0435, dkobus@michigan.gov. The copy cost is twenty-five cents (.25) per page.

The Commissioner will accept comments submitted electronically to Cheryl Hall at cmhall@michigan.gov until 5 p.m. on November 13, 2006 and will accept oral and written comments at the public hearing site until the close of the public hearing on November 13, 2006. Any objections to the proposed acquisitions should reference an authorized reason for disapproval specified in MCL 500.1315.

The hearing site is accessible, including handicapped parking. Individuals attending the meeting are requested to refrain from using heavily scented personal care products in order to enhance accessibility for everyone. People with disabilities requiring additional accommodations, such as information in alternative formats in order to participate in the hearing, should contact Marilyn Rzepecki toll free at (877) 999-6442 or at (517) 373-0246, preferably 14 days and at least 7 working days before the hearing.

FORM A

**STATEMENT REGARDING THE ACQUISITION OR
CHANGE OF CONTROL OF A
DOMESTIC INSURER**

MICHIGAN HEALTH INSURANCE COMPANY
NAME OF DOMESTIC INSURER

BY

BLUE CROSS AND BLUE SHIELD OF MICHIGAN
NAME OF ACQUIRING PERSON (APPLICANT)

FILED WITH THE OFFICE OF FINANCIAL AND INSURANCE SERVICES
OF THE STATE OF MICHIGAN

Date: October 12, 2006

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

Lisa DeMoss
Sr. Vice President, General Counsel and Corporate Secretary
Blue Cross and Blue Shield of Michigan
600 Lafayette East, #1929
Detroit, Michigan 48226
(313) 225-0015

ITEM 1. METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

This Statement relates to the proposed acquisition of control of Michigan Health Insurance Company, a Michigan disability insurance company (the "Insurer"). The Insurer maintains its statutory home office at 2301 Commonwealth Boulevard, Ann Arbor, MI 48105.

Blue Cross and Blue Shield of Michigan, a Michigan health care corporation (the "Applicant"), proposes to acquire direct control of the Insurer through the acquisition from M-CARE, a Michigan health maintenance organization, of all the issued and outstanding shares of the common stock of the Insurer (the "Transaction"). The Applicant will pay the purchase price for the acquisition in cash, pursuant to the terms of the Stock Purchase Agreement attached hereto as Exhibit A ("MHIC Stock Purchase Agreement"). The Transaction is part of the larger acquisition of M-CARE and M-CAID ("M-CARE Transaction") by Blue Care Network of Michigan, a wholly owned HMO subsidiary of the Applicant ("BCN"), from the Regents of the University of Michigan ("UM") pursuant to the terms of a Stock Purchase Agreement that is described in a Form A filing made with the Office of Financial and Insurance Services ("OFIS") simultaneously with this filing.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

- (a) State the name and address of the applicant seeking to acquire control over the insurer.

The Applicant is Blue Cross and Blue Shield of Michigan, a nonprofit corporation formed pursuant to Michigan Public Act 350 of 1980. The Applicant does not have either voting securities or shareholders.

- (b) If the applicant is not an individual, state the nature of its business operations for the past 5 years or for such lesser period as such person and any predecessors thereof shall have been in existence. Describe the business intended to be done by the applicant and the applicant's subsidiaries.

The Applicant is a nonprofit health care corporation regulated under Public Act 350 of 1980. Directly, and through its subsidiaries, it makes a number of health care related products and services available to groups and individuals. Through its HMO subsidiary, Blue Care Network of Michigan, it markets and administers health care plans for groups and individuals. The Applicant and BCN offer prepaid hospital and medical coverages throughout the state of Michigan, and the Applicant also administers the health care coverage plans of self-funded groups.

In 1994, the Applicant acquired the Accident Fund of Michigan, n/k/a the Accident Fund Insurance Company of Michigan, which is a property and casualty insurer writing workers' compensation and employer's liability lines

of coverage. In 2002, the Applicant acquired Health Care Exchange, Ltd., a/k/a DenteMax, which is a national, seamless, credentialed dental PPO network used by hundreds of insurance companies and administrators nationwide. And, in late 2005, the Applicant began the formation of LifeSecure Insurance Company, a Michigan disability insurer, which received its Certificate of Authority from OFIS in July of 2006, and presently provides long term care insurance to individuals.

The acquisition of the Insurer by the Applicant is consistent with its mission, which is “to excel in the delivery of health care-related products and services that emphasize access to quality health care at affordable prices” and to meet “our public responsibilities and maintain[ing] our nonprofit status.” In order to accomplish that mission, the Applicant has identified certain values, which include (i) developing new approaches to the challenge of assuring all citizens of Michigan access to reasonably priced, quality health care, (ii) operating efficiently and fairly representing the interest of program beneficiaries in the role of administrator of government-sponsored health programs, (iii) designing and administering competitive, quality, cost-effective health care benefit programs, (iv) providing superior service to all customers, subscribers and providers, and (v) striving to succeed as a business enterprise in order to fulfill the other aspects of its mission.

Very simply, the Transaction and the M-CARE Transaction will permit the Applicant and its subsidiaries to enhance their competitiveness, offering long-term value to customers, members and participating providers and bringing together a well-respected health care organization with a nationally renowned academic leader in health care. It will also result, on or prior to the closing, in the formation of a joint venture between the Applicant and the University of Michigan Health System in the form of a limited liability company joining two Michigan institutions with similar nonprofit missions of service. The joint venture will, among other things, be directed at improving the quality, safety, efficiency and appropriateness of clinical care delivery throughout Michigan and optimizing the health status and healthcare delivery for the residents of the State of Michigan, members of BCBSM and its affiliates and patients of the University of Michigan Health System. It recognizes the success of current quality improvement projects that involve UM researchers and receives support from BCBSM, including an award-winning project that has helped save lives and dollars by reducing complications in angioplasty patients at hospitals across the state.

- (c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant, including the ultimate controlling person(s). No affiliate need be identified if its total assets are equal to less than ½ of 1% of the total assets of the ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the

ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing, indicate the type of organization (e.g., corporation, trust, partnership) primary business (e.g. holding company, insurance agency, manufacturer) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

See Exhibit B, Chart and Descriptive Listing of Subsidiaries and Affiliates. There are no court proceedings involving a reorganization or liquidation pending with respect to the Applicant or any of its affiliated entities.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

State the following with respect to 1) the applicant if she or he is an individual 2) if the applicant is not an individual, all persons who are, or who have been selected to be, directors, executive officers (or others who perform or will perform functions appropriate to those positions) or owners of 10% or more of the voting securities of the applicant, and 3) in all instances where individuals will be the direct or indirect source of funding for the acquisition:

- (a) Name and business address.
- (b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on.
- (c) All occupations, positions, offices or employment during the last 5 years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.
- (d) Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last 10 years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case. Whether or not such person has had any civil judgments against the person resulting in \$25,000 or more in civil fines or penalties or injunctive or other equitable relief.
- (e) Upon the request of the Commissioner, individuals shall provide fingerprint cards pursuant to Section 249a for state, multi-state, and federal criminal history record checks.

A list of the Applicant's directors and executive officers, along with the requested biographical information for each, is attached hereto as Exhibit C. The Applicant does not have either voting securities or shareholders.

ITEM 4. NATURE, SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

- (a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. Describe any transaction where funds were or are to be obtained for such purpose, including any pledge of the insurer's stock or pledge of the stock of any of its subsidiaries or controlling affiliates. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating to thereto.

The purchase price payable to M-CARE under the Stock Purchase Agreement is \$35,000,000 subject to adjustment in the event that the shareholder net worth at closing exceeds or is less than \$12,245,000. It is subject to further adjustment fifteen months after the closing based on the difference between the amount of the estimated accrued health care expenses at the closing and the actual amount. "Accrued health care expenses" are defined as (i) all reported but unpaid claims and incurred but not reported claims related to healthcare services provided to those persons for which the Insurer provided or provides medical coverage; (ii) unpaid claims adjustment expenses, and (iii) estimates of settlements and returns of withholding under risk share arrangements with providers.

The Applicant intends to pay the purchase price from cash on hand from operations.

- (b) Explain the criteria used in determining the nature and amount of such consideration.

See response to Item 4(a) above.

In addition, the amount and nature of the consideration set forth in the MHIC Stock Purchase Agreement were the result of extensive arm's-length negotiations conducted between BCBSM and M-CARE (and its sole owner, UM). Legal counsel and financial advisors actively participated in the negotiations with the result that the parties to the Transaction believe the purchase price to be fair consideration for the purchase. In determining the purchase price, the parties considered, among other things, the Insurer's earnings and cash flow, its assets' quality and amount, and its liabilities.

- (c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

Not applicable.

ITEM 5. FUTURE PLANS FOR THE INSURER

- (a) Describe any plans or proposals which the applicant may have for the insurer to declare a dividend, (whether or not extraordinary), to liquidate the insurer, to sell its assets, to merge it with any person or persons, or to make any other material change in its business operations or corporate structure or management.

The Applicant plans on continuing the Insurer's operations for the terms of the contracts that the Insurer has with its group and individual customers honoring such contracts through 2007. Thus, it will honor all the Insurer's 2007 rates and renewals prior to the closing and then transition them to coverage with the Applicant or its affiliates for 2008 and afterwards. Groups and individuals who have not already renewed prior to the closing may be moved to a product of the Applicant or its affiliates at renewal in 2007.

After that time, the Applicant contemplates that it will dissolve the Insurer. Given the above-described plans, there is no five year business plan for the Insurer. The discontinuation of operations will, by necessity, result in changes to its present business practices; however, the Applicant intends to continue with the Insurer's present reinsurance program until the Insurer ceases operations and is dissolved.

To facilitate efficient business operations, BCN will enter into a Transition Services Agreement and an Employee Leasing Agreement with UM that will cover the Insurer, too, and permit the Insurer's operations to continue in the ordinary course until such time as the Applicant is ready to dissolve the Insurer. It is likely that MHIC will need additional services that the Applicant or its affiliates could perform, in which case they will likely enter into one or more management services agreements similar to the forms of agreements that presently exist among the Applicant and its affiliates and are on file with OFIS. The Applicant will finalize its determination before the closing, and if such agreements are necessary, they will promptly be filed with OFIS on Form D.

Finally, it is the Applicant's intent to replace the officers and directors upon the closing with certain persons who act as officers and directors of BCBSM or BCN or with other persons as may be required by law.

- (b) Provide a 5 year business plan which describes the types of business to be written by the insurer, marketing plan, projected direct, assumed, ceded, and net written premiums by line, pro-forma statutory balance sheets and income statements.

Also, describe proposed changes to the insurer's reinsurance program (if any), amount, timing, and type of capital contributions (if any), proposed changes to the insurer's executive officers and directors, and compliance plan with the "books and records in Michigan" requirement of Section 5256.

See response to Item 5(a).

At the present, the books and records of both the Applicant and the Insurer are maintained in Michigan in accordance with MCL 500.5256, and it is the Applicant's intent to continue to maintain such books and records in Michigan so that they are available to the Commissioner of OFIS as required by law.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates, and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement, or acquisition and a statement as to the method by which the fairness of the proposal was arrived at.

The Insurer has 10,000,000 shares of voting common stock issued and outstanding (the "Common Stock"), all of which are currently owned by M-CARE and all of which will be acquired pursuant to the MHIC Stock Purchase Agreement. See also the Response to Item 4(b) above.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Except for rights to the Common Stock of the Insurer pursuant to the MHIC Stock Purchase Agreement, neither the Applicant nor any of its affiliates nor any person listed in Item 3, legally, directly, indirectly, or beneficially owns or has any right to acquire legal, direct, indirect, or beneficial ownership of any voting securities of the Insurer at this time.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option agreements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom the contracts, arrangements or understanding have been entered into.

Except for rights to acquire the Common Stock of the Insurer as provided in the MHIC Stock Purchase Agreement, the M-CARE Transaction, and the formation of the joint venture on or prior to the closing as described in response to Item 2(b), neither the Applicant nor any of its affiliates nor any person listed in Item 3 has any agreements, arrangements, or understandings with respect to any voting securities of the Insurer at this time.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

There have been no prior purchases of the voting securities of the Insurer by the Applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

There have been no recommendations made by the Applicant, its affiliates or any person listed in Item 3 to purchase any voting security of the Insurer during the 12 calendar months preceding the filing of this statement.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions, or other compensation to be paid to broker-dealers with regard thereto.

Except for an engagement letter with MTS Health Partners, L.P., there are no agreements, arrangements, or understandings made with any broker-dealer as to the solicitation of voting securities of the Insurer. The engagement letter does not provide for the solicitation by MTS of any voting securities of the Insurer; rather, it provides that MTS will supply financial advisory services in connection with the Transaction and the M-CARE Transaction, including the analysis of operations, financial statements, and business strategy, an analysis of the potential effects of the acquisitions upon the Applicant, a valuation of the Insurer and M-CARE for purposes of an offer, and ongoing financial services regarding the pricing, negotiation, financing and execution of the acquisition. As compensation for such services to the Applicant and BCN in connection with the Transaction and the M-CARE Transaction, and in accordance with industry practice, MTS is to be paid a retainer of \$100,000, reasonable out-of-pocket expenses, plus an

additional amount not to exceed \$3,000,000 (depending on the aggregate purchase price for the Transaction and the M-CARE Transaction) if the acquisition is consummated within two years.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

- (a) Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

Exhibit A - Stock Purchase Agreement by and between the Applicant and the Regents of the University of Michigan;

Exhibit B - Chart and Descriptive Listing of Subsidiaries and Affiliates;

Exhibit C – Biographical Information regarding the Applicant’s Directors and Officers;

Exhibit D –Annual Statements of the Applicant as of December 31, 2003 through December 31, 2005, included in the Applicant’s Form B filings with OFIS for such years, which are hereby incorporated by reference;

Exhibit E – Audited Financial Statements of the Applicant for the years 2000 – 2002;

Exhibit F - Quarterly Statement of the Applicant filed with OFIS for the quarter ending June 30, 2006, which is hereby incorporated by reference.

- (b) The financial statements shall include the audited annual financial statements of the persons (both corporate and individual) identified in Item 2(c), including individuals who are applying to be the ultimate controlling persons, for the preceding 5 fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person’s last fiscal year as of a date not earlier than 90 days prior to the filing of the statement. The statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business. The consolidated financial statements shall include the consolidating work sheets

The annual financial statements of the applicant corporate entity shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial positions of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statement need not be certified, provided they are based on the Annual Statement of the person filed with the insurance department of the person’s domiciliary state

and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the state.

See Applicant's response to Item 12(a).

- (c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory, managing general agent, controlling producer, or management contracts concerning the insurer, annual reports and proxy statements to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A forms and instructions Section 4 and 6.

See Applicant's response to Item 12(a).

[SIGNATURE PAGE FOLLOWS]

ITEM 13. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1311 of the Insurance Code of 1956, as amended, Blue Cross and Blue Shield of Michigan has caused this application to be duly signed on its behalf in the City of Detroit and State of Michigan on October 12, 2006.

BLUE CROSS AND BLUE SHIELD
OF MICHIGAN

BY 
Daniel J. Loopp, President & CEO

Attest:



Lisa DeMoss, Sr. Vice President,
General Counsel and Corporate Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated October 12, 2006, for and on behalf of Blue Cross and Blue Shield of Michigan, that he is the President and CEO of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.


Daniel J. Loopp

FORM A

**STATEMENT REGARDING THE ACQUISITION OR
CHANGE OF CONTROL OF A
DOMESTIC INSURER**

M-CARE

NAME OF DOMESTIC INSURER

BY

BLUE CARE NETWORK OF MICHIGAN
NAME OF ACQUIRING PERSON (APPLICANT)

FILED WITH THE OFFICE OF FINANCIAL AND INSURANCE SERVICES
OF THE STATE OF MICHIGAN

Date: October 12, 2006

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

Julie Swantek, Secretary
Blue Care Network of Michigan
20500 Civic Center Dr.
Southfield, MI 48076
(248) 799-6753

ITEM 1. METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

This Statement relates to the proposed acquisition of control of M-CARE ("M-Care"), a Michigan health maintenance organization ("HMO") subject to Ch. 13 of the Michigan Insurance Code ("Insurance Code"). M-CARE maintains its statutory home office at 2301 Commonwealth Boulevard, Ann Arbor, MI 48105.

Blue Care Network of Michigan (the "Applicant"), a wholly owned HMO subsidiary of Blue Cross and Blue Shield of Michigan ("BCBSM"), proposes to acquire direct control of M-CARE through the acquisition from the Regents of the University of Michigan ("UM") of all the issued and outstanding shares of the common stock of M-CARE (the "Transaction"). The Applicant will pay the purchase price for the acquisition in cash, pursuant to the terms of the Stock Purchase Agreement attached hereto as Exhibit A ("M-CARE Stock Purchase Agreement"). The Transaction will include the acquisition of M-CAID, a wholly owned Medicaid HMO subsidiary of M-CARE, and is conditioned on the acquisition of Michigan Health Insurance Company ("MHIC Transaction") by BCBSM from M-CARE pursuant to the terms of a Stock Purchase Agreement that is described in a Form A filing made with the Office of Financial and Insurance Services ("OFIS") simultaneously with this filing.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

- (a) State the name and address of the applicant seeking to acquire control over the insurer.

The Applicant is Blue Care Network of Michigan (the "Applicant"), a wholly owned HMO subsidiary of Blue Cross and Blue Shield of Michigan.

- (b) If the applicant is not an individual, state the nature of its business operations for the past 5 years or for such lesser period as such person and any predecessors thereof shall have been in existence. Describe the business intended to be done by the applicant and the applicant's subsidiaries.

The Applicant is a nonprofit HMO regulated under the Insurance Code and subject to the supervision of OFIS. For more than thirty years Applicant and its predecessor affiliated HMOs have marketed and administered health care plans for groups and individuals by offering prepaid hospital and medical coverages in most counties of Michigan. The Applicant intends to continue the same business.

The acquisition of M-CARE by the Applicant is consistent with its mission, which is "people helping people to promote health and peace of mind through high quality care and service" as well as its vision of partnering with purchasers, members, physicians, unions, and employees in maintaining and improving health.

Very simply, the Transaction and the MHIC Transaction will permit the Applicant to enhance its competitiveness, offering long-term value to customers, members and participating providers and bringing together a well-respected health care organization with a nationally renowned academic leader in health care. It will also result, on or prior to the closing, in the formation of a joint venture in the form of a limited liability company joining two Michigan institutions with similar nonprofit missions of service. The joint venture will be between BCBSM and UM but also benefit the Applicant, and, among other things, it will be directed at improving the quality, safety, efficiency and appropriateness of clinical care delivery throughout Michigan and optimizing the health status and healthcare delivery for the residents of the State of Michigan, members of BCBSM, the Applicant and their affiliates, and patients of the University of Michigan Health System. It recognizes the success of current quality improvement projects that involve UM researchers and receive support from BCBSM, including an award-winning project that has helped save lives and dollars by reducing complications in angioplasty patients at hospitals across the state.

- (c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant, including the ultimate controlling person(s). No affiliate need be identified if its total assets are equal to less than ½ of 1% of the total assets of the ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing, indicate the type of organization (e.g., corporation, trust, partnership) primary business (e.g. holding company, insurance agency, manufacturer) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

See Exhibit B, Chart and Descriptive Listing of Subsidiaries and Affiliates. There are no court proceedings involving a reorganization or liquidation pending with respect to the Applicant or any of its affiliated entities.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

State the following with respect to 1) the applicant if she or he is an individual 2) if the applicant is not an individual, all persons who are, or who have been selected to be, directors, executive officers (or others who perform or will perform functions appropriate to those positions) or owners of 10% or more of the voting securities of the applicant, and 3) in all instances where individuals will be the direct or indirect source of funding for the acquisition:

- (a) Name and business address.
- (b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on.
- (c) All occupations, positions, offices or employment during the last 5 years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.
- (d) Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last 10 years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case. Whether or not such person has had any civil judgments against the person resulting in \$25,000 or more in civil fines or penalties or injunctive or other equitable relief.
- (e) Upon the request of the Commissioner, individuals shall provide fingerprint cards pursuant to Section 249a for state, multi-state, and federal criminal history record checks.

The Applicant is a wholly owned HMO subsidiary of Blue Cross and Blue Shield of Michigan. A list of the Applicant's directors and executive officers, along with the requested biographical information for each, is attached hereto as Exhibit C.

ITEM 4. NATURE, SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

- (a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. Describe any transaction where funds were or are to be obtained for such purpose, including any pledge of the insurer's stock or pledge of the stock of any of its subsidiaries or controlling affiliates. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating to thereto.

The purchase price payable to UM under the Stock Purchase Agreement is \$205,000,000, plus \$1,000,000 for post employment benefits, subject to adjustment in the event that the shareholder net worth at closing exceeds or

is less than \$69,278,000. It is subject to further adjustment fifteen months after the closing based on the difference between the amount of the estimated accrued health care expenses at the closing and the actual amount. "Accrued health care expenses" are defined as (i) all reported but unpaid claims and incurred but not reported claims related to healthcare services provided to those persons for which M-CARE and M-CAID provided or provides medical coverage; (ii) unpaid claims adjustment expenses, and (iii) estimates of settlements and returns of withholding under risk share arrangements with providers.

The Applicant intends to pay the purchase price from cash on hand from operations and from liquidated investments. However, if it determines it prudent that a portion of the purchase price be paid from borrowed funds, whether for working capital reasons or otherwise, the Applicant's parent company, BCBSM, has indicated that it will loan the necessary funds to the Applicant. Any loan would be evidenced by surplus notes and a loan agreement, which would be promptly filed with OFIS on Form D before the closing.

- (b) Explain the criteria used in determining the nature and amount of such consideration.

See response to Item 4(a) above.

In addition, the amount and nature of the consideration set forth in the Stock Purchase Agreement was the result of extensive arm's-length negotiations conducted between the Applicant and UM. Legal counsel and financial advisors actively participated in the negotiations with the result that the parties to the Transaction believe the purchase price to be fair consideration for the purchase. In determining the purchase price, the parties considered, among other things, M-CARE's earnings and cash flow, its assets' quality and amount, and its liabilities.

- (c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

ITEM 5. FUTURE PLANS FOR THE INSURER

- (a) Describe any plans or proposals which the applicant may have for the insurer to declare a dividend, (whether or not extraordinary), to liquidate the insurer, to sell its assets, to merge it with any person or persons, or to make any other material change in its business operations or corporate structure or management.

The Applicant plans on continuing M-CARE's operations for the terms of the contracts that M-CARE has with its group and individual customers

honoring such contracts through 2007. Thus, it will honor all of M-CARE's 2007 rates and renewals prior to the closing and then transition them to coverage with the Applicant or its affiliates for 2008 and afterwards. Groups and individuals who have not already renewed prior to the closing may be moved to a product of the Applicant or its affiliates at renewal in 2007.

After that time, the Applicant contemplates that it will dissolve M-CARE. Given the above-described plans, there is no five year business plan for M-CARE. The discontinuation of operations will, by necessity, result in changes to its present business practices; however, the Applicant intends to continue with M-CARE's present reinsurance program until December 31, 2007, at which time the Applicant will determine whether other arrangements are needed.

With respect to M-CAID, the Applicant plans on operating it so that it will honor all M-CAID's 2007 program requirements. Over the next five years, Applicant plans to operate the M-CAID program in the current service area and with the established provider partners, and it intends to continue with M-CAID's present reinsurance program until December 31, 2007, at which time the Applicant will determine whether other arrangements are needed.

Attached as Exhibit G are pro forma financial statements (income statement and balance sheet) for 2006 – 2011. The Applicant does not intend to actively market M-CAID's products and, thus, does not anticipate any significant change in its financial performance.

To facilitate efficient business operations, BCNM will enter into a Transition Services Agreement and an Employee Leasing Agreement with UM that will cover M-CARE, M-CAID, and Michigan Health Insurance Company, and permit their operations to continue in the ordinary course. By the time the Transition Services Agreement and an Employee Leasing Agreement terminate, the Applicant will have established the necessary framework for continuing the operations of M-CAID without the assistance of UM. It is likely that M-CARE and M-CAID will need additional services that BCBSM or its affiliates could perform, in which case they will likely enter into management services agreements similar to the forms of agreements that presently exist among the Applicant and its affiliates and are on file with OFIS. The Applicant will finalize its determination before the closing, and if such agreements are necessary, they will promptly be filed with OFIS on Form D.

Finally, with the exception of the enrollee-elected board members, it is the Applicant's intent to replace the officers and directors of both M-CARE and M-CAID upon the closing with certain persons who act as officers and directors of BCBSM or BCNM.

- (b) Provide a 5 year business plan which describes the types of business to be written by the insurer, marketing plan, projected direct, assumed, ceded, and net written

premiums by line, pro-forma statutory balance sheets and income statements. Also, describe proposed changes to the insurer's reinsurance program (if any), amount, timing, and type of capital contributions (if any), proposed changes to the insurer's executive officers and directors, and compliance plan with the "books and records in Michigan" requirement of Section 5256.

See response to Item 5(a).

At the present, the books and records of both the Applicant, M-CARE, and M-CAID are maintained in Michigan at their principal place of business in accordance with MCL 500.5256 and 500.3548, and it is the Applicant's intent to continue to maintain such books and records in accordance with MCL 500.3548, ensuring that so long as M-CARE AND M-CAID remain as certified Michigan HMOs, financial records, funds and assets shall not be commingled with affiliates, and assets shall be held separate from all other activities of other members in a holding company system.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates, and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement, or acquisition and a statement as to the method by which the fairness of the proposal was arrived at.

M-CARE is presently a Michigan nonprofit, non-stock membership corporation. Under the M-CARE Stock Purchase Agreement, UM must cause M-CARE to be converted to a nonprofit corporation organized on a stock basis in accordance with the laws of the State of Michigan and file all documents required to effectuate such conversion, including without limitation, notice to the Commissioner of OFIS. All of the issued and outstanding shares of common stock of M-CARE at that time (the "Common Stock"), all of which will be owned by UM, will be acquired by the Applicant pursuant to the M-CARE Stock Purchase Agreement. See also the Response to Item 4(b) above.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Except for rights to the Common Stock of M-CARE pursuant to the M-CARE Stock Purchase Agreement, neither the Applicant nor any of its affiliates nor any person listed in Item 3, legally, directly, indirectly, or beneficially owns or has any right to acquire legal, direct, indirect, or beneficial ownership of any voting securities of M-CARE at this time.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option agreements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom the contracts, arrangements or understanding have been entered into.

Except for rights to acquire the Common Stock of M-CARE as provided in the M-CARE Stock Purchase Agreement, the M-CARE Transaction, and the formation of the joint venture on or prior to the closing as described in response to Item 2(b), neither the Applicant nor any of its affiliates nor any person listed in Item 3 has any agreements, arrangements, or understandings with respect to any voting securities of M-CARE at this time.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

There have been no prior purchases of the voting securities of M-CARE by the Applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

There have been no recommendations made by the Applicant, its affiliates or any person listed in Item 3 to purchase any voting security of M-CARE during the 12 calendar months preceding the filing of this statement.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions, or other compensation to be paid to broker-dealers with regard thereto.

Except for an engagement letter with MTS Health Partners, L.P., there are no agreements, arrangements, or understandings made with any broker-dealer as to the solicitation of voting securities of M-CARE. The engagement letter does not provide for the solicitation by MTS of any voting securities of M-CARE; rather, it provides that MTS will supply

financial advisory services in connection with the Transaction and the MHIC Transaction, including the analysis of operations, financial statements, and business strategy, an analysis of the potential effects of the acquisitions upon the Applicant, a valuation of M-CARE, M-CAID, and MHIC for purposes of an offer, and ongoing financial services regarding the pricing, negotiation, financing and execution of the acquisition. As compensation for such services to the Applicant and BCBSM in connection with the Transaction and the MHIC Transaction, and in accordance with industry practice, MTS is to be paid a retainer of \$100,000, reasonable out-of-pocket expenses, plus an additional amount not to exceed \$3,000,000 (depending on the aggregate purchase price for the Transaction and the MHIC Transaction) if the acquisition is consummated within two years.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

- (a) Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

Exhibit A - Stock Purchase Agreement by and between the Applicant and the Regents of the University of Michigan;

Exhibit B - Chart and Descriptive Listing of Subsidiaries and Affiliates;

Exhibit C – Biographical Information regarding the Applicant’s Directors and Officers;

Exhibit D –Annual Statements of the Applicant as of December 31, 2003 through December 31, 2005, which are hereby incorporated by reference;

Exhibit E – Audited Financial Statements of the Applicant for the years 2001 – 2002;

Exhibit F - Quarterly Statement of the Applicant filed with OFIS for the quarter ending June 30, 2006, which is hereby incorporated by reference.

Exhibit G –Pro forma financial statements (income statements and balance sheets) for 2006 – 2011

- (b) The financial statements shall include the audited annual financial statements of the persons (both corporate and individual) identified in Item 2(c), including individuals who are applying to be the ultimate controlling persons, for the preceding 5 fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person’s last fiscal year as of a date not earlier than 90 days prior to the filing of the statement. The statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business. The consolidated financial statements shall include the consolidating work sheets

The annual financial statements of the applicant corporate entity shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial positions of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statement need not be certified, provided they are based on the Annual Statement of the person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the state.

See Applicant's response to Item 12(a).

- (c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory, managing general agent, controlling producer, or management contracts concerning the insurer, annual reports and proxy statements to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A forms and instructions Section 4 and 6.

See Applicant's response to Item 12(a).

[SIGNATURE PAGE FOLLOWS]

ITEM 13. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1311 of the Insurance Code of 1956, as amended, Blue Care Network of Michigan has caused this application to be duly signed on its behalf in the City of Southfield and State of Michigan on October 12, 2006.

BLUE CARE NETWORK OF MICHIGAN

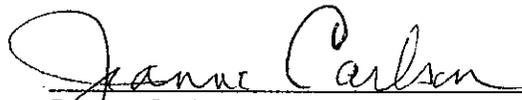
BY: 
Jeanne Carlson, President & CEO

Attest:


Julie Swantek, Secretary

CERTIFICATION

The undersigned deposes and says that she has duly executed the attached application dated October 12 2006, for and on behalf of Blue Care Network of Michigan, that she is the President and CEO of such company, and that she is authorized to execute and file such instrument. Deponent further says that she is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.


Jeanne Carlson