

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER
WITH A DOMESTIC INSURER**

Name of Domestic Insurer: Physicians Health Plan, PHP Medicare, PHP Insurance Company
(collectively "Domestic Insurer")

BY

Name of Acquiring Person: Covenant HealthCare System. ("Applicant")

Filed with the Michigan Department of Insurance and Financial Services

Dated: November 25, 2020

Name, Title, Address and Telephone Number of Individual to Whom Notices and
Correspondence Concerning this Statement Should Be Addressed:

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INSURANCE EVALUATION DIVISION

Introductory Statement

This Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (“Application”) is filed pursuant to MCL 500.1311(1) and Department of Insurance and Financial Services (“DIFS”) Order No. 19-047M, and by it, Applicant, Covenant HealthCare System, a nonprofit corporation, seeks the prior approval of DIFS (“Director”) relative to a proposed acquisition by Applicant of a minority interest (10%) in PHP Holdings, LLC (“PHP Holdings”), a Michigan limited liability company. PHP Holdings is the direct parent company of Physicians Health Plan (“PHP”), a domestic health maintenance organization, which is in turn the direct parent of PHP Medicare (a domestic health maintenance organization) and PHP Insurance Company (a domestic insurance company).

On May 27, 2020, DIFS approved a Form A filing by UM Health to acquire a 25% minority stake in PHP Holdings from Sparrow Health System (“Sparrow”). As of the date of filing of this Form A, UM Health is thus a 25% indirect owner of the three relevant domestic insurance entities to which this Form A relates, and Sparrow is a 75% indirect owner. The proposed transaction entails Applicant acquiring 10% of the 75% remaining ownership interest held by Sparrow. If the instant proposed acquisition is approved, PHP Holdings would thereafter be owned and controlled 65% by Sparrow, 25% by UM Health, and 10% by the Applicant, with each controlling party sharing in the profits and losses of PHP Holdings according to their respective percentage of ownership.

Applicant requests that confidential and sensitive information contained in this filing, including but not limited to information contained in biographical affidavits, be maintained in confidence and not distributed to the public except as otherwise required by law.

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:

The three domestic insurance entities to which this application relates are as follows:

- *Physicians Health Plan (“PHP”) (NAIC No. 95849), the address of which is 1400 E Michigan Ave, Lansing, MI 48912.*
- *PHP Medicare (NAIC No. 16555), the address of which is the same as PHP.*
- *PHP Insurance Company (NAIC No. 12816), the address of which is PO Box 30377, Lansing, MI 48909.*

As described in the Form A filings (received by DIFS October 22, 2019 and May 19, 2020) by UM Health, ownership of PHP was transferred to PHP Holdings. UM Health then purchased 250 of 1000 member units in PHP Holdings.

The proposed acquisition of control here would arise by Applicant purchasing a further 10% minority interest in PHP from Sparrow, by purchasing 100 of the remaining 750 membership units in PHP Holdings owned by Sparrow after the UM Health transaction. Once the transactions have concluded, Sparrow would hold 65%, UM health 25%, and Applicant 10% of the membership units of PHP’s new direct parent, PHP Holdings.

Applicant’s acquisition of a minority position in PHP Holdings will be governed by a Membership Unit Purchase Agreement (and attachments), which is attached as Exhibit A. The Agreement makes the transaction contingent on receiving approval from DIFS of this Form A filing.

ITEM 2: IDENTITY AND BACKGROUND OF THE APPLICANT

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

The applicant is Covenant Healthcare System, a Michigan nonprofit corporation. Its address is 1447 North Harrison, Saginaw, MI 48602.

- (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.

Applicant is a nonprofit 501-(c)(3) corporation formed in Michigan in 1997; it is the parent of Covenant Medical Center, Inc. and it supports the provision of diverse medical care to meet the health care needs of the 14 counties in East Central Michigan. Through its support for Covenant Medical Center and other subsidiaries, Applicant owns and indirectly facilitates operations at multiple health care facilities and provides a variety health care services (including, but not limited to, obstetrics, neo-natal and pediatric care, and various forms of acute care); it intends to continue such operations. Its subsidiaries also generally provide health care facilities and services, including, but not limited to, nurse visits, home care, and surgical facilities. Applicant owns additional subsidiaries that include, among others, condo associations and medical transport service providers, as reflected in the attached holding company chart (Exhibit B).

- (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). Indicate in each 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 such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

A holding company chart of the nature described is attached as Exhibit B.

No person identified in the holding company chart is known to be involved in any court proceedings involving reorganization or liquidation.

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

On the biographical affidavit, include a third party background check and state the following with respect to 1) the applicant if he or she 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 these positions), or owners of 10% or more of the voting securities of the applicant, and if the applicant is not an individual,

(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) Material 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;

(e) Upon the request of the Director, independent third party verification reports prepared by an NAIC approved vendor shall be provided. See https://www.naic.org/documents/industry_ucaa_third_party.pdf?19 for a list of third party vendors for background reports.

Biographical affidavits are submitted via sealed envelope at Exhibit C. A table showing each affiant's role relative to the Applicant is included as the first page of that Exhibit.

Independent third-party verification reports have been ordered from Rehmann Corporate Investigative Services ("Rehmann") and are anticipated to be delivered directly from Rehmann to DIFS shortly. Rehmann has advised that certain verification processes (e.g. as relates to court filings) have been slowed due to COVID.

ITEM 4. NATURE, SOURCE AND AMOUNT OF 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 thereto.

Consistent with the attached Membership Unit Purchase Agreement, Applicant intends to pay to Sparrow, as of the Closing Date, the mutually agreed upon amount of \$10,000,000 in consideration for 100 Common Units (out of 1,000 total) of PHP Holdings, LLC.

The source of such consideration is the Applicant's existing assets, including cash and savings.

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

Applicant and Sparrow arrived at the purchase price following arms' length negotiation. Applicant obtained valuation analysis from CBIZ Valuation Group, LLC as well.

(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 application must specifically request that the identity be kept confidential.

Not applicable.

ITEM 5. FUTURE PLANS FOR THE INSURER

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.

Applicant, which will be a 10% minority owner under the proposed transaction, has no plans to declare a dividend, to liquidate PHP, to sell PHP's assets, or to merge PHP with any person or persons. The same applies to PHP's insurance entity subsidiaries, PHP Medicare and PHP Insurance Company.

Applicant, together with UM Health and Sparrow, intends to manage PHP's parent, PHP Holdings, pursuant to the Amended Operating Agreement attached (as Exhibit B) to the Unit Purchase Membership Agreement, which Operating Agreement also dictates intended governance for PHP and its subsidiaries. Pursuant to that Operating Agreement, Applicant would appoint one of nine appointed managers (with three appointed by UM Health and five appointed by Sparrow), and the presence of Applicant's appointee would be required to form a quorum. The same board of managers would comprise the board of PHP and the boards of PHP's subsidiary entities.

The individual who is proposed to serve as the Covenant-appointed manager following the transaction is Kevin Albosta. An NAIC biographical affidavit for Mr. Albosta is submitted as part of Exhibit C, and a third-party verification from Rehmann has also been ordered and will be delivered separately.

Other than as set forth in this Form A, Applicant does not intend to make any other material change to the business operation, corporate structure, or management of PHP Holdings or its subsidiaries.

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.

None. Consistent with the attached Membership Unit Purchase Agreement, Applicant intends to acquire a 10% minority membership interest in PHP Holdings, Inc., with Sparrow holding 65% of such interests and UM Health holding 25% of such interests. The purchase price and other terms of the agreement between Applicant and Sparrow Health were arrived at through arms' length negotiations.

ITEM 7. OWNERSHIP OF VOTING SECURITIES.

State the amount of each class or 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.

None. (See generally answer to Item 6.)

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 arrangements, 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 understandings have been entered into.

There are no contracts, arrangements, or understandings with respect to any voting security of PHP or any of its controlling person in which the Applicant, its affiliates, or any person listed in Item 3 is involved, other than as specifically disclosed in this Form A.

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 therefore. State whether any shares so purchased are hypothecated.

There have been no purchases of any voting securities of PHP 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.

Other than as disclosed in this Form A, Applicant and/or its affiliates have made no recommendations to purchase any voting securities of PHP during the 12 calendar months preceding the filing of this statement, and Applicant is not aware of any such recommendations to purchase made by 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.

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.

There is no such agreement, contract, or understanding.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements, exhibits, and three-year financial projections of the insurer(s) shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached. Also provide a three-year narrative business plan which describes the types of business to be written by the insurer, and marketing plan. The financial projections shall include 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.

Applicant incorporates the Plan of Operations and three-year proforma projections submitted by PHP on August 29, 2019 as part of its recent examination by DIFS, subject to MCL 500.222(7). Applicant states that there are no changes anticipated in the insurer's reinsurance program, capital contributions, officers and directors, or compliance plan with MCL 500.5256 as a part of this filing.

(b) The financial statements shall include the audited 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 if the information is available. The statements may be prepared on either an individual basis, or, unless the Director 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.

Any ultimate controlling person who is an individual may file personal financial statements that are reviewed rather than audited by an independent public accountant. The review shall be conducted in accordance with standards for review of personal financial statements published in the *Personal Financial Statements Guide* by the American Institute of Certified Public accountants. Personal financial statements shall be accompanied by the independent public accountant's Standard Review Report stating that the accountant is not aware of any material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position 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 statements 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 Exhibit D, attached.

(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 materials 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 or the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A forms and instructions for Sections 4 and 6.

None/not applicable.

ITEM 13. AGREEMENT REQUIREMENT FOR ENTERPRISE RISK MANAGEMENT

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within fifteen (15) days after the end of the month in which the acquisition of control occurs.

Applicant so agrees.

ITEM 14. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of Section 1311 of the Ins. Code of 1956, as amended,

Covenant Healthcare System has caused this application to be duly signed

on its behalf in the City of SAGINAW and State of MICHIGAN

on the 23RD day of November, 2020.



(SEAL)

Covenant Healthcare System

By: Kevin Albosta
Kevin Albosta, Vice President

Attest:

Richard Grant

(Signature of Officer)

PRESIDENT & CEO

(Title)

CERTIFICATION

The undersigned deposes and says that she or he has duly executed the attached application dated November 25, 2020, for and on behalf of Covenant HealthCare System; that she or he is the Vice President of such company and that she or he is authorized to execute and file such instrument. Deponent further says that she or he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his or her knowledge, information and belief.

(Signature) Kevin Albosta

Kevin Albosta, Vice President