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2010 DEC 30 A 10:55

Hearings Unit, DIC  
Patricia D. Peterson  
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition  
and Control of:

NO. 10-0234

COLUMBIA UNITED PROVIDERS,  
INC., a Washington Health Care Service  
Contractor,

DECLARATION OF  
RONALD J. PASTUCH

by

PEACEHEALTH, a Washington Non-  
Profit Corporation,

the Applicant.

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,  
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of  
the Washington State Office of Insurance Commissioner ("OIC"). I am over the age of  
eighteen years old and I am competent to testify in this matter. I make this Declaration based  
upon my personal knowledge.

1           2.       I am also a graduate of Pacific Lutheran University, where I earned a Bachelor  
2 of Arts Degree in Business Administration in 1988. I was certificated as a CPA in 1993, and  
3 received my CPA license in 2003.

4           3.       After graduation, I worked for the Washington Department of Veterans Affairs  
5 from 1980 to 1987 in accounting and human resource positions. In 1987, I joined the OIC as  
6 an accountant, a position I held until 1991. From 1991 to 1993, I served as a field Insurance  
7 Examiner with the OIC. From 1993 to 2006, I served as a Financial Analyst in the OIC's  
8 Company Supervision Division, a position I held in various levels.

9           4.       On February 16, 2006, I was appointed the Holding Company Manager in the  
10 OIC's Company Supervision Division. As the Holding Company Manager, my primary  
11 duties consist of reviewing and approving holding company transactions, which include  
12 reviewing and recommending OIC's position on proposed requests for insurance company  
13 acquisitions and mergers, including disclaimers of control.

14           5.       On September 8, 2010, PeaceHealth ("the Applicant") filed a Form A  
15 Statement for the Approval of the Acquisition of Control of Columbia United Providers, Inc.  
16 ("CUP"). CUP is a Washington domiciled stock health care service contractor incorporated  
17 on July 23, 1993, and began writing business on January 1, 1994. The Applicant is a  
18 Washington non-profit corporation incorporated on June 15, 1976 and based in Bellevue,  
19 WA. According to that Statement, the Applicant proposes to become affiliated through a  
20 Definitive Agreement for a Proposed Affiliation with Southwest Washington Health Systems  
21 ("SWHS"), which owns 89.5 percent common stock of and controls CUP. The proposed  
22 Affiliation contemplates, that upon closing, the Applicant will become the sole member of the  
23 SWHS, and SWHS is not selling SWHS or any of its subsidiaries including CUP to the  
Applicant, nor is the Applicant purchasing SWHS or any of its affiliates including CUP.  
SWHS will continue to hold its 89.5 percent common stock ownership of CUP stock and the

1 remaining 10.5 percent will remain physician-owned. The Applicant will not pay any funds  
2 to any party in exchange for becoming the sole corporate member of SWHS.

3 6. As part of the proposed transaction, the Applicant stated that the Applicant's  
4 board of directors, which is currently composed of 13 directors, would increase to 15 from 13,  
5 and after the proposed Affiliation is approved, the two newly vacant seats would be filled  
6 from among nominations from the current SWHS board. The current SWHS board of  
7 directors and the current CUP board of directors will remain the same and no changes have  
8 been contemplated. The current executive officers of SWHS and the current executive officers  
9 of CUP will also remain the same and no changes have been contemplated.

10 7. The only items received from the initial Form A filing were the Form A  
11 Statement, organizational charts before and after the proposed transaction, and the  
12 consolidated audited financial statements of the Applicant from June 30, 2004 to June 30,  
13 2009.

14 8. On September 21, 2010, the Applicant filed the supplemental attachment to the  
15 Form A statement included submitted biographical affidavits from various persons who are  
16 the Applicant's board of directors and/or executive officers. Those individuals are listed  
17 under Item 3 of the Form A Statement. The Applicant proposes no changes to the existing  
18 directors or officers of CUP.

19 9. On October 26, 2010, the OIC sent a letter to the Applicant requesting  
20 additional information concerning the Form A statement filing. That letter provided various  
21 informational items needed for the Form A statement.

22 10. On October 29, 2010, the Applicant provided its response to the October 26,  
23 2010 OIC letter and submitted background check information from the Washington State  
Patrol for individuals listed under Item 3 of the Form A Statement. The Applicant also  
included its consolidated audited financial statement as of June 30, 2010.

1           11.     On November 8, 2010, the Applicant also submitted biographical affidavits  
2 from two persons and background check information from the Washington State Patrol for  
3 those individuals who are the Applicant's executive officers whose names were not provided  
4 in the Form A statement. Those persons are: Alan R. Yordy, the Applicant's President and  
5 Chief Mission Officer; and Stuart P. Hennessey, the Applicant's General Counsel. Mr. Yordy  
6 is also a director of a limited partnership and a reciprocal insurance company operating as a  
7 risk retention group. The Applicant is a minority investor in both entities.

8           12.     On November 23, 2010, the OIC sent its second request for information letter  
9 describing information required for various Items of the filed Form A Statement.

10          13.     On December 2, 2010, the Applicant submitted its response to the November  
11 23, 2010 OIC letter clarifying the information previously submitted to those various Items  
12 noted in the OIC letter.

13          14.     On December 9, 2010, the Applicant submitted its narrative overview of the  
14 proposed Affiliation.

15          15.     After reviewing that narrative overview on that day (December 9, 2010), the  
16 OIC submitted the Form A filing to the OIC hearings unit and requested that a hearing be  
17 scheduled.

18          16.     From several recent news articles, the OIC learned the Applicant made an  
19 announcement on December 8, 2010, it will merge with SWHS through an "affiliation  
20 agreement" which will merge all of the Applicant's facilities with the hospitals and clinics  
21 owned by SWHS including one of its affiliate, Southwest Medical Center. Southwest Medical  
22 Center will be renamed PeaceHealth Southwest Medical Center and all other SWHS  
23 properties and employees will transition into the Applicant's operations. Other proposed  
24 transitions were described in those news articles.

25          17.     On December 23, 2010, the OIC sent its third request for information letter  
26 reiterating our initial request on October 26, 2010 for the definitive agreement between the

1 Applicant and SWHS, and our understanding that the Applicant and SWHS finalized their  
2 negotiations through an affiliation agreement. As of the date of this Declaration, the OIC has  
3 not received that affiliation agreement for the Form A statement.

4 18. On September 9, 2010, the OIC contacted the Antitrust Section of the Office of  
5 the Attorney General (“AGO”) and requested assistance for reviewing information provided  
6 in this Form A statement according to RCW 48.31C.030(5)(a)(ii). In that subsection, the  
7 AGO is to seek input from the Insurance Commissioner if the AGO undertakes the review of  
8 the proposed acquisition. The OIC provided the AGO with the Applicant’s initial and  
9 subsequent filings regarding the subject Form A statement. On December 29, 2010, the OIC  
10 received an AGO letter dated December 22, 2010, from the Assistant Attorney General stating  
11 “...based on our review, there does not appear to be sufficient evidence to conclude that the  
12 proposed acquisition of control of CUP warrants legal action by the AGO.”

13 19. I have reviewed and analyzed these submittals. My analysis was performed  
14 under the criteria set forth in RCW 48.31C.030(5). From my analysis,

15 a. The domestic health care service contractor would be able to satisfy the  
16 requirements for the issuance of a license to write its current lines of business for which it is  
17 presently licensed. CUP is presently registered to write health care services according to  
18 Chapter 48.44 RCW. CUP’s minimum capital and surplus as of the date of this Declaration is  
19 three million dollars (\$3,000,000) total according to RCW 48.44.037(1). As of the latest  
20 financial statement filed with the OIC, CUP’s total capital and surplus was reported at \$17.1  
21 million as of September 30, 2010. Also, CUP’s latest risk-based capital ratio exceeded its  
22 company action level as defined under RCW 48.43.305 and RCW 48.43.310. CUP’s current  
23 capital and surplus exceeds its required minimum capital and surplus and risk-based capital  
requirements.

b. The effect of the proposed acquisition of control would not lessen  
competition in this state or tend to create a monopoly therein. A market analysis was

1 performed on the domestic health care service contractors and its related insurers' direct  
2 writings, the Applicant and any related insurers' direct writings, and the Washington health  
3 insurance market. The Applicant has no health care service contractors or health maintenance  
4 organizations accepting prepayments for health care services, and therefore, has no market  
5 presence in Washington State or market presence in any other state market where CUP is  
6 licensed (Washington State only). We also reviewed information from the Washington  
7 Department of Social and Health Services' website regarding state funded health care services  
8 through various health carriers. Therefore, there would be no violation of the competitive  
9 standard set forth in RCW 48.31C.020(1).

9 c. The financial condition of the Applicant appears that it would not jeopardize  
10 the financial stability of the domestic insurer or prejudice its subscribers' interest. The  
11 Applicant's latest financial statement filed with this Application reported its total consolidated  
12 assets at \$1.9 billion and net consolidated assets at \$919 million as of June 30, 2010. The  
13 Applicant's Standard & Poors' long-term debt rating is A+ (Strong capacity to meet financial  
14 commitments) as of December 15, 2010. Standard & Poor's analysis revealed some concerns  
15 regarding the Applicant's future projects and the new affiliation with SWHS. Though these  
16 concerns were expressed, the Applicant's rating remains in a strong category. Based on these  
17 facts, the current financial condition of the Applicant would not jeopardize the financial  
18 stability of CUP or prejudice its subscribers' interest.

18 d. We are not aware of any plans or proposals by the Applicant to liquidate the  
19 domestic health care service contractor, sell its assets, consolidate, or merge it with any  
20 person, or make any other material changes in its business, corporate structure, or  
21 management that are unfair and unreasonable to the domestic health care service contractor's  
22 subscribers and not in the public interest. The Applicant intends that CUP will continue  
23 conducting its business and operations substantially as presently conducted. The Applicant

1 has no current plans to change the name of CUP or relocate its home office or its corporate  
2 records.

3 e. We verified the competence, experience and integrity of those persons who  
4 would control the operation of the domestic health care service contractor through various  
5 searches through internet search engines such as Google and Bing. From our review of the  
6 background check information from the Washington State Patrol, we reviewed for any  
7 criminal background of the named individuals who are listed in the Form A Statement and the  
8 two individuals identified from the Applicant's November 8, 2010 filing. We did not find any  
9 criminal history associated with any named individual. As to other background checks, we  
did not receive any criminal history associated with any named individual.

10 f. We are not aware that the acquisition is likely to be hazardous or prejudicial  
11 to the insurance-buying public. CUP's AM Best rating (NR-5) would remain unchanged with  
12 its direct relationship with the Applicant. CUP would continue to operate as it is currently  
13 conducting its business and operations within the new organization. CUP's existing executive  
14 officers are to remain and operate the company. CUP's continuation with state-funded health  
15 care contracts would have an impact if funding for those contracts were to materially  
decreased or eliminated.

16 20. Depending on the testimony and evidence presented at the upcoming hearing,  
17 we recommend to the presiding officer to approve the acquisition of CUP by the Applicant  
18 contingent upon the Applicant's filing of the "affiliation agreement" for this Form A filing  
19 and consideration for certain conditions. Those certain conditions will be presented to the  
presiding hearing officer during my testimony.

20 21. From a procedural standpoint, the OIC requires that notice of this proposed  
21 acquisition be given to the public via the Internet (on the OIC's website). On September 14,  
22 2010, OIC posted a notice on the Insurance Commissioner's website concerning the proposed  
23 sale of CUP and information about the OIC's review process, a true and correct copy of which

1 is attached hereto as Exhibit "A". Such notice was updated by the OIC regarding the hearing,  
2 via the Notice of Hearing and announcement posted on the OIC's website on December 20,  
3 2010, a true and correct copy of which is attached hereto as Exhibit "B". That notice informs  
4 the public of the January 3, 2011, hearing and the nature of the hearing. That notice has  
5 remained on the OIC's website since December 20, 2010, and will remain posted on the  
6 website through the date of the hearing. The OIC also provided information for the public  
7 regarding the CUP acquisition and the OIC process for evaluating that acquisition and  
8 updated for the upcoming January 3, 2011 hearing, a true and correct copy of which is  
9 attached hereto as Exhibit "C".

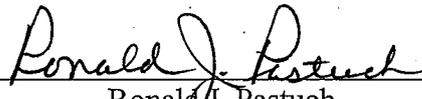
10 22. On December 22, 2010 at approximately 11:59 am, the OIC disconnected the  
11 internet link to the Form A and its attachments on the Commissioner's website while the OIC  
12 staff redacted personal information listed among that Form A and its attachments. From that  
13 stated date and time, the Form A filing and its attachments were not available to the public  
14 until later that same day approximately 3:10 pm. The redacted Form A filing and its  
15 attachments have been available to the public since December 22, 2010 at that approximate  
16 time.

17 23. The Notice of Hearing informs and advises all interested parties that any  
18 individual or entity is permitted to submit comments on, or objections to, this proposed  
19 acquisition. The Notice of Hearing states that any questions or concerns should be directed to  
20 Nicole Kelly, Paralegal to the OIC's Chief Hearing Officer.

21 24. As of the date of this Declaration, I received one phone call from a person who  
22 had questions about the Form A process. I understand that another OIC staff member had later  
23 returned the phone call to that person. Other than that one phone call, I personally have not  
received any comments, questions, or objections through letter, correspondence, email, or  
phone, nor am I aware of any comments, questions, or objections having been received by the  
OIC's Chief Hearing Officer.

1 SIGNED this 30th day of December, 2010.

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Ronald J. Pastuch

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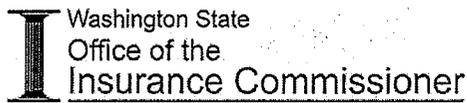
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# EXHIBIT "A"

## Public notices

### December

12/20/2010	Hearing set for acquisition of Columbia United Providers
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### September

9/14/2010	PeaceHealth has applied to acquire Columbia United Providers and its parent company, Southwest Washington Health Systems
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### June

6/15/2010	Hearing set for merger of Pacific Northwest Title Insurance Company
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### May

5/6/2010	Pacific Northwest Title has applied to merge with its parent company, First American Title
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# EXHIBIT "B"

## Notice

Mike Kreidler  
Washington Insurance Commissioner  
Web page: [www.insurance.wa.gov](http://www.insurance.wa.gov)

For More Information, Contact:  
Public Affairs: (360) 725-7055

10-47

12/20/2010

### Hearing set for acquisition of Columbia United Providers

Olympia, Wash.—

A hearing on the acquisition of Columbia United Providers has been scheduled for 1 p.m. on January 3, 2011, in Tumwater, Washington. [More information](#)

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# EXHIBIT "B"

## Recent news releases

### December

12/20/2010 [Hearing set for acquisition of Columbia United Providers](#)

12/15/2010 [Special under 19 open enrollment for individual health plans ends today](#)

12/07/2010 [Kreidler rejects Regence rate change](#)

### November

11/29/2010 [Kreidler proposes health insurance rate reforms](#)

11/19/2010 [Kreidler: Governors' defense of health care reform is the right thing to do](#)

11/15/2010 [Open enrollment for Medicare's prescription drug program starts today](#)

11/08/2010 [Kreidler calls for \\$534,000 fine against insurer](#)

### October

10/19/2010 [Washington receives \\$647,000 grant to help health insurance consumers](#)

10/15/2010 [Kreidler orders Regence BlueShield to cover children](#)

10/01/2010 [Federal flood program extended: Kreidler urges property owners to consider coverage](#)

### September

9/28/2010 [Kreidler calls Regence's decision to cut off children unfair to families](#)

9/23/2010 [Key health reforms start Sept. 23 - Consumers to see new benefits when plans renew](#)

9/20/2010 [Consumer alert: Upcoming change in law will help small business people find health coverage](#)

### August

8/16/2010 [Washington state awarded \\$1 million to increase transparency of health insurance rates](#)

8/2/2010 [New high risk pool begins enrollment today](#)

Release archive: [2010](#) | [2009](#) | [2008](#) | [2007](#) | [2006](#) | [2005](#) | [2004](#) | [2003](#) | [2002](#) | [2001](#) | [search news](#)

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# EXHIBIT "B"

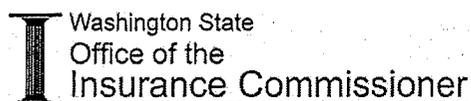
## Judicial Proceedings

**A-B | C-D | E-F | G-I | J-L | M-O | P-R | S-T | U-V | W-Z**

**Note:** The orders below are not official. You may request official copies from our Public Disclosure Office, 360-725-7003, or email: [ericm@oic.wa.gov](mailto:ericm@oic.wa.gov).

Name/Docket no.	Type of action	Status	Documents are in PDF format
Cabin, Annette 09-0112	Denial of Issuance of Producer's License	Proceedings terminated	Final Order Terminating Proceeding Withdrawal of Hearing Request Order Scheduling 2nd Prehrg. Conf. Order on OIC's Motion OIC's Reply to Pet. Response Reponse to Motion Motion to Dismiss Judge Petersen 09-24-09 ltr Receipt of demand for hearing Demand for hearing Denial letter
Catholic Order of Foresters D06-161	Appeal OIC's Order Suspending License & Fine	Proceedings terminated	Final decision Demand for hearing Order suspending license
Cervantes, Arthur & Northwest Financial Exchange Inc. D07-0323 2007-INS-0006	Order Revoking License	Proceedings terminated - fine imposed	Stipulation and order Receipt of request Demand for hearing Order revoking license
Chandler, Jack D02-152 04-2-11206-9 57853-7-1	Appeal OIC's Revocation of Insurance Agent's License	OIC's order affirmed by Court of Appeals, Div. I	Court of appeals decision Other orders Final Order Demand for hearing Order revoking license
Chicago Title Insurance Company D07-308 2008-INS-0002	Imposition of fines	Administrative Order Upheld and Affirmed by Superior Court; Appeal to Court of Appeals pending	Notice of Appeal to COA Order on Review of Final Order Final Order of Dismissal  Stipulation and Agreement Initial Order of Dismissal Summary of final order Final order re SJ motions Disqualification order CT disqualification petition CT motion to strike CT response to review Judge Petersen 11/11/08 OIC petition for review Initial order OIC witness list CT witness list Chicago's reply OIC's SJ response OIC's declarations Chicago SJ motion Stipulation to ph order Prehearing Order Response to notice Amended notice Request for hearing

Chittenden, Cleo E. D06-153	Appeal Order Revoking License	License suspended	Notice of hearing Receipt of request Final decision Continuance order Notice of hearing Order revoking license Demand for hearing
Chronister, Robert D08-0007	Order revoking license	License revoked	Final decision Notice of hearing Receipt of request Request for hearing Order revoking license
Chronister, Robert S. D05-375	Appeal OIC's Order Revoking License	Proceedings dismissed	Stipulation Notice Demand for hearing Order revoking license
CHW Group, Inc. dba Choice Home Warranty and www.ChoiceHomeWarranty.com, Victor Mandalawi, "James Moss," David Bailey, Steven Safdieh, Michael Gutholc D10-0199	Appeal Order to Cease and Desist	Pending	Order on Discretionary Stay OIC Response re Stay CHW Group's Request for Stay Receipt of Demand Demand for Hearing Cease & Desist Order
Columbia United Providers, Inc. proposed acquisition by PeaceHealth G10-0234	proposed Acquisition	Pending	Notice of Hearing Request for Hearing Acquisition Summary Form A & Amendments CUP Financial Stmt PeaceHealth Financial Stmt
Commonwealth Land Title Insurance Company D07-306 2008-INS-0005	Imposition of fines	Dismissed	Initial & final order Suspension order Order denying motions PHC & schedule order Proposed stipulation Notice response Notice of hearing Receipt of transfer Request to transfer Receipt of request Recusal letter
Commonwealth Land Title Insurance Company D07-310 2008-INS-0006	Imposition of fines	Dismissed	Initial & final order Suspension order Order denying motions PHC & schedule order Notice response Notice of hearing Receipt of transfer Request to transfer Receipt of request Recusal letter
Constitution Insurance Co. D05-376	Appeal OIC's Consent Order	Proceedings terminated	Final decision Withdrawal request Demand for hearing Violation
Constitution Insurance Co. D05-394	Appeal OIC's Consent Order	Proceedings terminated	Final decision Withdrawal request Demand for hearing Violation
Consumer Direct Warranty Services, Inc., Warranty Administration Services, Inc., Warranty Administration Solutions, Inc. Safedata Management Services,	Cease & Desist	Proceedings Terminated	Order Terminating Proceedings Settlement Agreement 7/13/10 Second Amended Cease & Desist Order



## EXHIBIT "C"

### **Columbia United Providers acquisition**

The Office of the Insurance Commissioner received a request from PeaceHealth for a proposed acquisition of control of Columbia United Providers and its majority parent company, Southwest Washington Health Systems.

PeaceHealth and Southwest Washington Health Systems are both not-for-profit corporations. PeaceHealth is proposing to become the sole member of Southwest Washington Health Systems. Southwest Washington Health Systems is currently the controlling person of Columbia United Providers.

If approved, PeaceHealth would become the controlling person of Southwest Washington Health Systems and Columbia United Providers.

### **History of the process**

We received the application for acquisition of control in **September 2010**. Our review of that application was completed in **December 2010**.

An adjudicative hearing will be held on January 3, 2011 at 1:00 pm at our Tumwater office to hear testimony and comments regarding the proposed acquisition. The Notice and information about the hearing can be found on the Commissioners web site.

### **What we look at**

In all proposed sales, the companies must file an application (Form A) that details:

- Financial information for both companies;
- Who will operate the health carrier at the highest levels;
- Their business plan for the health carrier; and
- How the market competition would be impacted.

### **Evaluation criteria**

Under state law, the commissioner must approve the deal unless:

- It would substantially lessen competition or create a monopoly;
- The buyer's plans are unfair and unreasonable to the policyholders of the health carrier;
- The buyer's isn't competent, honest, or financially sound enough to run a health carrier; or
- It is in some way "hazardous or prejudicial to the insurance-buying public".

### **Questions?**

Please contact our holding company manager, Ron Pastuch, at 360-725-7211.