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Hearings Unit, DIC  
Patricia D. Petersen  
Chief Hearing Officer

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**BEFORE THE INSURANCE COMMISSIONER  
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed Acquisition of  
Control of:

No. 12-0010

**PRE-FILED OPENING STATEMENT**

ARCADIAN HEALTH PLAN, INC., a  
Washington Domestic Health Maintenance  
Organization,

By

HUMANA INC., a Delaware corporation

**PRE-FILED OPENING STATEMENT OF:**

Robert W. Hoffman  
SNR Denton US LLP  
Representing Arcadian Health Plan, Inc.

1 **OPENING STATEMENT**

2 I am Robert W. Hoffman of SNR Denton US LLP and I represent Arcadian Health Plan,  
3 Inc. ("Arcadian"), a Washington domiciled Health Care Service Contractor.

4 Humana wishes to acquire Arcadian. On September 21, 2011, Humana Inc. ("Humana")  
5 filed a Form A Statement Regarding the Acquisition and Control of a Domestic Insurer ("Form  
6 A Statement") with the Washington State Office of the Insurance Commissioner  
7 ("Commissioner"), requesting approval of its proposed acquisition. On December 30, 2011, the  
8 Commissioner determined that the Form A Statement contained all of the documents and  
9 information required to be included, and requested that the Administrative Law Judge conduct  
10 an administrative proceeding to make the final decision either approving or denying Humana's  
11 application for approval of the proposed acquisition.

12 The testimony at the hearing by representatives of both Humana and Arcadian will  
13 demonstrate that there are no objections to the proposed acquisitions under RCW 48.31C.030(5).

14 Specifically, the testimony of Arcadian will demonstrate that:

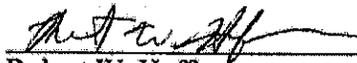
- 15
- 16 • After the Acquisition, Arcadian will continue to satisfy the requirements for registration as a health carrier;
  - 17 • The Acquisition will not substantially lessen competition nor tend to create a monopoly in the health coverage business;
  - 18 • The financial condition of Humana is such that it does not jeopardize the financial stability of the health carrier, nor prejudice the interests of its subscribers. In fact, the financial condition and resources of Humana will materially strengthen the financial stability of Arcadian, thereby enhancing the interests of subscribers;
  - 19 • There is no plan to make any material change to the health carrier's operation which would be unfair and unreasonable to its subscribers and not in the public interest. In fact, because of Humana's larger provider network, Arcadian's operation for its subscribers will be enhanced;
  - 20 • The competence, experience, and integrity of those persons who will control the operation of the health carrier are in the interest of the subscribers and of the public; and
  - 21 • The Acquisition will not be hazardous or prejudicial to the insurance buying public.
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1 The testimony will further demonstrate that neither Arcadian nor any of its affiliates has  
2 received any objections or concerns regarding this proposed acquisition.

3 The testimony will also demonstrate that due to the potential termination of the transaction  
4 if regulatory approval is not obtained by March 31, 2012, and because of the status of  
5 Arcadian's financing arrangements, it is imperative that the Commissioner issue a conditional  
6 order of approval no later than March 30, 2012.

7 Accordingly, Arcadian requests approval of the acquisition of Arcadian by Humana  
8 pursuant to RCW 48.31C.030. I will be pleased to address any additional issues that may arise  
9 or otherwise be of assistance at the hearing.

10  
11 Dated: March 21, 2012

  
Robert W. Hoffman  
SNR Denton US LLP

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Hearing Unit, DIC  
Patricia D. Peterson  
Chief Hearing Officer

**BEFORE THE INSURANCE COMMISSIONER  
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed Acquisition of  
Control of:

ARCADIAN HEALTH PLAN, INC., a  
Washington Domestic Health Maintenance  
Organization.

By

HUMANA INC., a Delaware corporation

No. 12-0010

**PRE-FILED DIRECT TESTIMONY OF  
JAMES FRANCIS NOVELLO, JR.**

**PRE-FILED DIRECT TESTIMONY OF:**

James Francis Novello, Jr.  
Senior Vice President, General Counsel and Corporate Secretary of  
Arcadian Management Services, Inc.

1 **Q1: Please state your name and employment position.**

2 A. I am the Sr. Vice President, General Counsel and Corporate Secretary of Arcadian  
3 Management Services, Inc. ("Arcadian Management"). I also act in this same capacity for  
4 Arcadian Management's wholly owned subsidiary, Arcadian Health Plan, Inc. ("Arcadian  
5 Washington.") If I refer to Arcadian Management and Arcadian Washington collectively, I will  
6 refer to them as "Arcadian."

7 **Q2: Please provide your professional background.**

8 A. Prior to joining Arcadian, I was deputy general counsel for Molina Healthcare, an  
9 insurance holding company based out of Long Beach, California. From 2004 to 2006, I was in  
10 private practice with the K & R Law Group in Sacramento, California. Prior to that I was Chief  
11 Counsel and Assistant Deputy Director of the California Department of Managed Health Care.

12 **Q3: Please provide your educational background.**

13 A. I hold a B.S. from the University of San Francisco and received a Juris Doctor from  
14 Gonzaga University in 1994.

15 **Q4: Please describe the basis for your testimony.**

16 A. I am authorized to give this testimony by the powers vested in me under my duties on  
17 behalf of Arcadian. Information and statements in this testimony regarding the Applicants and  
18 their affiliates are based wholly on (a) representations and warranties by the Applicants; and (b)  
19 other information and documents furnished to Arcadian by or on behalf of the Applicants in  
20 connection with the Merger Agreement, the Form A Statement and this proceeding.

21 I have reviewed the Form A Statement, submitted on or about September 21, 2011 and, to  
22 the best of my knowledge, it accurately describes the actions contemplated between the parties  
23 and the future plans of the Applicants with respect to Arcadian.

24 On September 21, 2011 Applicants delivered a copy of the Form A Statement to Arcadian.

25 On March 13, 2012, the Commissioner issued a Notice of Public Hearing pursuant to  
26 RCW 48.31C.030. Such Notice of Public Hearing informed Arcadian of the time, place and  
27 date of the hearing the Commissioner will hold to consider the application of Applicants to  
28 acquire control of Arcadian.

1 **Q5: Please describe the domestic insurer, Arcadian Health Plan, Inc.**

2 A. Arcadian Washington is currently licensed by the Washington Office of Insurance  
3 Commissioner as a health care service contractor and is a wholly owned subsidiary of Arcadian  
4 Management.

5 Arcadian Washington engages exclusively in the business of Medicare Advantage ("MA")  
6 and Medicare Advantage-Part D ("MAPD") plans pursuant to contracts with the Centers for  
7 Medicare and Medicaid Services ("CMS").

8 Currently, Arcadian Washington neither has any commercial enrollment nor provides  
9 Medicaid coverage to enrollees, although some of its members in MA or MAPD plans are dually  
10 enrolled in both Medicare and Medicaid.

11 **Q6: Will Arcadian continue to satisfy the requirements for licensure as a Washington**  
12 **Health Care Service Contractor after the acquisition?**

13 A. Arcadian Washington currently satisfies the minimum requirements for licensure in  
14 Washington and I understand that it will continue to do so after the anticipated change of control  
15 sought by the Applicants.

16 Arcadian understands that the Applicants do not plan to effect any change in Arcadian  
17 Washington's capitalization, financial condition, or legal structure that would have any adverse  
18 impact on the ability of Arcadian Washington to continue to satisfy the requirements of the  
19 Revised Code of Washington for maintaining Arcadian Washington's certificate of authority as  
20 a health care service contractor, the operations of which are as described above.

21 **Q7: Will the proposed acquisition substantially lessen competition or tend to create a**  
22 **monopoly in the health coverage business in Washington?**

23 A. It is Arcadian's belief and understanding that the Applicants' acquisition of control of  
24 Arcadian Washington will not lessen competition in insurance in Washington nor tend to create  
25 a monopoly in the insurance business in Washington.

26 A pre-merger notification statement under the federal Hart-Scott-Rodino Act relating to the  
27 proposed transaction has been submitted to the United States Department of Justice ("DOJ") and  
28 the Federal Trade Commission ("FTC") and, on the date of this pre-filed testimony, is awaiting

1 clearance. Arcadian and the Applicants have joint representation in regards to these  
2 proceedings. The Department of Justice has not indicated they are investigating and is not  
3 requiring any divestitures of Washington State membership.

4 **Q8: Will the financial conditions of the Applicants jeopardize the financial stability of**  
5 **Arcadian Washington or prejudice interests of Arcadian Washington policyholders or its**  
6 **securityholders?**

7 A. Based on the financial statements filed by the Applicants with the Form A Statement and  
8 the Applicants' expected testimony in these proceedings, I understand that the financial  
9 condition of the Applicants is not such as might jeopardize the financial stability of Arcadian  
10 Washington or prejudice the interest of its policyholders or the interests of any remaining  
11 securityholders who are unaffiliated with the Applicants. (After closing, the only security holder  
12 (as that term is used in the pertinent Washington statutes) of Arcadian Washington will be  
13 Arcadian Management, and its only securityholder will be Humana Inc.) To the contrary,  
14 Arcadian believes that the financial condition and resources of Humana Inc. will materially  
15 strengthen the financial stability of Arcadian Management and its subsidiaries and will enhance  
16 the interests of Arcadian Washington policyholders. Arcadian is being acquired by a financially  
17 strong enterprise with deep knowledge of MA and MAPD products. Arcadian Management has  
18 debt burden and is not as robustly capitalized as the Applicants. The influx of capital will  
19 eliminate this debt burden.

20 **Q9: Are there any plans to make any material changes in regard to Arcadian Washington**  
21 **which would be unfair and unreasonable to its subscribers and not in the public interest?**

22 A. It is Arcadian's understanding that the Applicants have no plans to liquidate Arcadian  
23 Washington, to sell its assets, or merge or consolidate it with any person or persons, or to make  
24 any other material change in its business operations or corporate structure, apart from replacing  
25 its officers and directors as noted in the Form A.

26 Arcadian understands that following the Acquisition, the Applicants intend to continue  
27 operating Arcadian Washington's MA and MAPD plans without any material changes, except  
28 replacing certain directors and officers of Arcadian Management and of its subsidiaries with

1 various current directors and/or officers of the Applicants.

2 In fact, Arcadian believes that the Applicants' larger provider networks will enhance the  
3 operation for subscribers.

4 **Q10: Are the competence, experience, and integrity of those who will control the operation**  
5 **of Arcadian Washington after the acquisition in the interest of the subscribers and of the**  
6 **public?**

7 A. It is Arcadian's belief, based on information provided to Arcadian, that the competence,  
8 experience, and integrity of those persons who will control Arcadian Washington if the Form A  
9 Statement is approved are such that it would be in the interest of policyholders of Arcadian  
10 Washington and of the public to permit the proposed Acquisition of Arcadian management and  
11 its subsidiaries, including Arcadian Washington.

12 **Q11: Will the acquisition be hazardous or prejudicial to the insurance buying public?**

13 A. In the view of Arcadian, the acquisition will not be hazardous or prejudicial to the  
14 insurance buying public. The transaction is fair and reasonable. The negotiations for the  
15 transaction were fair and at arms' length. Both sides had independent, third party advisors  
16 assisting them in the negotiations.

17 The acquisition will have no adverse financial impact on Arcadian.

18 There is nothing in the acquisition that will be hazardous or prejudicial to the insurance  
19 buying public.

20 **Q12: Has Arcadian received any objections or concerns regarding the proposed**  
21 **acquisition?**

22 A. No. I have reviewed and am familiar with the Notice of Hearing that the Office of  
23 Insurance Commissioner published on March 13, 2012. I am not aware of anyone at Arcadian  
24 having received any response from policyholders or consumers about the proposed acquisition  
25 in response to that Notice or otherwise. All Shareholders/Stockholders of Arcadian Management  
26 Services have been notified of the transaction between Arcadian and Humana. No lawsuits have  
27 been filed and Arcadian has not been made aware of any objections to the transaction.

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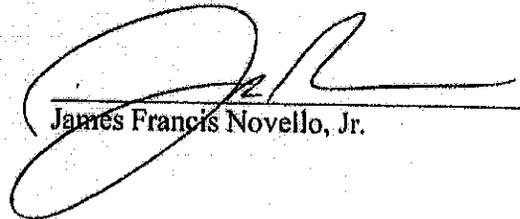
1 **Q13: Is there anything you would like to add to your testimony at this time?**

2 A. Our 1<sup>st</sup> lien holders entered into an agreement with the Arcadian to forebear on exercising  
3 their right to call a default on their note in exchange for the plan of sale that was to close not  
4 later than November 15, 2011. The Company has paid millions of dollars in fees to the 1<sup>st</sup> lien  
5 holders in exchange for a series of short term debt extensions because the transaction with  
6 Humana has not closed. Under our agreement with Humana, either party may terminate the  
7 transaction if any requisite regulatory approval is not obtained and the merger is not closed by  
8 March 31, 2012.

9 Arcadian believes that completing this transaction with Humana is in the best interest of  
10 the policy holders, physicians, and employees residing in Washington State and throughout the  
11 Arcadian Enterprise. Arcadian is very concerned that the failure to complete the hearing process in  
12 an expedited manner may jeopardize the successful acquisition of a financially distressed  
13 company.

14 I have nothing further to add at this time, but I may supplement this pre-filed testimony at  
15 the hearing.

16 Executed under penalty of perjury this 31<sup>st</sup> day of MARCH, 2012.

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19 James Francis Novello, Jr.  
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Hearings Unit, DDC  
Patricia D. Petersen  
Chief Hearing Officer

**BEFORE THE INSURANCE COMMISSIONER  
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed Acquisition of  
Control of:

No. 12-0010

ARCADIAN HEALTH PLAN, INC., a  
Washington Domestic Health Maintenance  
Organization,

**PRE-FILED CLOSING STATEMENT**

By

HUMANA INC., a Delaware corporation

**PRE-FILED CLOSING STATEMENT OF:**

Robert W. Hoffman  
SNR Denton US LLP  
Representing Arcadian Health Plan, Inc.

1 **CLOSING STATEMENT**

2 Thank you to your honor and the Office of the Insurance Commissioner for today's  
3 hearing and your consideration of the proposed acquisition of Arcadian Health Plan, Inc.  
4 ("Arcadian") by Humana Inc. ("Humana") (the "Acquisition").

5 As the testimony reflects, the Acquisition satisfies the requirements of Revised Code of  
6 Washington ("RCW") section 48.31C.030. The testimony shows that the Acquisition is fair,  
7 equitable, and consistent with the law and that no reasonable objection to it exists. In addition,  
8 the testimony demonstrates that:

- 9
- 10 • After the Acquisition, Arcadian, as the survivor, will continue to satisfy  
11 the requirements for the issuance of a license as a health provider  
12 organization.
  - 13 • The effect of the Acquisition will not lessen competition in insurance  
14 or tend to create a monopoly in Washington;
  - 15 • The financial condition of Humana does not prejudice the interests of  
16 Arcadian policyholders;
  - 17 • There is no plan to liquidate Arcadian to make material changes in its  
18 business or cooperate structure management;
  - 19 • The competence, experience and integrity of the persons who will  
20 control the operation of Arcadian are in the interest of Arcadian  
21 policyholders and of the public;
  - 22 • The Acquisition will not be hazardous or prejudicial to the insurance  
23 buying public of Washington;
  - 24 • Arcadian has received no objection regarding the proposed Acquisition;  
25 and
  - 26 • It is imperative that a conditional order approving the transaction be  
27 issued no later than March 30, 2012.

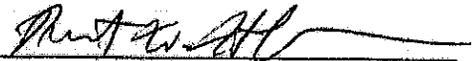
28 In the Notice of Hearing in this matter, your honor stated that if all the other findings can  
be made based upon the evidence at hearing, except that concerning the antitrust issue, that an  
Order approving the proposed acquisition will be issued, conditioned upon final resolution by  
the Department of Justice.

///

1           The parties have also informed your honor that if such a conditional order could be issued  
2 by March 30, 2012, that such an Order would greatly facilitate the transaction.

3           Accordingly, Arcadian respectfully requests the Commissioner's approval of the  
4 Acquisition and requests that a conditional approval order be issued no later than March 30,  
5 2012.

6  
7 Dated: March 21, 2012

  
Robert W. Hoffman  
SNR Denton US LLP

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Hearings Div., DIC  
Patricia D. Petersen  
Chief Hearing Officer

**BEFORE THE INSURANCE COMMISSIONER  
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed Acquisition of  
Control of:

No. 12-0010

ARCADIAN HEALTH PLAN, INC., a  
Washington Domestic Health Maintenance  
Organization,

**PROOF OF SERICE**

By

HUMANA INC., a Delaware corporation

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1 I, Cynthia Presley, hereby declare:

2 I am employed in the City and County of San Francisco, California in the office of a  
3 member of the bar of this court at whose direction the following service was made. I am over  
4 the age of eighteen years and not a party to the within action. My business address is SNR  
5 Denton US LLP, 525 Market Street, 26<sup>th</sup> Floor, San Francisco, California 94105. On March 22,  
6 2012, I caused to be served on the interested parties in this action the following document(s):

- 7 1. **PRE-FILED DIRECT TESTIMONY OF JAMES FRANCIS NOVELLO, JR.;**  
8 2. **PRE-FILED OPENING STATEMENT OF ROBERT W. HOFFMAN; and**  
9 3. **PRE-FILED CLOSING STATEMENT OF ROBERT W. HOFFMAN.**

9  **E-MAIL** : I caused such documents to be served on the parties listed below by E-Mail:

10 Gary Timin: Gary.Timin@squiresanders.com

11 Charles Brown: CharlesB@OIC.WA.GOV

12 Jeff Gingold: gingoldj@lanepowell.com

13 Ron Pastuch: RonP@OIC.WA.GOV

14 Robert J. Guite: Robert.Guite@squiresanders.com

15 I declare under penalty of perjury under the laws of the State of California that the  
16 foregoing is true and correct, and that this declaration was executed on March 22, 2012, at  
17 San Francisco, California.

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Cynthia Presley