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Hearing Officer
Patricia D. Petersen
Chief Hearing Officer

February 14, 2012

Via E-Mail and U.S. Mail

Patricia D. Petersen
Chief Hearing Officer
State of Washington
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Proposed Acquisition of Arcadian Health Plan, Inc. by Humana Inc.
Docket No. 12-0010

Dear Judge Petersen:

I am writing on behalf of Arcadian Health Plan with regard to the Acquisition of Control by Humana which had been scheduled for a Hearing on February 6, 2012, and specifically in response to your letter to Gary Timin, dated February 9, 2012. Arcadian is very concerned that any indefinite delay in holding the hearing may result in potentially irreparable damage to both the Company and the contemplated acquisition by Humana.

As you are aware Humana filed a Form A application with the Washington Office of Insurance Commissioner on September 21, 2011. As we discussed at the Pre Hearing Conference, Arcadian Management Services, the parent organization of Arcadian Health Plan, is and has been a financially distressed company and has incurred multiple events of default to our credit agreements. The increasing costs of Arcadian's debt financing and the prolonged regulatory reviews have made it difficult for Arcadian to provide additional financial support to Arcadian Health Plan, where surplus is below the level that we previously committed to OIC to maintain.

The Company had several meetings over the course of many months with the OIC's Company Supervision personnel to discuss its financial problems. In May of 2011 Arcadian senior leadership met with leadership at Washington OIC and explained our situation and our strategy to sell the Company in an orderly but expeditious manner.

The OIC's Company Supervision personnel agreed that this was the best solution to the Company's financial problems, and endorsed the decision. Our lenders also agreed to that strategy and agreed not to foreclose given the plan for sale.

Our 1st lien holders entered into an agreement with Arcadian to forebear on exercising their right to call a default on their note in exchange for the plan of sale that was to close not later than November 15, 2011. The Company has paid millions of dollars in fees to the 1st lien holders because the transaction with Humana has not closed and the Company had to extend the maturity date of the note.

On March 1st, 2012 all of the remaining debt comes due with multiple lien holders. Complicating matters further, Arcadian is beginning to experience high employee turnover including technical senior positions that are very difficult to replace given the Company's situation.

Throughout the process Arcadian and Humana have worked with the United States Department of Justice to gain their approval of the HSR application. Two weeks ago Arcadian learned that Humana and the Department of Justice have reached an "oral agreement in principle" on resolving all HSR concerns. We are hopeful that final resolution will occur in the next four to six weeks. Importantly, none of those concerns involve any part of the membership or assets in Washington State.

Finally, under our agreement with Humana, either party may terminate the transaction if any requisite regulatory approval is not obtained and the merger is not closed by March 31, 2012. Consequently, it is essential that we receive OIC's final approval order before that date.

Arcadian believes that completing this transaction with Humana is in the best interest of the policy holders, physicians, and employees residing in Washington State and throughout the Arcadian Enterprise. Arcadian respectfully requests that you schedule the Hearing as soon as possible, and prior to final HSR approval, to prevent further negative consequences to the Company. Arcadian is very concerned that any further delay in the hearing may well jeopardize the successful acquisition of a financially distressed company. Consequently, we would ask you to consider holding a Hearing and conditioning any subsequent approval of the transaction on HSR approval from the Department of Justice.

Thank you for considering our request, and we would be happy to participate in another Pre-Hearing Conference if you so desire.

Very truly yours,

SNR Denton US LLP

By: 

Robert W. Hoffman

Copies Sent by E-Mail to:

Gary P. Timin, Esq., Record Counsel for Humana Inc.
Joan O. Lenahan, Vice President & Corporate Secretary, Humana Inc.
Joseph C. Ventura, Legal Counsel & Asst. Corporate Secretary, Humana Inc.
James Novello, Sr. Vice President and General Counsel, Arcadian Management Services Inc.
Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James Odiorne, Deputy Commissioner, Company Supervision Division
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