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*Rec'd via email  
2/14/12 KRC*

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OFFICE OF INSURANCE COMMISSIONER  
PATRICIA D. PETERSEN  
Chief Hearing Officer

February 14, 2012

**VIA ELECTRONIC MAIL and U.S. MAIL**

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

**Re: Arcadian Health Plan, Inc., Docket No. 12-0010  
Form A Application of Humana Inc. and Humsol, Inc.**

Dear Judge Petersen:

Thank you very much for your February 9, 2012, letter regarding the hearing to be held before you on Humana Inc.'s application pending before the Washington Office of Insurance Commissioner (OIC) regarding its pending acquisition of Arcadian Management Services, Inc. and subsidiaries, including Arcadian Health Plan, Inc. We are sure everyone involved appreciates the continued close attention you are giving to this matter.

We have seen today's letter to you from Arcadian's counsel Robert Hoffman, asking that you reconsider and proceed to schedule and conduct the hearing soon. Humana respectfully and emphatically joins that request. We have spoken with OIC counsel Charles Brown, together with Ronald Pastuch, to convey our client's serious concerns and reasons for earnestly requesting that the hearing be conducted without further delay, even though the federal Hart-Scott-Rodino (HSR) review process with the U.S. Department of Justice (DOJ) is continuing. We also ask that you conduct a second prehearing conference within the next few days, so that the parties can explain more fully the disadvantages of deferring the hearing and respond to any questions you may have.

Mr. Hoffman's letter outlines certain financial and other costs to Arcadian of the protracted regulatory review process. Those consequences may be of most pressing import to Arcadian and its lenders and investors, but a deterioration in Arcadian's financial condition or results, or adverse actions by lien holders, would concern Humana as well. Conversely, if and when the transaction finally closes, Humana has ample resources to provide financial and managerial support to the Arcadian companies, and has an announced corporate policy of

maintaining the surplus of its insurance subsidiaries, such as Arcadian Health Plan, Inc. would become, at or above required levels. (See paragraph (6) on page 3 of enclosed November 11, 2011, letter from Humana to Ronald Pastuch.) That will benefit its members in Washington and elsewhere and also serve the interests of OIC, as we understand that Arcadian Health Plan has for some time not been able to maintain its surplus commitment to OIC.

Humana's basic objections to deferring the hearing longer, until after final resolution of the HSR process, are that doing so (a) risks jeopardizing ever consummating the transaction, and (b) is unnecessary, as OIC can conduct the hearing and enter a final order containing appropriate conditions subsequent, in particular Humana's entering a definitive agreement with DOJ that will conclude the HSR review. Further delay risks jeopardizing the transaction because under the Merger Agreement as amended, either party may terminate the agreement if any requisite regulatory approval or clearance is not received by March 31, 2012. That includes both OIC's formal approval and ultimate resolution of the federal antitrust review.

Your letter expresses concerns, as we understand, that if the hearing is conducted before conclusion of the HSR review, the Commissioner would be required to assess and make a finding about any anticompetitive effects of the transaction without knowing the results of the federal antitrust review. With respect, we are confident that such concerns can be effectively addressed without deferring the hearing. In brief:

a. DOJ has not asserted that the transaction would have anticompetitive effects in any market in the State of Washington. That is reflected in the exhibit to the Merger Agreement Amendment, emailed to OIC and to you with my February 2, 2012 letter, identifying all states and counties where Humana is discussing with DOJ possible "asset divestitures." Here that traditional antitrust term means that, after closing, Humana would transfer a certain number of CMS Medicare Advantage Contracts (CMS Contracts) and the membership served under those CMS Contracts in the specified counties and states to one or more competing plans there. DOJ has proposed no transfers in Washington, and none are anticipated. To the extent of interest, more specifics about the contemplated transfers can be furnished through testimony or other record evidence at the hearing.

b. We understand that OIC has collected and evaluated information bearing on the effects of the transaction in Washington markets. At the request of OIC, on November 11, 2011, Humana submitted certain market share information to the Company Supervision Division to facilitate its review of the Form A. (Please see paragraphs numbered (1) – (3) on the bottom half of page 2 of the Nov. 11, 2011 letter, describing the information requested and submitted.) We presume that correspondence and information is part of the administrative record the Division forwarded to you. If this is a subject on which OIC or your honor desires more evidence, Humana can be prepared to present it before and at the hearing. Thus, if you or the Commissioner will make findings about the transaction's potential effects on competition,

Humana, and we are sure Arcadian also, will cooperate in developing a factual record for that purpose.

c. That said, were the legal issue squarely presented, we would feel constrained to question whether, for this specific transaction, the Washington Insurance Code obligates the Commissioner to make an express finding about effects on competition in Washington or elsewhere. The Code provision your letter identifies in that connection, RCW 48.31C.030(5)(a), seems to us to imply that, if either the Washington Attorney General or a federal antitrust enforcement agency is undertaking a review of the acquisition, the Commissioner need not make such a finding. In such circumstances, where a governmental body charged with antitrust investigation and enforcement responsibilities is evaluating the precise issue, an additional, independent finding by the Commissioner might be viewed as duplicative or unneeded. DOJ conducted a review of competitive effects of the transaction on a nationwide basis, as it has particular expertise and experience in doing, and identified a limited number of markets elsewhere for proposed CMS Contract transfers, but none in Washington.

d. Perhaps obviating the point last raised, OIC can fully protect its interests and exercise its authority in the Form A process by conducting an evidentiary hearing based on the statutory criteria and entering an order with appropriate conditions, including Humana and DOJ entering into a consent decree that concludes the HSR review. In our experience, it is common for state insurance authorities to include conditions in orders approving Form A applications, and we understand that OIC often does so. Approval orders entered by other states for this transaction carry a variety of conditions, in some states including completion of the HSR process. And as stated, closing under the Merger Agreement is expressly conditioned on obtaining all requisite regulatory approvals. We are confident that, assuming OIC is otherwise prepared to approve the acquisition of control after the hearing, we can agree on suitable wording for any such conditions.

In short, Humana does not see a convincing reason to postpone the hearing, while having serious grounds to fear that doing so could result in abandoning the transaction. We cannot predict the timing of conclusion of the HSR process with any precision. The timing of DOJ's official approval and execution of an agreement, which the parties are still negotiating and so is not in final form, is entirely within DOJ's discretion and control. We now believe it likely that final DOJ approval will not be forthcoming until close to the March 31, 2012, deadline, which if the hearing is postponed would leave OIC very little if any time to act on the application. The notice period alone would likely push the hearing into April. The parties are eager not to put OIC or themselves in that bind. Humana has committed to updating OIC on progress in the HSR process and can provide record evidence for the hearing.

For these reasons, we respectfully ask that you reconsider and set the hearing within the next few weeks, no later than the first week of March. By contrast, postponing the hearing until after completion of the federal HSR process would result in Arcadian's incurring the mounting

difficulties that Mr. Hoffman's letter outlines and could cause or contribute to termination of the transaction. We believe those results and risks are ones that OIC, mindful of the interests of Arcadian's members and its continuation in the Washington Medicare Advantage business, will also desire to avoid. Accordingly, we have invited OIC, through its counsel, to support the parties' request that the hearing be set and conducted at the earliest opportunity,

Thank you again for your attention. We look forward to the chance to discuss this with you at a prehearing conference within the next several days. As a courtesy this letter is copied to the OIC officials copied on yours.

Sincerely,

Squire Sanders (US) LLP



Gary P. Timin

cc: Joan O. Lenahan, VP & Corp. Secretary, Humana  
Joseph C. Ventura, Legal Counsel, Humana  
James Novello, Sr. VP & General Counsel, Arcadian  
Robert Hoffman, Esq., Record Counsel for Arcadian  
Michael Kreidler, Insurance Commissioner  
Michael G. Watson, Chief Deputy Insurance Commissioner  
James Odiorne, Deputy Commissioner, Company Supervision Division  
Carol Sureau, Deputy Commissioner, Legal Affairs Division  
Charles Brown, Sr. Staff Attorney, Legal Affairs Division  
Ronald J Pastuch, OIC Company Supervision Division  
Kelly A. Cairns, OIC Hearings Unit

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Office of Insurance Commissioner  
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Joan O. Lenahan  
Vice President and Corporate Secretary

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**HUMANA.**  
*Guidance when you need it most*

**VIA ELECTRONIC MAIL**

November 11, 2011

Ronald J. Pastuch  
Holding Company Manager  
Company Supervision Division  
State of Washington  
Office of Insurance Commissioner  
P.O. Box 40255  
Olympia, Washington 98504-0255

Re: Humana Inc.  
Form A – Acquisition of Arcadian Management Services, Inc.

Dear Mr. Pastuch:

Set forth below are the responses of Humana Inc. (the “**Company**”) to the initial inquiry from the Washington Office of Insurance Commissioner (the “**OIC**”) in its letter dated November 4, 2011, with respect to the Company’s Form A filing relating to the proposed acquisition of Arcadian Management Services, Inc. (“**Arcadian Management**”). To ease your review, we have repeated your comments below in italicized print and followed each comment with our response.

\* \* \*

- (1) *List of proposed directors and officers of Arcadian Management Services (“AMS”) and Arcadian Health Plan, Inc. (“AHP-WA”).*

Post-transaction, Humana expects the directors and officers of AMS and AHP-WA to be the following (all officers and directors of Humsol, Inc.):

**Directors**

Michael B. McCallister  
James E. Murray  
James H. Bloem

**Officers**

Michael B. McCallister *Chief Executive Officer*  
James H. Bloem *Senior Vice President, Chief Financial Officer & Treasurer*  
Paul B. Kusserow *Senior Vice President - Chief Strategy and Corporate Development Officer*  
George G. Bauernfeind *Vice President*  
Charles F. Lambert III *Vice President*  
Joan O. Lenahan *Vice President and Corporate Secretary*  
Ralph M. Wilson *Vice President*  
Joseph C. Ventura *Assistant Secretary*

- (2) *Background verification reports on the directors and officers of Humsol and proposed directors and officers of AMS and AHP-WA. If those background reports are on file with the OIC, then please indicate when those reports were filed (similar to your Exhibit 7).*

Under separate cover, we are submitting copies of the biographical affidavits for each of the officers and directors of Humana Inc. and Humsol, Inc. (who will become the officers and directors of AMS and AHP-WA). We have also ordered background verification reports from Axcion, our outside vendor (copy of letter attached as Exhibit A), and have requested an expedited delivery of those reports to you.

- (1) *Please discuss the number of Washington State covered lives and the associated zip codes for both Humana and AHP-WA's Medicare Advantage plans.*

Please refer to the attached Exhibit B.

- (2) *Please provide the annual revenues associated with those Washington State covered lives.*

Please refer to the attached Exhibit C1 for AHP-WA, and the attached Exhibit C2 for Humana Medicare Advantage plans. Note that the information for Humana Medicare Advantage plans has been presented on a one-month basis for the month ended September 30, 2011.

- (3) *Please provide a listing of other Medicare Advantage plans offered by third parties where Humana and AHP-WA are doing business in the Washington State market.*

Please refer to the attached Exhibit D (note two tabs within the Excel file, one including state-wide information and the second broken down by county).

- (4) *Please provide any materials Humana and AHP-WA have prepared discussing or analyzing competitive overlap.*

Please refer to the attached Exhibit E.

- (5) *Please discuss any plans to merge, consolidate, transfer business, or re-domesticate AHP-WA once Humana obtains control of AHP-WA.*

As stated in the Form A, there are no plans or proposals to declare an extraordinary dividend, to liquidate AHP-WA, to sell its assets to or merge or consolidate it with any person or persons, or to make any other material change in its business operations or corporate structure. As noted, certain of the current directors and officers of AHP-WA will be replaced by persons who are current directors and/or officers of Humsol, Inc. There is no change now planned with respect to operational personnel at AMS or AHP-WA or the scope or nature of its business operations. As a MA plan, any future material change in operations will likely be subject to approval by CMS. Post-Closing, AHP-WA will continue its current operations as a sponsor of MA plans in accordance with the plan of operation most recently approved by CMS.

- (6) *Please discuss any plans to address any deficiencies meeting Washington's regulatory requirements on AHP-WA in order to continue doing business in Washington.*

Humana proactively projects capital and surplus before each quarter to confirm each regulated subsidiary exceeds the greater of 250% of Authorized Control Level Risk Based Capital requirements, or any state mandated requirements. Capital contributions from Humana Inc., the parent company, are made before quarter end when additional capital is required.

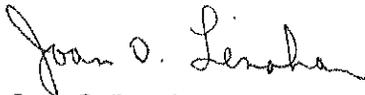
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**HUMANA.**  
*Guidance when you need it most*

We are available to discuss these responses with you or your staff. If you have any questions or comments, do not hesitate to contact me at (502) 580-3778.

Very truly yours,



Joan O. Lenahan  
Vice President and Corporate Secretary

cc: Gary P. Timin, Esq.  
Lisa G. Han,