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WELLPOINT
2012-02-28 10:17
H. ...
Insurance ...
Control ...

BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition
and Control of:

AMERIGROUP WASHINGTON, INC., a
Washington Domestic Health Care Service
Contractor,

by

WELLPOINT INC., an Indiana
corporation, and ATH Holding Company,
LLC, its wholly-owned subsidiary,
collectively,

the Applicant.

NO. 12-0280

**DECLARATION OF
RONALD J. PASTUCH**

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 a graduate of Pacific Lutheran University, where I earned a Bachelor of
2 Arts Degree in Business Administration in 1988. I received my CPA license in 2003.

3 3. My previous state employment includes the Washington Department of
4 Veterans Affairs from 1980 to 1987 in accounting and human resource positions, and the
5 Office of the Insurance Commissioner from 1987 to 1991 as a staff accountant, from 1991 to
6 1993 as a field Insurance Examiner in the OIC Company Supervision Division, and from
7 1993 to 2006 as a Financial Analyst at various levels within the same division.

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

13 5. On August 6, 2012, WellPoint Inc. and its wholly-owned subsidiary, ATH
14 Holding Company, LLC (collectively, "the Applicant" or "WellPoint") filed a Form A
15 Statement for the Approval of the Acquisition of Control of Amerigroup Washington, Inc.
16 ("Amerigroup WA") dated August 3, 2012. Amerigroup WA is a Washington domiciled
17 stock health care service contractor incorporated on September 13, 2010, and began writing
18 business on July 1, 2012. WellPoint Inc. is an Indiana corporation incorporated during 2004
19 and based in Indianapolis, IN, and publicly traded on the New York Stock Exchange. ATH
20 Holding Company LLC is a Delaware corporation located in Indianapolis, IN and a holding
21 company within the WellPoint holding company system. WellPoint Merger Sub, Inc is a shell
22 corporation formed solely to facilitate the proposed acquisition transaction.

23 According to that Statement, the Applicant proposes to become affiliated through a
24 merger agreement between WellPoint Merger Sub, Inc. and Amerigroup Corporation
25 ("AMS"), which wholly owns all common stock of and controls Amerigroup WA. The
26 proposed merger contemplates, that upon closing, WellPoint Merger Sub, Inc. will merge

1 with and into Amerigroup Corporation, with Amerigroup Corporation as the surviving
2 corporation. WellPoint Merger Sub, Inc. will be merged out of existence at closing, upon
3 which WellPoint Inc. will own all of the then issued and outstanding capital stock of
4 Amerigroup Corporation, and thus indirectly own Amerigroup WA. The proposed merger
5 between WellPoint Merger Sub, Inc. and Amerigroup Corporation and the concurrent
6 acquisition of Amerigroup Corporation and Amerigroup WA by WellPoint Inc. are referred to
7 as the Acquisition.

8 6. As part of the proposed transaction, the Applicant stated that current directors
9 and some of the officers of Amerigroup WA will be replaced by persons who are current
10 directors and/or officers of the Applicant. The Applicant also stated there are no plans or
11 proposals to declare an extraordinary dividend, liquidate Amerigroup WA, sell Amerigroup
12 WA assets, merge Amerigroup WA, or consolidate Amerigroup WA with any person or
13 persons, or make any other material change in its business operations or corporate structure.

14 7. On August 31, 2012, WellPoint filed information regarding the resignation of
15 its president and CEO and the placement of an interim president and CEO who is also its
16 executive vice president and general counsel of WellPoint.

17 8. On September 10, 2012, WellPoint filed an updated affidavit on one of its
18 named officers.

19 9. On September 13, 2012, WellPoint filed updated information regarding its
20 proposed \$3.25 billion public debt offering of which the net proceeds would fund the
21 proposed acquisition of Amerigroup and effectively replaces the bridge loan credit facility
22 described in the Form A statement. That filing contained the term sheet and prospectus
23 supplement of that debt offering.

10. On September 28, 2012 in its press release, Amerigroup announced its intent to
sell its Virginia subsidiary to a non-profit health corporation which would divest all of its
managed care operations in Virginia. That intended sale was in response to the federal

1 Department of Justice's request for information in that specific area of the country from its
2 review of the proposed WellPoint acquisition.

3 11. On October 16, 2012, WellPoint submitted its response to the questions about
4 the Form A filing from an OIC email dated October 11, 2012. Those questions were restated
5 in its October 16, 2012 response to the corresponding issues.

6 12. During August 2012, the OIC submitted the Form A filing to the Antitrust
7 Section of the Office of the Attorney General ("AGO") according to RCW
8 48.31C.030(5)(a)(ii). In that subsection, the AGO is to seek input from the Insurance
9 Commissioner if the AGO undertakes the review of the proposed acquisition. On August 24,
10 2012, the OIC notified the AGO regarding news of the federal DOJ's request for information.
11 On October 16, 2012, the OIC received a letter from the Washington Attorney General's
12 Office regarding its review of the proposed acquisition of Amerigroup Washington, Inc. The
13 Assistant Attorney General concluded that based on their review, there does not appear to be
14 sufficient evidence to conclude that the proposed acquisition warrants legal action by the
15 AGO.

16 13. On October 23, 2012 in its press release, Amerigroup announced its
17 stockholder approval of the merger agreement dated July 9, 2012, with WellPoint, Inc.

18 14. On October 26, 2012, the OIC submitted the Form A filing to the Hearings
19 Unit and requested a hearing be scheduled to determine the matter.

20 15. On November 9, 2012, the OIC sent a letter to the presiding officer regarding
21 the additional information submitted from the November 7, 2012 pre-hearing conference call
22 and follow-up to the Applicant's October 16, 2012 letter. That letter provided financial
23 information previously submitted to the U.S. Securities and Exchange Commission and
informational as required for the Form A statement.

16. On November 26, 2012, WellPoint filed information regarding in response to
the judge's November 20, 2012 letter regarding the filing. Information provided litigation

1 cases of WellPoint and status of the federal antitrust review. Also included was the status of
2 the other states' review of the proposed acquisition of Amerigroup and copies of their letters
3 and determinations.

4 17. On November 27, 2012, WellPoint submitted updated information from its
5 October 16, 2012 submission regarding regulatory actions.

6 18. On November 28, 2012, the OIC submitted a response to the judge regarding
7 the information received in response to her November 20, 2012 letter and information
8 received up to and including November 27, 2012. The OIC recommended the filing as
9 complete and requested a hearing to be scheduled according to RCW 48.31C.030.

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

12 a. The domestic health care service contractor would be able to satisfy the
13 requirements for the issuance of a license to write its current lines of business for which it is
14 presently licensed. Amerigroup WA is presently registered to write health care services
15 according to Chapter 48.44 RCW. Amerigroup WA's minimum capital and surplus as of the
16 date of this Declaration is \$3 million according to RCW 48.44.037(1). According to its
17 Annual Statement filed with the OIC, Amerigroup WA's total capital and surplus was
18 reported at \$3.1 million as of December 31, 2011, and according to its most recent quarterly
19 financial statement, the total capital and surplus was reported at \$15.8 million (unaudited) as
20 of September 30, 2012. Also, Amerigroup WA's latest risk-based capital ratio exceeded its
21 company action level as defined under RCW 48.43.305 and RCW 48.43.310. Amerigroup
22 WA's current capital and surplus exceeds its required minimum capital and surplus and risk-
23 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
performed on the domestic health care service contractors and its related insurers' direct

1 writings, the Applicant and any related insurers' direct writings, and the Washington health
2 insurance market. The Applicant has four life insurers and one property and casualty insurer
3 licensed in Washington and two of those five insurers, Anthem Life Insurance and Unicare
4 Life and Health Insurance Company, are currently writing business in Washington and has
5 little market presence in Washington State. WellPoint's presence in the Medicare Part D plans
6 in Washington State is solely through Unicare Life and Health Ins Co.

7 During 2011, Unicare Life & Health's Medicare Part D plans enrollment was 2,269
8 enrollees in Washington State, and it wrote approximately \$2.5 million. Unicare Life and
9 Health also wrote health for large groups totaling approximately \$408,000 (15,000 member
10 months).

11 During 2012, Amerigroup WA is a small player in the state Medicaid market
12 operating in 20 Washington State counties. WellPoint operates in 28 Washington counties in
13 the Medicare Part D market. Both companies operate in 17 Washington counties together.

14 Based on this information and AGO's conclusion on its review of the Form A
15 information, there would be no violation of the competitive standard set forth in RCW
16 48.31C.020(1).

17 c. The financial condition of the Applicant appears that it would not jeopardize
18 the financial stability of the domestic insurer or prejudice its subscribers' interest. The
19 Applicant's latest financial statement information filed under SEC Form 10K, the Applicant
20 reported has total consolidated assets at \$52.1 billion and total stockholders' equity at \$23.3
21 billion as of December 31, 2011. The Applicant's AM Best long-term debt rating ranges
22 between "bbb+" (Adequate) as of July 10, 2012, and the Applicant's recent \$3.25 billion
23 public debt offering is under review by AM Best. Based on these facts, the current financial
condition of the Applicant would not jeopardize the financial stability of Amerigroup WA or
prejudice its subscribers' interest.

1 d. We are not aware of any plans or proposals by the Applicant to liquidate the
2 domestic health care service contractor, sell its assets, consolidate, or merge it with any
3 person, or make any other material changes in its business, corporate structure, or
4 management that are unfair and unreasonable to the domestic health care service contractor's
5 subscribers and not in the public interest. The Applicant intends that Amerigroup WA will
6 continue conducting its business and operations as it does today.

7 e. We verified the competence, experience and integrity of those persons who
8 would control the operation of the domestic health care service contractor through various
9 searches through internet search engines such as Google and Bing. From our review of the
10 background check information from a third party verification firm, we reviewed for any
11 criminal background of the named individuals who are listed in the Form A Statement and the
12 individuals identified in the Form A filing. We did not find any criminal history associated
13 with any named individual. As to other background checks, we did not receive any criminal
14 history associated with any named individual.

15 f. We are not aware that the acquisition is likely to be hazardous or prejudicial
16 to the insurance-buying public. We have reviewed the commentary from AM Best about the
17 proposed acquisition and its negative implications of the Amerigroup acquisition even though
18 the Applicant's insurance subsidiaries are rated A (Excellent). Amerigroup WA would
19 continue to operate as it is currently conducting its business and operations within the new
20 organization. Some of Amerigroup's existing executive officers will remain; however, some
21 officers will be replaced by the Applicant's officers. Amerigroup WA's continuation with the
22 state Medicaid contracts would have a financial impact if funding for those contracts were
23 materially decreased or eliminated.

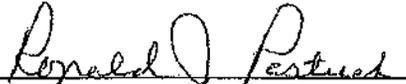
12. Depending on the testimony and evidence presented at the upcoming hearing,
we recommend to the presiding officer to approve the acquisition of Amerigroup WA by the
Applicant.

1 13. From a procedural standpoint, the OIC requires that notice of this proposed
2 acquisition be given to the public via the Internet (on the OIC's website). On December 7,
3 2012, OIC posted a notice on the Insurance Commissioner's website concerning the proposed
4 sale of Amerigroup WA and information about the OIC's review process, a true and correct
5 copy of which is attached hereto as Exhibit "A". Such notice was updated by the OIC
6 regarding the hearing, via the Notice of Hearing and announcement posted on the OIC's
7 website on December 5, 2012, and subsequently amended on December 6, 2012, a true and
8 correct copy of which is attached hereto as Exhibit "B". That notice informs the public of the
9 December 19, 2012, hearing and the nature of the hearing. That notice has remained on the
10 OIC's website since December 7, 2012, and will remain posted on the website through the
11 date of the hearing. The OIC also provided information for the public regarding the
12 Amerigroup acquisition and the OIC process for evaluating that acquisition for the upcoming
13 December 19, 2012, hearing.

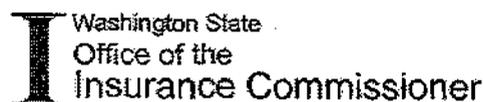
14 14. The Notice of Hearing informs and advises all interested parties that any
15 individual or entity is permitted to submit comments on, or objections to, this proposed
16 acquisition. The Notice of Hearing states that any questions or concerns should be directed to
17 Kelly A. Cairns, Paralegal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

18 15. As of the date of this Declaration, I personally have not received any
19 comments, questions, or objections through letter, correspondence, email, or phone, nor am I
20 aware of any comments, questions, or objections having been received by the OIC's Chief
21 Hearing Officer.

22 SIGNED this 12th day of December, 2012.

23 

Ronald J. Pastuch

"EXHIBIT A"**Public notices****December 2012**

Hearing set to decide Weilpoint request to buy Amerigroup, WA, Inc. as part of \$4.7 billion proposed purchase of Amerigroup Corp. - 12/07/2012

November 2012

Hearing set to consider Sagicor Life and PEMCO life merger - 11/29/12

October 2012

Hearing set for Government Personnel Mutual Life's request to acquire North Coast Life - 10/8/12

August 2012

Hearing set to consider Sagicor Life's request to acquire PEMCO Life - 08/16/2012

March 2012

Hearing set to consider Humana's request to acquire Arcadian Health Plan - 03/13/12

December 2011

Industrial Alliance Pacific Insurance and Financial Services Inc. requests approval to change their port of entry from Washington State to Texas - Hearing set for February 1, 2012. - 12/23/2011

Humana has applied to acquire Arcadian Health Plan, Inc. and its parent company, Arcadian Management Services, Inc. - 12/22/11

Safeco Companies seek approval to move their state of incorporation from Washington State to New Hampshire - 12/12/11

October 2011

Hearing scheduled for disclaimer of control of Commonwealth Insurance Company of America - 10/14/2011

September 2011

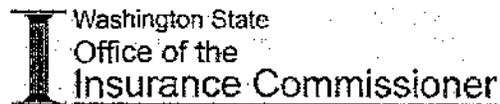
Hearing set for disclaimer of control of Commonwealth Insurance Company of America - 09/09/2011

Notice of filing for disclaimer of control of Commonwealth Insurance Company of America - 09/07/2011

July 2011

Hearing set for merger of PEMCO Insurance Company - 7/11/2011

EXHIBIT "B"



Public notice

Mike Kreidler
Washington Insurance Commissioner
Website: www.insurance.wa.gov

For more information, contact:
Public Affairs: 360-725-7055
Office of the Insurance Commissioner

12/07/2012

Hearing set to consider WellPoint's request to buy Amerigroup Washington, Inc. as part of \$4.7 billion proposed purchase of Amerigroup Corporation

Olympia, Wash. – The Insurance Commissioner has scheduled a hearing on December 19, 2012, at 10:00 a.m. Pacific Standard Time in his Olympia, Washington office to consider whether he should approve or deny WellPoint, Inc.'s request to acquire Washington-based Amerigroup Washington, Inc.

Amerigroup Washington, Inc. is a Washington health carrier licensed by the Insurance Commissioner. It was formed in 2010 and began operating on July 1, 2012, currently providing managed healthcare coverage primarily through the state's Healthy Options program to 16,423 Washington residents enrolled in Medicaid; Children's Health Insurance Program (CHIP); and SSI eligibles who are not eligible for Medicare.

For the three months from July 1 to September 30, 2012 Amerigroup Washington received \$14.8 million in revenue.

Amerigroup Washington is wholly owned by Amerigroup Corporation, which is a for-profit Delaware managed healthcare corporation formed in 1994 which is listed on the New York Stock Exchange and which, through its 36 wholly owned subsidiaries, is currently focused on providing managed healthcare coverage through publicly funded healthcare programs including Medicaid, CHIP, Medicaid expansion programs and Medicare Advantage to over 2.7 million individuals.

As of December 31, 2011 Amerigroup Corporation operated in Texas, Florida, Georgia, Maryland, Tennessee, New Jersey, New York, Nevada, Ohio, New Mexico, and Louisiana; in 2012 it expanded into Washington, acquired Health Plus, and sold its Virginia health plan to Inova Health System.

Amerigroup Corporation received \$6.4 billion in revenue in the first nine months of 2012 with a net profit of \$96.8 million; \$6.3 billion in revenue in 2011 with a net profit of \$195.6 million; \$5.8 billion in revenue in 2010 with a net profit of \$273.4 million; and \$5.2 billion in 2009 with a net profit of \$149.3 million.

WellPoint, Inc., an Indiana for-profit corporation formed in 2004, is also listed on the New York Stock Exchange and through its 131 subsidiaries is also one of the nation's largest health carriers with 33.5 million individuals covered in its comprehensive health plans and an additional 31.5 million individuals covered in its other health related plans including Medicare part D plans, behavior health, dental, vision, and life and disability plans.

WellPoint received \$46.2 billion in revenue in the first nine months of 2012 with a net profit of \$2.2 billion; \$60.7 billion in revenue in 2011 with a net profit of \$2.65 billion; 58.7 billion in 2010 with a net profit of \$2.89 billion; and \$64.9 billion in 2009 with a net profit of \$4.75 billion.

If approved by the Insurance Commissioner as to Amerigroup, Washington, and by the various states in which Amerigroup Corporation's other health carrier subsidiaries are domiciled, WellPoint would wholly own Amerigroup Corporation and thirteen of its fourteen subsidiary health carriers including:

AMERIGROUP Comm Care of NM Inc	AMERIGROUP NV Inc
AMERIGROUP FL Inc	AMERIGROUP OH Inc dba Comm Care
Amerigroup Ins Co (Texas)	AMERIGROUP TN Inc
Amerigroup KS Inc	AMERIGROUP TX Inc
Amerigroup LA Inc	Amerigroup Washington Inc
AMERIGROUP MD Inc	AMGP GA Managed Care Co Inc
AMERIGROUP NJ Inc	

12-07-2012

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This transaction was scrutinized in an antitrust examination conducted by the U.S. Department of Justice, which focused on Virginia. As a result, Amerigroup Corporation was required to divest itself of Amerigroup VA Inc., and therefore sold it to Inova Health System Foundation in November 2012.

The public is notified that all interested parties may submit letters of support or concerns or objections and/or may participate in the hearing by appearing in person or by telephone at no charge.

To view the Notice of Hearing, which includes advice on how to participate in the hearing process, and to view all documents filed in this matter including the Merger Agreement between the parties, organizational charts and finances, current and past states' regulatory actions and other litigation against WellPoint and all other documents filed in this proceeding, go to <http://www.insurance.wa.gov/orders/judicial-hearings/hearings-cases-a-b.shtml>.

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