

Please Reply to: PO Box 40259  
Olympia, WA 98504-0259  
Fax: (360) 686-2022

October 9, 2012

OFFICE OF  
INSURANCE COMMISSIONERMEREDITH VAUGHAN  
DIRECTOR, STRATEGY AND PLANNING  
PEACEHEALTH  
14432 SE EASTGATE WAY, SUITE 300  
BELLEVUE, WA 98007-6412Re: Form A Filing dated September 28, 2012 – Proposed Acquisition of Control of  
Columbia United Providers Inc. ("CUP")

Dear Ms. Vaughan:

We are continuing our review of the above Form A filing received on October 2, 2012, from PeaceHealth. The OIC review is on hold until we receive your response to this letter. Please respond in the order as presented in this letter.

The Form A filing does not include the following items as required by RCW 48.31C.020. Please submit these items as referenced below.

1. Item 1 – Please provide a list of the current stockholders of CUP with their name, address, and number of shares and percentage of total shares held by each party. Please include whether the person directly or beneficially owns, or both, of the common stock of CUP.
2. Item 2 – Please provide the correct entity that PeaceHealth is seeking to acquire control.
3. Item 2 – Please provide an additional organizational chart how CUP would align within the PeaceHealth organization after the proposed acquisition.
4. Item 2 – Please explain more about the Vancouver Community Sub-Committee ("Governing Body"). Please explain why that group is labeled as a governing body and how it currently governs Southwest Washington Health System and its affiliates.
5. Item 3 – Please provide the current biographical affidavits and background verification reports on the directors and officers of PeaceHealth and any affiliate between it and CUP not included in this Form A filing. If those background verification reports are on file with the OIC, then please indicate when those reports were filed.

6. Item 4 – Please provide the board resolutions from PeaceHealth and Southwest Washington Health System regarding this proposed transaction. Please explain why there is to be "no consideration" for this transaction.
7. Item 5 – Please provide additional information regarding the future plans of CUP after PeaceHealth acquires control of CUP. What are PeaceHealth's plans for CUP?
8. Item 7 – Please provide the share number of CUP's voting securities which PeaceHealth plans to acquire, and the amount of each class of voting security of CUP which is beneficially owned or concerning which there is a right to acquire beneficial ownership by PeaceHealth. Please disclose any contracts, arrangements, or understandings with respect to any voting security of CUP. Please disclose any purchases of any voting securities of CUP by PeaceHealth or any of its affiliates during the past twelve calendar months, and describe any recommendations to purchase any voting security of CUP by PeaceHealth or its affiliates during those past twelve calendar months. Please describe the terms of any agreement, contract, or understanding made with any broker-dealer as to solicitation of voting securities of CUP for tender and amount of any fees, commissions, or other compensation to be paid to the broker-dealers in connection with this acquisition.
9. Item 8 – Please provide the expected date when the PeaceHealth consolidated financial statement as of June 30, 2012, will be issued and filed with this Form A filing. Please provide the latest consolidated audited financial statement of Southwest Washington Health System.

We also request the following items for discussion to be submitted in the order to obtain a better understanding about CUP, PeaceHealth, its affiliates and its business. Please submit these items as referenced below:

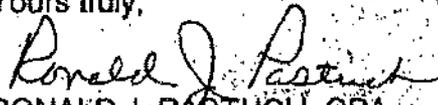
10. Please provide information about the corporate status and the business regarding CUP as of today.
11. Please provide any agreements between CUP and any PeaceHealth affiliates including PeaceHealth.
12. Please provide the names of the attorneys representing CUP and PeaceHealth for the upcoming hearing.
13. Please provide any agreement that supports the proposed transaction between PeaceHealth and Southwest Washington Health System, if not already submitted in Item #8 above.

14. Please discuss any plans by PeaceHealth regarding the minority shareholders of CUP after the proposed acquisition.
15. Please provide any information regarding any pending or ongoing litigation between CUP, PeaceHealth or its affiliates against any Washington State agency.
16. Please provide any information regarding any pending or ongoing litigation by CUP current shareholders against CUP, PeaceHealth or any of its affiliates.
17. Please provide the market and market share information of CUP in Washington State.
18. Please provide a listing of the current directors and officers of Southwest Washington Health System and their affiliation.
19. Please provide the latest internal financial statements of PeaceHealth and Southwest Washington Health System as of September 30, 2012.
20. Please provide a listing of the current and proposed directors and officers of CUP before and after the proposed acquisition. Please include each person's affiliation within or outside the CUP organization.
21. Please provide more information about the stock buyback program instituted by Southwest Washington Health System board during 2010 and its current status.
22. Please provide updated information about the recent proposal between PeaceHealth and Catholic Health Initiatives and its status. How would this proposal change CUP, PeaceHealth and its affiliates?

As to this filing, please be advised the filing is incomplete and therefore the filing is tolled. Our review will commence when we receive the response to this letter.

If you have any questions, please feel free to contact me at (360) 725-7211.

Yours truly,

  
RONALD J. PASTUCH, CPA  
Holding Company Manager  
Company Supervision Division  
E-Mail: RonP@oic.wa.gov

Cc: James T. Odiome, CPA, JD, Company Supervision Division



PeaceHealth

October 26, 2012

Ronald Pastuch, Holding Company Manager  
Office of the Insurance Commissioner  
State of Washington  
5000 Capitol Blvd.,  
Tumwater, WA 98501

RECEIVED  
OCT 31 2012  
INSURANCE COMMISSIONER  
COLUMBIA UNITED PROVIDERS

RE: Form A Filing dated September 28, 2012 – Proposed acquisition of Control of  
Columbia United Providers

Dear Mr. Pastuch:

In response to your request for further information regarding PeaceHealth's Form A filing on September 28, 2012, attached you will find our response for each question and the documents necessary to complete this request.

As I have discussed with you, we are quickly approaching our proposed Closing date of December 31, 2012 and are hopeful that your office will be able to complete the review, schedule a hearing, and issue a ruling by or before that date.

Please feel free to contact me at (425) 649-3885 at any time with questions.

Sincerely,

Meredith Vaughan  
System Director, Planning and Strategy

CC: Peter Adler, Senior Vice President, Strategy, Innovation and Development

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**PeaceHealth Response to OIC Request for Supplemental Information to Form A Filing of  
9/28/2012**

**1. Item 1 -Please provide a list of the current stockholders of CUP with their name, address, and number of shares and percentage of total shares held by each party. Please include whether the person directly or beneficially owns, or both, of the common stock of CUP.**

Please see Attachment 1 for the list of current CUP stockholders with all requested information. All shareholders directly own the shares listed by their name, and to the best of our knowledge, do not beneficially own any other CUP shares.

**2. Item 2- Please provide the correct entity that PeaceHealth is seeking to acquire control.**

PeaceHealth is seeking to acquire control of Columbia United Providers (CUP) in Vancouver, Washington.

**3. Item 2- Please provide an additional organizational chart how CUP would align within the PeaceHealth organization after the proposed acquisition.**

Please see Attachment 2 for the proposed organizational chart after the proposed transfer of control.

**4. Item 2 - Please explain more about the Vancouver Community Sub-Committee ("Governing Body"). Please explain why that group is labeled as a governing body and how it currently governs Southwest Washington Health System and its affiliates.**

Currently, there is no entity known as the "Vancouver Community Sub-Committee" ("Governing Body") so it does not currently govern Southwest Washington Health System and its affiliates. We anticipate that such an entity will be created at the time the separate Southwest Washington Health System corporation and its affiliates are merged into PeaceHealth. At that time, PeaceHealth will implement the same internal structure for the Vancouver community that it uses for the other communities it serves. This internal structure consists of board committees and subcommittees who receive cascading delegations of authority from the PeaceHealth board of directors, as described below. The PeaceHealth board of directors has created 3 board committees, known as the Northwest Network Committee, the Columbia Network Committee and the Oregon West Network Committee, to which it has delegated certain authority through the adoption of a committee charter for each. The PeaceHealth board of directors has also created a subcommittee for each community within such network that is served by PeaceHealth. For example, the Northwest Network Committee has 3 subcommittees, one each for Ketchikan, Bellingham and San Juan Island. (Please note that currently the Columbia Network only has

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one subcommittee for Longview, since that is the only community directly served by the PeaceHealth corporation. The Vancouver community is still served by the separate Southwest Washington Health System corporation and its affiliates.) Subject to approval by the PeaceHealth board of directors, the subcommittees are then delegated subsidiary authority from the Network Committees through the adoption of a charter for each. The charter for the Vancouver Community Subcommittee is just now in the drafting stage since we anticipate it will come into existence a few months from now when the Office of the Insurance Commissioner has approved the transfer of control.

The term "Governing Body" is used in reference to the community subcommittees because they have been delegated certain authority over local hospitals related to matters that are surveyed and accredited by the Joint Commission. For example, all credentialing and privileging of medical staff members is delegated to the community subcommittees. "Governing Body" is a Joint Commission term for the group that oversees these matters.

**5. Item 3- Please provide the current biographical affidavits and background verification reports on the directors and officers of PeaceHealth and any affiliate between it and CUP not included in this Form A filing. If those background verification reports are on file with the OIC, then please indicate when those reports were filed.**

Affidavits and WA State background checks for every PeaceHealth Board member were included in the Form A filing dated 9/28/12

**6. Item 4 - Please provide the board resolutions from PeaceHealth and Southwest Washington Health System regarding this proposed transaction. Please explain why there is to be "no consideration" for this transaction.**

The Southwest Health System Board has passed a motion recommending that it merge with PeaceHealth. At the April 18, 2012 Southwest Washington Health System/PeaceHealth Southwest Medical Center Board of Directors meeting, the following motion was approved and documented:

*Motion: A motion was made, seconded and passed unanimously to communicate to the PH System Board that the SWHS Board is prepared to complete the affiliation and terminate the separate 501(c)(3).*

PeaceHealth has not yet passed any resolutions. We anticipate that PeaceHealth and the Southwest Health System will both pass all resolutions necessary to accomplish statutory mergers. Those resolutions would be premature now, though, because we do not intend to merge Southwest Health System into PeaceHealth until such time as the change of control over Columbia United Providers has been approved by the Washington State Office of the Insurance Commissioner.

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**7. Item 5- Please provide additional information regarding the future plans of CUP after PeaceHealth acquires control of CUP. What are PeaceHealth's plans for CUP?**

PeaceHealth's Plans for CUP are to continue its historic mission and success, primarily serving the Medicaid population with well-managed, cost effective, high quality care. As part of the CUP Board, with CUP Board support, our hope over time would be to expand the number of counties served by CUP.

**8. Item 7- Please provide the share number of CUP's voting securities which PeaceHealth plans to acquire, and the amount of each class of voting security of CUP which is beneficially owned or concerning which there is a right to acquire - beneficial ownership by PeaceHealth. Please disclose any contracts, arrangements, or understandings with respect to any voting security of CUP. Please disclose any purchases of any voting securities of CUP by PeaceHealth or any of its affiliates during the past twelve calendar months, and describe any recommendations to purchase any voting security of CUP by PeaceHealth or its affiliates during those past twelve calendar months. Please describe the terms of any agreement, contract, or understanding made with any broker-dealer as to solicitation of voting securities of CUP for tender and amount of any fees, commissions, or other compensation to be paid to the broker-dealers in connection with this acquisition.**

PeaceHealth knows of no contracts, arrangements, or understandings with respect to any voting security of CUP. PeaceHealth and its affiliates, other than Southwest Washington Health System, have not purchased any voting securities of CUP at any time nor have PeaceHealth and its affiliates ever recommended purchasing any voting security of CUP. PeaceHealth has not entered any agreement, contract, or understanding with any broker-dealer as to solicitation of voting securities of CUP for tender and, consequently, has not incurred any fees commissions or other compensation to be paid to a broker-dealer in connection with such an acquisition.

**9. Item 8- Please provide the expected date when the PeaceHealth consolidated financial statement as of June 30, 2012, will be issued and filed with this Form A filing. Please provide the latest consolidated audited financial statement of Southwest Washington Health System.**

Please see Attachments 3 and 4

We also request the following items for discussion to be submitted in the order to obtain a better understanding about CUP, PeaceHealth, its affiliates and its business. Please submit these items as referenced below:

**10. Please provide information about the corporate status and the business regarding CUP as of today.**

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CUP is currently licensed in the State of Washington as a Health Service Contractor. CUP does not have any insurance contracts currently outstanding. CUP does have certain non-insurance business that it conducts, including the provision of third-party administrative services to the self-insured medical plan of PeaceHealth Southwest Medical Center, as described in CUP's 2011 Annual Statement filing. Non-insurance business initiated in 2012 includes the execution on May 24, 2012 of an agreement between Community Health Plan of Washington (CHPW) and CUP. CHPW is a licensed Health Service Contractor, and holds a contract with the State of Washington Health Care Authority to provide medical care and administrative services for managed Medicaid enrollees throughout Washington. Under terms of the May 24, 2012 agreement, CHPW pays CUP a monthly capitation payment for CUP to provide certain medical services through its network providers for assigned CHPW managed Medicaid enrollees in Clark County. Under the terms of the agreement, CUP also provides certain administrative services for its assigned enrollees, including service authorization management, member services, and claims payment.

On August 6, 2012, CUP filed an application with the Washington Office of Insurance Commissioner for issuance of a Disability Insurance Carrier license upon CUP's surrender of its Health Care Service Contractor license. This application was filed with Ms. Gayle Pasero, Company Licensing Manager, Company Supervision Division. This application is currently pending approval by the Insurance Commissioner.

**11. Please provide any agreements between CUP and any PeaceHealth affiliates including PeaceHealth.**

Please see Attachment 5.

**12. Please provide the names of the attorneys representing CUP and PeaceHealth for the upcoming hearing.**

Craig Armstrong and/or Stuart Hennessey, in-house counsel, will be representing PeaceHealth. The firm of Miller Nash will be representing CUP.

**13. Please provide any agreement that supports the proposed transaction between PeaceHealth and Southwest Washington Health System, if not already submitted in Item #8 above.**

None

**14. Please discuss any plans by PeaceHealth regarding the minority shareholders of CUP after the proposed acquisition.**

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PeaceHealth does not have plans to change the number or status of the minority shareholders of CUP after the proposed transfer of control.

**15. Please provide any information regarding any pending or ongoing litigation between CUP, PeaceHealth or its affiliates against any Washington State agency.**

None

**16. Please provide any information regarding any pending or ongoing litigation by CUP current shareholders against CUP, PeaceHealth or any of its affiliates.**

None

**17. Please provide the market and market share information of CUP in Washington State.**

CUP does not currently have any insurance contracts outstanding, and therefore, does not have any market share. The managed Medicaid members that CUP currently serves under a capitation contract with Community Health Plan of Washington, as described at item 10, represent less than 5% of current Washington Medicaid enrollees.

**18. Please provide a listing of the current directors and officers of Southwest Washington Health System and their affiliation.**

Officer Information:		
Joseph M. Kortum	PO Box 1600 Vancouver, WA 98668	President and CEO
Thomas Haywood	PO Box 1600 Vancouver, WA 98668	CFO
Sally Williams, M.D.	PO Box 1600 Vancouver, WA 98668	Secretary
Richard Seekins	PO Box 1600 Vancouver, WA 98668	Treasurer

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Director Information:	
Name	Address
Ruth Bennett	PO Box 1600 Vancouver, WA 98668
Richard Boyd	PO Box 1600 Vancouver, WA 98668
Judi Brenes	PO Box 1600 Vancouver, WA 98668
Brett Bryant	PO Box 1600 Vancouver, WA 98668
Tom Burkholder	PO Box 1600 Vancouver, WA 98668
Nicholas Carulli, M.D.	PO Box 1600 Vancouver, WA 98668
Jay Miller, M.D.	PO Box 1600 Vancouver, WA 98668
Ron Prill	PO Box 1600 Vancouver, WA 98668
George Shanno, M.D.	PO Box 1600 Vancouver, WA 98668
Sally E. Williams, M.D.	PO Box 1600 Vancouver, WA 98668

**19. Please provide the latest internal financial statements of PeaceHealth and Southwest Washington Health System as of September 30, 2012.**

Please see Attachments 3 and 4.

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**20. Please provide a listing of the current and proposed directors and officers of CUP before and after the proposed acquisition. Please include each person's affiliation within or outside the CUP organization.**

Please see Attachment 6 for the current directors and officers of CUP.

Regarding any changes to the CUP Board following the proposed acquisition:

Presently, Joe Kortum, CEO of Southwest Medical Center and Southwest Health System (SWHS), serves on the CUP Board. After OIC approval of the transfer of SWHS ownership shares to PeaceHealth, Peter Adler, a PeaceHealth Executive will be nominated for consideration to replace Mr. Joe Kortum on the CUP Board. No other changes to the CUP Board are contemplated in regard to the transfer of SWHS' ownership shares.

**21. Please provide more information about the stock buyback program instituted by Southwest Washington Health System board during 2010 and its current status.**

The Southwest Washington Health System Board has not initiated a CUP stock buyback program. The CUP Board has instructed management of CUP to repurchase the shares of CUP minority shareholders who no longer qualify for stock ownership per Article II Section 1 of the CUP Bylaws or who wish to sell shares back to CUP. Since January 2010, CUP has repurchased 125 such shares from shareholders for a total compensation amount of \$12,493. The shareholdings of these shareholders were repurchased in entirety. No shares of Southwest Washington Health System were repurchased. In response to an additional shareholder request, on October 10, 2012, CUP management offered to repurchase the 307 shares outstanding owned by Vancouver Radiology at \$100 per share. This offer is currently outstanding and expires December 31, 2012.

**22. Please provide updated information about the recent proposal between PeaceHealth and Catholic Health Initiatives and its status. How would this proposal change CUP, PeaceHealth and its affiliates?**

There have been no further developments in regard to the announced/proposed partnership between PeaceHealth and Catholic Health Initiatives (CHI) beyond those that were announced last month and shared with the OIC. PeaceHealth and CHI have signed a non-binding Letter of Intent to combine operations in Washington, Oregon and Alaska. The targeted transaction date, subject to definitive agreements, Board and external approvals, is July 1, 2013. The requested change of control for CUP in this Form A application is to transfer Southwest Washington Health System's (SWHS) 90% ownership shares in CUP to PeaceHealth, which became the sole member of SWHS on January 1, 2011. The proposed, future PeaceHealth – CHI transaction is not anticipated to change CUP's status, mission or operations. Should the proposed PeaceHealth – CHI transaction take place, there would be a

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subsequent Form A request to the OIC to transfer PeaceHealth's 90% ownership of CUP to the new, combined PeaceHealth / CHI organization. Since the proposed CHI-PeaceHealth transaction is currently only captured in a non-binding Letter of Intent, and has not yet been fully negotiated, approved or implemented, we do not believe it has any bearing on this Form A change of control application currently before the OIC.