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April 2, 2013

OFFICE OF
INSURANCE COMMISSIONER

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Patricia D. Petersen, JD, Chief Hearing Officer
Office of the Insurance Commissioner, Hearings Unit
PO Box 40255
Olympia, WA 98504-0255
5000 Capitol Boulevard
Tumwater, WA 98501

Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

Re: Letter dated January 25, 2013 – Disclaimer of Control filing by Regence BlueShield

Dear Ms. Petersen:

Attached please find the disclaimer of control filing by Regence BlueShield and associated supplementary information. The disclaimer of control letter describes the transaction between Regence BlueShield and Qliance Medical Management, Inc.

The disclaimer of control comes at the request of Regence BlueShield whereby Regence BlueShield acquired preferred equity shares of Qliance during December 2012. Regence BlueShield current ownership of Qliance preferred stock is approximately 26 percent and would reduce to closer to 20 percent after a second round of financing by Qliance later this year.

The Company Supervision division requests that a hearing be scheduled in this matter according to RCW 48.31C.010(3) and 48.31C.040(10). Ms. Robin Aronson is the OIC's Staff Attorney assigned to this case.

If you have any questions, please call me at 360-725-7211 or Ms. Aronson at 360-725-7181.

Yours truly,


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

Cc: James T. Odiome, CPA, JD, Deputy Insurance Commissioner
Robin Aronson, Staff Attorney

M. Jonathan Hensley, President, Regence BlueShield
Leonard Hagen, Assistant Secretary, Regence BlueShield



January 25, 2013

Mr. Jim Odiorne
Deputy Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

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INSURANCE COMMISSIONER
COMPANY SUPERVISOR

Dear Mr. Odiorne:

Thank you for your letter dated January 18, 2013, following up on the voicemail I left with the Washington Office of Insurance Commissioner on January 2, 2013. Regence BlueShield (Regence) appreciates the opportunity to provide you this additional information about its equity investment in Qliance Medical Management, Inc. (Qliance). Note that Regence's position is that it does not control Qliance and thus had intended to file a disclaimer of control as set forth in RCW 48.31C.010(3)(a), as it has done with other investments in the past. Given that your questions address the issues we would have covered in such a disclaimer, this letter constitutes Regence's notice of disclaimer of control.

Overview of transaction: On December 21, 2012, Regence closed a \$4.5 million investment in preferred equity shares of Qliance. This round of financing was structured to include two closes. The first close occurred December 21, 2012, and the second close will occur before the end of the first quarter of 2013. Regence will not be contributing any additional capital to Qliance during the second close. The exact amount of new capital being invested in Qliance from other investors during the second close is not yet finalized; however, Regence expects its actual ownership position to decrease from 25.95% as of December 21, 2012 to a position closer to 20%.

Response to your particular inquiries. The numbered items below are from the bulleted list in your letter; our response to each inquiry is provided.

1. *Date, amount, and form of investment in Qliance.*

December 21, 2012; \$4.5 million; cash.

2. *Description of liquidity assessment made in advance of investment in Qliance.*

As part of its due diligence, Regence reviewed this transaction with respect to its impact to liquidity and other prudent investment standards. Review was done to consider the impact this investment on key metrics including Total Invested Assets, Surplus, RBC levels, and ability to pay claims and other operating expenses. This analysis found no material impact on any of these measures.

3. *Description of management/ownership rights in Qliance received as a result of the investment.*

As noted above, Regence's current actual ownership is 25.95%; following the second close, its actual ownership likely will be closer to 20%. It has the right to nominate one director to fill one of seven seats on the Qliance board of directors. Regence does not have any blocking or veto rights related to the ongoing management and operations of the company. The Regence-nominated director does, however, have the ability to prevent Qliance from changing or exiting its current line of business, if it feels that is in the best interest of shareholders.

4. *Description of management/ownership rights in Qliance prior to the investment that was the subject of your voicemail.*

None.

5. *Description of any currently negotiated or other anticipated future rights in Qliance.*

Regence's investment agreement with Qliance includes certain performance warrants. These performance warrants enable Regence to earn the opportunity to purchase additional equity in Qliance at a significant discount upon achieving specific milestones related to Regence (or its affiliated companies') commercial line-of-business members that become customers of Qliance. At this time Regence has not achieved any milestones. In addition, Regence negotiated certain other customary venture industry investment provisions, including the Right of First Offer and the Right of First Refusal.

6. *Date, amount, and form of investment in Qliance by any affiliate within the Cambia holding company system.*

None.

7. *Summary of how all the Cambia affiliates have, or will, report investments (if any) in Qliance.*

Regence BlueShield will report the investment as preferred stock on Schedule D Part 2 Section 1.

8. *Description of any and all "off book" or "side" agreements or letters (however denominated) between Qliance and any affiliate within the Cambia holding company system.*

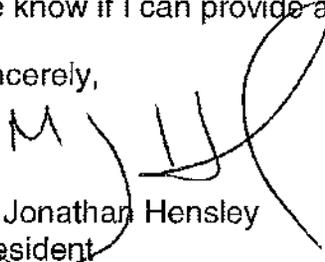
None. Regence is discussing with Qliance ways in which the two companies can collaborate to bring innovative health care products to the Washington market. We believe there is a unique opportunity to use Regence's health insurance experience along with the expertise of Qliance as a means to slow rising health care costs and optimize quality for groups and individuals, goals long supported

by the Commissioner. While this process is still in its infancy, once concrete ideas have been developed we would welcome the opportunity to discuss with the Commissioner and the appropriate OIC staff the best manner to achieve these goals and to seek your expert counsel on how to do so within the constraints of state and federal laws and regulations.

* * * *

Thank you for the opportunity to describe Regence's investment in Qliance. Please let me know if I can provide additional information.

Sincerely,



M. Jonathan Hensley
President

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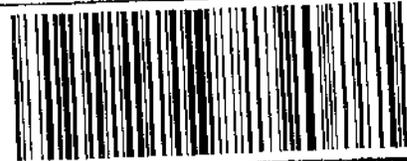


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