

**FORM A  
STATEMENT REGARDING THE  
ACQUISITION OF CONTROL OF  
OR MERGER WITH A DOMESTIC INSURER**

CLEAR ONE HEALTH PLANS, INC.

(Name of Domestic Insurer)

BY

PACIFICSOURCE HEALTH PLANS

(Name of Acquiring Person, Applicant)

Filed with the Department of Consumer and Business Services of the State of Oregon

Dated: January 25, 2010

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

Kenneth P. Provencher, President and CEO  
PacificSource Health Plans  
110 International Way  
Springfield, OR 97477  
P. O. Box 7068  
Eugene, OR 97401  
Phone: (541) 686-1242

**ITEM 1. INSURER AND METHOD OF ACQUISITION.**

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Domestic insurer: Clear One Health Plans, Inc.  
2965 NE Conners Avenue  
Bend, OR 97701  
P. O. Box 7469  
Bend, OR 97708-7469

The applicant, PacificSource Health Plans, an Oregon non-profit corporation ("PacificSource"), has formed a wholly-owned subsidiary, Springfield Acquisition, Inc., an Oregon corporation, which will merge with the domestic insurer, Clear One Health Plans, Inc., an Oregon insurance company ("Clear One"), with Clear One to be the surviving corporation (the "Acquisition"). Upon consummation of the Acquisition, PacificSource will own 100% of the outstanding stock of Clear One.

**ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT.**

a. State the name and address of the applicant seeking to acquire control over the insurer.

PacificSource Health Plans, an Oregon non-profit corporation  
110 International Way  
Springfield, OR 97477  
P. O. Box 7068  
Eugene, OR 97401

Contact persons: Kenneth P. Provencher, President and Chief Executive Officer  
Email: [kprovencher@pacificsource.com](mailto:kprovencher@pacificsource.com)

Peter F. Davidson, Executive Vice President  
and Chief Financial Officer  
Email: [pdavidson@pacificsource.com](mailto:pdavidson@pacificsource.com)

Phone number: (541) 686-1242

b. If the applicant is not an individual, state the nature of its business operations for the past five years or for such lesser period as such person and any predecessors thereof have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

PacificSource is an Oregon health care service contractor that was founded as Pacific Hospital Association in 1933. During the past five years, PacificSource has:

(i) provided group and individual medical and dental plans to businesses and individuals in Oregon and Idaho (admitted May 2006) (PacificSource was granted a certificate of authority in Washington in December 2008, but has not yet done business in Washington);

(ii) provided employee benefit administration services through its subsidiary PacificSource Administrators, Inc. dba Manley Services (see notes below);

(iii) provided third-party administration of self-funded benefit plans through its subsidiary PacificSource Self-Insurance Administrators, Inc. dba Select Benefit Administrators, Inc., and, for a short time, through its subsidiary Riverside Benefit Administrators, Inc. (see notes below); and

(iv) beginning in 2009, owned a majority interest in Idaho Physicians Network, Inc., an Idaho corporation, offering a statewide URAC-accredited provider network throughout Idaho to employers, insurance companies, and third party administrators. Idaho Physicians Network, Inc. also serves as the provider network for PacificSource's Idaho health insurance business. PacificSource owns this interest indirectly; the interest is owned by PacificSource wholly-owned subsidiary Primary Health, Inc., a Delaware corporation.

Notes regarding subparagraphs (ii) and (iii) above:

(1) Effective December 31, 2009, PacificSource subsidiary PacificSource Self-Insurance Administrators, Inc. and its third party administration business were merged into PacificSource subsidiary PacificSource Administrators, Inc.

(2) In 2009, PacificSource acquired Primary Health, Inc., a Delaware corporation, ("Primary Health") which had a wholly-owned subsidiary, Riverside Benefit Administrators, Inc., that provided third-party administration of self-funded benefit plans. The stock of Riverside Benefit

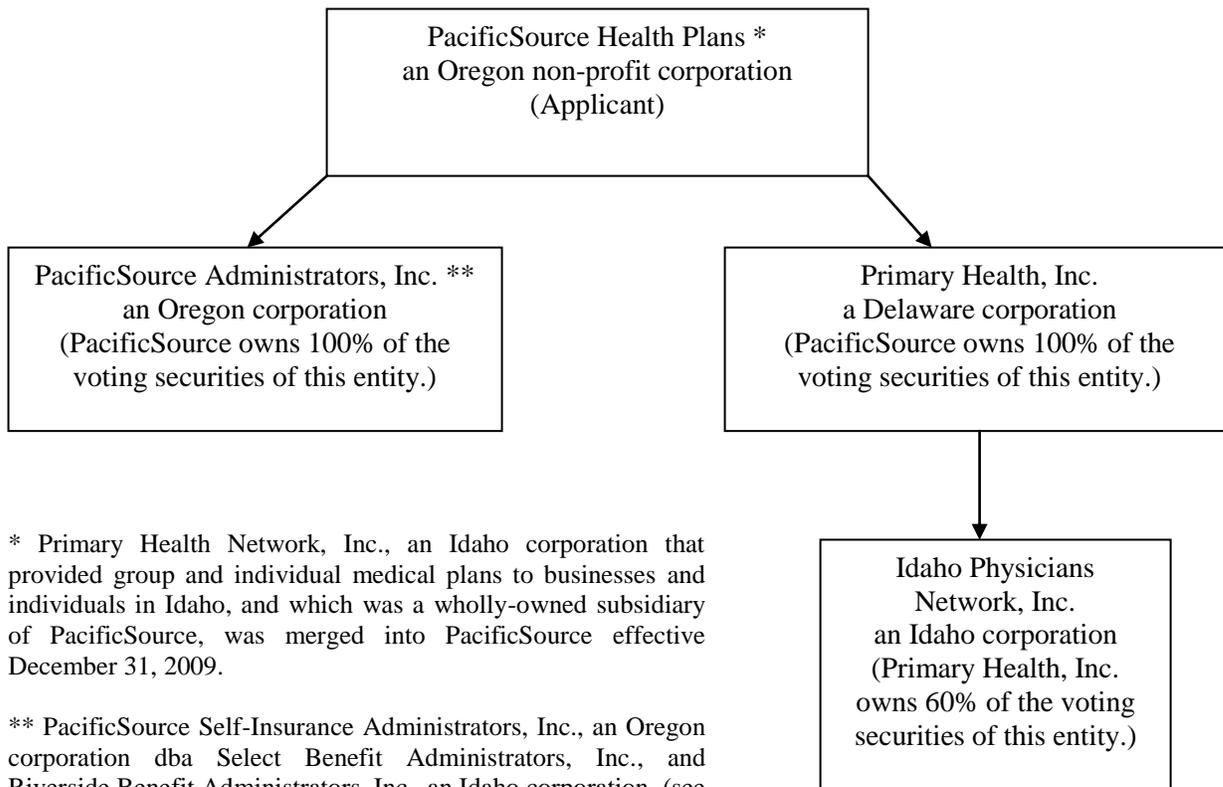
Administrators, Inc. was distributed by Primary Health to PacificSource, making Riverside Benefit Administrators, Inc. a wholly-owned subsidiary of PacificSource. Effective December 31, 2009, Riverside Benefit Administrators, Inc. and its third party administration business were merged into PacificSource Administrators, Inc.

(3) Going forward, PacificSource intends to have PacificSource Administrators, Inc. (which now holds all of the third party administration business previously held by PacificSource Administrators, Inc., PacificSource Self-Insurance Administrators, Inc., and Riverside Benefit Administrators, Inc.) discontinue use of the names Select Benefit Administrators and Riverside Benefit Administrators and conduct all of its third party administration business under the name “PacificSource Administrators.”

PacificSource wishes to acquire Clear One to (1) give PacificSource a stronger presence in central Oregon, (2) help PacificSource expand into the Medicare and Medicaid markets, and (3) allow PacificSource to provide more people with affordable, quality healthcare, and provide more personal service at the local level, all with greater efficiency and cost-effectiveness. In addition to the central Oregon business PacificSource will acquire, PacificSource intends to utilize the headquarter offices in Bend, Oregon occupied by Clear One and owned by Clear One subsidiary Clear Choice Properties, LLC, an Oregon limited liability company, as offices for a portion of the combined operations of PacificSource and Clear One, thereby giving PacificSource a prominent office presence in central Oregon. Clear One’s Medicare Advantage business and the Oregon Health Plan business of Clear One subsidiary Central Oregon Individual Health Solutions, Inc., an Oregon corporation, will provide PacificSource entry into the Medicare and Medicaid markets, and provide a foundation for future growth in this market. Clear One wholly-owned subsidiary Trusteed Plans Service Corporation, a Washington corporation, will continue after the Acquisition to provide third party administration services, primarily in Washington, as a subsidiary of Clear One. Clear One wholly-owned subsidiary Clear One Life & Health LLC, an Oregon limited liability company, will continue to conduct a life and health insurance brokerage business as a subsidiary of Clear One. (It is expected that Trusteed Plans Service Corporation and Clear One Life & Health LLC will eventually become direct subsidiaries of PacificSource.)

Clear One has recently received a certificate of authority to do business in South Dakota, but has not yet initiated any business activity in that state. Clear One also has applications for certificates of authority pending in the North Dakota, Wyoming and Hawaii. PacificSource presently has no plans to do business in South Dakota, North Dakota, Wyoming or Hawaii. Those certificates of authority that as of the closing of the Acquisition have been granted to Clear One in these states may be maintained by PacificSource for future use if they can be maintained without significant administrative burden. PacificSource does not intend to pursue any application for a certificate of authority in any of these states that is still pending as of the closing of the Acquisition.

c. Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant. No affiliate need be identified if its total assets are equal to less than 1/2 of 1% of the total assets of the ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing, indicate the type of organization (e.g., corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.



\* Primary Health Network, Inc., an Idaho corporation that provided group and individual medical plans to businesses and individuals in Idaho, and which was a wholly-owned subsidiary of PacificSource, was merged into PacificSource effective December 31, 2009.

\*\* PacificSource Self-Insurance Administrators, Inc., an Oregon corporation dba Select Benefit Administrators, Inc., and Riverside Benefit Administrators, Inc., an Idaho corporation, (see descriptions in paragraph b. of this Item 2), which were wholly-owned subsidiaries of PacificSource, were merged into PacificSource Administrators, Inc. effective December 31, 2009.

No court proceedings looking toward a reorganization or liquidation are pending with respect to any of the foregoing entities.

**ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT.**

State the following with respect to (1) the acquiring party if the acquiring party is an individual or (2) if the acquiring party is not an individual, all individuals who are or who have been selected to become directors, or executive officers of the acquiring party or who perform or will perform functions appropriate to such positions, or who are owners of 10 percent or more of the voting securities of the acquiring party:

- a. Name and business address;
- b. Present principal business activity, occupation or employment, including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on;

c. Material occupations, positions, offices or employment during the last five years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

d. Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten (10) years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

A list of the directors and executive officers of PacificSource, together with certain information about each individual, is attached hereto as "Item 3 Exhibit." (As a non-profit corporation, PacificSource has no stockholders.) An NAIC form of biographical affidavit for each of the individuals listed on the Item 3 Exhibit except Edwin E. Dahlberg is currently on file with the Insurance Division. A biographical affidavit for Edwin E. Dahlberg is included with this filing.

**ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION.**

a. Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding, or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

The source of the approximately \$46 million required to effect the Acquisition will be (i) cash and securities held by PacificSource that are not designated for PacificSource's other business operations, and (ii) a revolving line of credit credit facility, which will be secured by a security interest in a portion of PacificSource's investment portfolio (the "Line of Credit"). The amount to be borrowed under the Line of Credit is expected to be \$20 million. PacificSource intends to repay the amount borrowed under the Line of Credit within three or four months after the closing of the Acquisition, with the repayment to be funded by a loan from Clear One to PacificSource out of cash and investments presently held by Clear One that will not be required for Clear One's post-Acquisition business operations.

PacificSource presently has a revolving line of credit credit facility with Fidelity Brokerage Services LLC; however, PacificSource is in the process of replacing this credit facility with a credit facility provided by Wells Fargo Bank, N.A. If the credit facility with Wells Fargo Bank, N.A. is finalized as expected, Wells Fargo Bank, N.A. will be the Line of Credit lender at the time the Acquisition closes. Copies of the proposed loan documents for the new credit facility are attached hereto as "Item 4 Exhibit a."

b. Explain the criteria used in determining the nature and amount of such consideration.

PacificSource determined the purchase price it was willing to pay for Clear One based on both its internal financial analysis of Clear One's businesses and the financial analysis and research of senior members of the investment banking staff of Wells Fargo Securities, LLC. The agreed upon purchase price represents an amount that PacificSource believes will provide a reasonable

return on investment, taking into account the additional capital that PacificSource will need to invest after the acquisition is completed and the prospects for growth of Clear One's businesses going forward. As part of its analysis, PacificSource prepared pro forma financial projections for the combined PacificSource and Clear One businesses for the three years following closing of the Acquisition. These projections have been converted from a GAAP format to a statutory format and adapted to reflect separate post-Acquisition pro forma calculations for the PacificSource business and the Clear One business (assuming no merger of Clear One into PacificSource during the three year pro forma period). Copies of the updated projections are attached hereto as "Item 4 Exhibit b." The projections with respect to Clear One have been generated solely by PacificSource based on PacificSource's analysis of historical data and its post-Acquisition plans; they are not intended to be and should not be taken as representative of the projections Clear One would generate if the Acquisition was not occurring.

PacificSource determined to pay cash for the outstanding stock of Clear One based on its analysis of the capital positions of PacificSource and Clear One. After the Acquisition is completed and the amount borrowed under the Line of Credit is repaid, PacificSource will continue to have a strong capital position that will enable it to effectively operate its combined business operations.

c. If the source of the consideration is a loan made in the lender's ordinary course of business and if the acquiring party wishes the identity of the lender to remain confidential, the acquiring party must specifically request that the identity be kept confidential.

NOT APPLICABLE

#### **ITEM 5. FUTURE PLANS OF INSURER**

Describe any plans or proposals which the applicant may have to declare as an extraordinary dividend, to liquidate such insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

PacificSource intends:

- (i) subject to obtaining any approvals required under Medicare and/or Medicaid-related contracts, to replace Clear One branding with PacificSource branding in the various markets in which Clear One operates as soon as is feasible after the closing of the Acquisition;
- (ii) to integrate Clear One's commercial insurance business into PacificSource. PacificSource expects to manage that commercial business out of PacificSource's corporate offices in Springfield, Oregon;
- (iii) to maintain the Clear One Medicare Advantage business in Clear One (but see clause (iv) below), with Clear One to be renamed at some point after the Acquisition if permitted by the Centers for Medicare & Medicaid Services;
- (iv) to explore, after the closing of the Acquisition, the possibility of merging Clear One into PacificSource, provided that the merging of

Clear One's Medicare Advantage business directly into PacificSource is acceptable to the Centers for Medicare & Medicaid Services; and

- (v) to maintain Clear One's Oregon Health Plan business in Clear One's Central Oregon Individual Health Solutions, Inc. subsidiary.

As indicated in subparagraph a of Item 4 above, PacificSource intends to cause cash and investments not required for the post-Acquisition operation of the Clear One businesses to be distributed from Clear One to PacificSource. These funds will be used in large part to pay off the funds PacificSource will be borrowing under the Line of Credit to complete the Acquisition.

Clear One's current President and Chief Executive Officer, Patricia Gibford, will retire upon the closing of the Acquisition. PacificSource's President and Chief Executive Officer, Kenneth P. Provencher, will assume these roles for the Clear One subsidiary. PacificSource will retain a number of other personnel from Clear One, both at the management and operations levels, to assist in the management and growth of the businesses being acquired.

**ITEM 6. VOTING SECURITIES TO BE ACQUIRED.**

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

The Acquisition is to be structured as a merger of PacificSource's newly-created, wholly-owned subsidiary, Springfield Acquisition, Inc., into Clear One, with Clear One as the surviving corporation. PacificSource's 1,000 shares of Springfield Acquisition, Inc. stock will be converted to Clear One stock and thereafter be the only outstanding shares of Clear One stock. All of the Clear One stock outstanding immediately preceding the closing of the Acquisition, together with all options or other rights to acquire such stock, will be cancelled as of closing in exchange for the monetary consideration to be paid by PacificSource pursuant to the Agreement and Plan of Merger dated December 29, 2009 among PacificSource, Springfield Acquisition, Inc., and Clear One (the "Acquisition Agreement"). A copy of the Acquisition Agreement is attached hereto as "Item 6 Exhibit."

Clear One engaged Duff & Phelps to provide a fairness opinion with respect to the consideration to be paid to the Clear One shareholders in the Acquisition. Clear One received the opinion of Duff & Phelps, dated December 29, 2009, to the effect that, as of such date, from a financial point of view, the consideration offered to Clear One's shareholders in the Acquisition is fair to such shareholders.

**ITEM 7. OWNERSHIP OF VOTING SECURITIES.**

State the amount of each class of any voting security of the insurer that is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

NOT APPLICABLE

**ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER.**

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom such contracts, arrangements or understandings have been entered into.

There are no contracts, arrangements or understandings with respect to any voting security of Clear One in which PacificSource, any of its subsidiaries, or any persons listed in Item 3 is involved, except for the proposed Acquisition that is the subject of this Statement.

**ITEM 9. RECENT PURCHASES OF VOTING SECURITIES.**

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this Statement. Include in such description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

NOT APPLICABLE

**ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE.**

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3, during the 12 calendar months preceding the filing of this statement.

NOT APPLICABLE

**ITEM 11. COPIES OF TENDER AND OTHER OFFERS.**

Copies of all tender offers for, requests or invitations for tenders of, exchange offers for, and agreements to acquire or exchange any voting security of the insurer and, if distributed, of additional soliciting material relating thereto.

There have been no tender offers for, requests or invitations for tenders of, exchange offers for, or agreements to acquire or exchange any voting security of Clear One. The only existing agreement to acquire voting securities of Clear One is the Acquisition Agreement that is the subject of this Statement.

**ITEM 12. AGREEMENTS WITH BROKER-DEALERS.**

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender, and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

NOT APPLICABLE

**ITEM 13. FINANCIAL STATEMENTS AND EXHIBITS.**

a. Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

b. The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five fiscal years (or for such lesser period as such applicant and its affiliates and any

predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year, if such information is available. Such statements may be prepared on either an individual basis, or, unless the Director otherwise requires, on a consolidated basis if such consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer that is actively engaged in the business of insurance, the financial statements need not be certified, if they are based on the Annual Statement of such person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of such state.

Unaudited statutory financial statements for the first eleven months of calendar year 2009 are attached hereto under "Item 13 Appendix." PacificSource's audited statutory financial statements for calendar years 2003, 2004, 2005, 2007 and 2008 are already on file with the Insurance Division.

Under PacificSource's audited statutory financial statements, PacificSource's investments in its subsidiaries are booked on the equity method. Historically, PacificSource Administrators, Inc. d/b/a Manley Services and PacificSource Self-Insurance Administrators, Inc. d/b/a Select Benefit Administrators, Inc., have been reflected as non-admitted assets. PacificSource's share of income or loss from its subsidiaries is included in unrealized appreciation or depreciation in its Fund Balance and therefore has no income effect under the financial statement. A summary of the unaudited financial position and results of operations of each subsidiary held by PacificSource during the applicable calendar year is set forth in Note 2 (Investments) to each of the audited statutory financial statements provided to the Insurance Division to date. Going forward, PacificSource intends to have audited financial statements prepared for all applicable subsidiaries, beginning with the year ending December 31, 2010.

c. File as exhibits copies of all tender offers for, requests or invitations for, tenders of exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto; any proposed employment, consultation, advisory or management contracts concerning the insurer; annual reports to the stockholders of the insurer and the applicant for the last two fiscal years; and any additional documents or papers required by Form A or OAR 836-027-0030 or 836-027-0040.

1. PacificSource has made no tender offers for, requests or invitations for, tenders of exchange offers for, or agreements to acquire or exchange any voting securities of Clear One except for the proposed merger transaction that is the subject of this Statement.
2. Except as noted at the end of this paragraph 2, after the closing of the Acquisition, Clear One's staff, including persons presently employed by Clear One who are retained by PacificSource, will be employees of PacificSource providing services to Clear One under an Administrative Services Agreement. (A copy of a draft of the proposed Administrative Services Agreement between PacificSource and Clear One is attached hereto as "Item 13 Exhibit C2.") Employees of Clear One subsidiary Trusteed Plans Service Corporation will remain employees of the subsidiary.

3. PacificSource intends to continue after closing of the Acquisition the following agreements between Clear One and Clear One subsidiaries, one or more of which agreements may be modified after post-Acquisition transition activities have been completed and the operation of the agreements can be fully analyzed by PacificSource:
  - (a) Administrative Services Agreement dated January 1, 2008 between Clear One and Central Oregon Individual Health Solutions, Inc. (A copy of this agreement is attached hereto as "Item 13 Exhibit C3a.")
  - (b) Administrative Services Agreement dated January 1, 2008 between Clear One and Clear One Life and Health, LLC (formerly known as Clear Choice Life and Health, LLC). (A copy of this agreement is attached hereto as "Item 13 Exhibit C3b.")
  - (c) Administrative Services Agreement dated January 1, 2008 between Clear One and Clear Choice Properties, LLC. (A copy of this agreement is attached hereto as "Item 13 Exhibit C3c.")
  - (d) Commercial Lease dated April 30, 2008 between Clear One and Clear One Properties, LLC. (A copy of this lease is attached hereto as "Item 13 Exhibit C3d.")

Clear One is to terminate its Administrative Services Agreement with Clear One Foundation, an Oregon non-profit corporation, on or before the date of closing of the Acquisition and will have no further relationship with Clear One Foundation after closing of the Acquisition.

4. The annual reports to the stockholders of Clear One for 2007 and 2008 are attached hereto as "Item 13 Exhibit C4." No annual report to the stockholders of Clear One has been prepared as yet for 2009.
5. PacificSource is a non-profit corporation and has no stockholders. Therefore, PacificSource does not issue annual reports to stockholders.
6. PacificSource is not aware of any additional documents or papers that are required to be attached to this filing.

**ITEM 14. SIGNATURE AND CERTIFICATION.**

Signature and certification required as follows:

**SIGNATURE**

Pursuant to the requirements of ORS 732.517 to 732.592, PacificSource Health Plans has caused this application to be duly signed on its behalf in the City of Springfield and State of Oregon on the 25<sup>th</sup> day January, 2010.

PACIFICSOURCE HEALTH PLANS

By: \_\_\_\_\_  
Kenneth P. Provencher  
President and CEO

ATTEST:

\_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CERTIFICATION**

The undersigned deposes and says that he has duly executed the attached application dated January 25, 2010, for and on behalf of PacificSource Health Plans; that the deponent is the President and CEO of such company and the deponent is authorized to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

\_\_\_\_\_  
Kenneth P. Provencher