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**IN THE CIRCUIT COURT FOR THE STATE OF OREGON**

**FOR THE COUNTY OF MULTNOMAH**

**14CV07130**

DISCHINGER ORTHODONTICS, PC, a  
Domestic Professional Corporation; TANYA L.  
MARCH, individually and as parent and natural  
guardian of BMS#1, a minor; and BMS#2, a  
minor, individually and on behalf of all others  
similarly situated,

Plaintiffs,

v.

REGENCE BLUECROSS BLUESHIELD  
OF OREGON, an Oregon non-profit public  
benefit corporation,

Defendant.

Case No.

**CLASS ACTION COMPLAINT  
(Declaratory Judgment; Breach of  
Contract x2)**

**Attorney Fee Authority: ORCP 32M**

**Statutory Authority for Filing Fee: ORS  
21.135(1),(2)(g)**

**CLASS ACTION COMPLAINT**

1.

Plaintiffs Dischinger Orthodontics, PC (“Dischinger”); Tanya L. March, individually and  
as parent and natural guardian of BMS#1, a minor, and BMS#2, also a minor, (collectively  
“Plaintiffs”) allege the following for their class action complaint against Regence BlueCross  
BlueShield of Oregon (“Regence”). Plaintiffs’ allegations are based upon personal knowledge as

1 to themselves and their acts and experiences, and, as to all other matters, upon information and  
2 belief, including investigation conducted by their attorneys.

### 3 NATURE OF ACTION

4 2.

5 Regence purports to be a “non-profit” public benefit corporation. Under Oregon law and  
6 Regence’s Articles of Incorporation, that means Regence acts on a non-profit basis for the  
7 benefit of its policyholders. Yet, over the past six years, Regence has amassed excess profits of  
8 over ***\$150 million***. Not even Noah needs a rainy-day fund of that size.

9 3.

10 Regence is supposed to use such money for the benefit of Regence’s policyholders, like  
11 Plaintiffs. Instead, Regence chooses to pay its executives millions of dollars in “bonus” money—  
12 the payment of which is tied to Regence’s earnings growth.<sup>1</sup> In other words, the more money  
13 Regence accumulates, the more money its executives get paid. This has resulted in a perverse  
14 incentive system that favors the continued accumulation of profits and expansion of Regence’s  
15 business operations at the expense of its policyholders.

16 4.

17 This case arises because a “non-profit” public benefit corporation and \$150 million in  
18 excess profits and seven-figure executive salaries are oxymoronic. Regence should be compelled  
19 to behave as Oregon law and Regence’s Articles of Incorporation require—for the benefit of its  
20 policyholders such as Plaintiffs and all others similarly situated.

21 ///

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22  
23 <sup>1</sup> See Nick Budnick, Health plan CEO touts reform, makes waves with Regence BlueCross  
24 BlueShield, others, The Oregonian, Aug. 11, 2012, *available at*: [http://www.oregonlive.com/health/index.ssf/2012/08/health\\_plan\\_ceo\\_touts\\_reform\\_m.html](http://www.oregonlive.com/health/index.ssf/2012/08/health_plan_ceo_touts_reform_m.html) (last visited June 12, 2014) (“Regence’s  
25 CEO’s ‘base salary is \$950,000, but it can more than double based on company performance.’”).

1 **PARTIES**

2 5.

3 Dischinger is a professional corporation organized and existing under Oregon laws. It  
4 was a policyholder of Regence as of December 31, 2013, and remains so today. Dischinger has  
5 been a Regence policyholder since approximately March 1, 2010.

6 6.

7 Tanya L. March is an adult resident of Multnomah County, Oregon. She was a Regence  
8 policyholder on December 31, 2013 and remains so today. She has been a Regence policyholder  
9 since approximately 2003.

10 7.

11 BMS#1 is a minor whose parent and natural guardian is March. BMS#1 resides in  
12 Multnomah County, Oregon. BMS#1 was a Regence policyholder as of December 31, 2013, and  
13 remains so today. BMS#1 has been a Regence policyholder since approximately 2003.

14 8.

15 BMS#2 is a minor whose parent and natural guardian is March. BMS#2 resides in  
16 Multnomah County, Oregon. BMS#2 was a Regence policyholder as of December 31, 2013, and  
17 remains so today. BMS#2 has been a Regence policyholder since approximately 2007.

18 9.

19 Regence is an Oregon non-profit public benefit corporation with its principal place of  
20 business in Multnomah County, Oregon. Its Oregon service area consists of all counties within  
21 Oregon.

22 10.

23 As of December 31, 2013, Regence had amassed profits of over \$600 million. Of this  
24 amount, over \$150 million constitutes impermissible excess profits (the "Excess Profits").  
25

1 **JURISDICTION AND VENUE**

2 11.

3 This action has been commenced within the original subject matter jurisdiction of the  
4 Circuit Court of the State of Oregon, for the County of Multnomah.

5 12.

6 This Court has personal jurisdiction over Regence because Regence resides in Oregon,  
7 has its principal place of business in Oregon, and regularly and systematically conducts business  
8 within Oregon.

9 13.

10 Venue is proper in the Circuit Court for Multnomah County because Regence resides in  
11 Multnomah County, has its principal place of business in Multnomah County, and regularly and  
12 systematically conducts business in Multnomah County. In addition, a substantial part of the  
13 events giving rise to the claims occurred in Multnomah County.

14 **FACTS**

15 **A. Background of Blue Cross and Blue Shield Plans.**

16 14.

17 Regence is an independent licensee of the Blue Cross and Blue Shield Association.  
18 Through the Blue Cross and Blue Shield Association, entities like Regence license the right to  
19 use the Blue Cross® and Blue Shield® names and symbols. Entities receiving these licenses are  
20 also known as Blue Cross and Blue Shield Plans.

21 15.

22 Blue Cross and Blue Shield Plans and their predecessors have been providing health care  
23 insurance coverage, and other related services, to their members in Oregon for decades.

24 16.

25 Regence currently provides health care insurance coverage to approximately 500,000

1 Oregonians.<sup>2</sup>

2 **B. Regence's Corporate Mandate as a Non-Profit Corporation.**

3 17.

4 Regence is an Oregon non-profit corporation. Consistent with its non-profit status,  
5 Regence describes its business model as follows:

6 **Regence Is a Nonprofit Organization**

7 Being a nonprofit means we put people first. We don't sell stock, and we  
8 don't have to maximize profit to pay shareholders. But we do have to  
9 make just enough to pay members' medical bills, cover our costs of doing  
10 business, and keep a rainy day fund in case of unexpected member  
demand. Most years, we can add to that rainy day fund. Some years, we  
use it to pay our members' medical bills when they add up to more than  
the premium paid.<sup>3</sup>

11 \* \* \*

12 **Member focus**

13 We maintain our status as a not-for-profit organization to remain focused on  
14 providing value to our members.<sup>4</sup>

15 18.

16 Thus, Regence has publicly stated its commitment as a non-profit corporation to use  
17 profits for the benefit of its policyholders.

18 ///

19 ///

20 ///

21 \_\_\_\_\_  
22 <sup>2</sup> See Excerpt of the Regence 2013 Statutory Financial Statement at 29, l. 16, attached hereto,  
made a part hereof and marked as Exhibit A.

23 <sup>3</sup> See "Regence is a Nonprofit Organization," [http://news.regence.com/our-view/regence-is-a-](http://news.regence.com/our-view/regence-is-a-nonprofit-organization)  
24 [nonprofit-organization](http://news.regence.com/our-view/regence-is-a-nonprofit-organization) (last visited June 12, 2014).

25 <sup>4</sup> See "Where we stand," <https://www.regence.com/where-we-stand> (last visited June 12, 2014).

1 19.

2 Further, these pronouncements are succinctly reflected in the Regence's Articles of  
3 Incorporation, which set forth in straightforward fashion Regence's corporate obligations to its  
4 policyholders:

5 This corporation is a public benefit corporation. The purposes of the  
6 Corporation shall be:

7 Without profit to itself to furnish, provide, contract for or pay for health  
8 care services, including but not limited to medicine, medical and surgical  
9 treatment, nursing, hospital service, ambulance service, dental service, and  
any other necessary services, whether or not contingent upon injury,  
sickness or accident [.]

10 Restated Articles of Incorporation, Article III.<sup>5</sup>

11 20.

12 As a matter of Oregon law, the powers of a non-profit corporation are defined and limited  
13 by its articles. In addition, as a public benefit corporation, Regence's activities are intended to  
14 benefit the community as a whole.

15 21.

16 As a result, the purpose of a non-profit corporation is not the unlimited accumulation of  
17 profits. Rather, a non-profit corporation has distinct characteristics, which are diametrically  
18 opposed to this objective.

19 22.

20 In particular, generated profits are to be used for the benefit of policyholders.

21 23.

22 At all relevant times, Regence therefore had a corporate mandate to function and act as a

23 \_\_\_\_\_  
24 <sup>5</sup> See Regence BlueCross BlueShield of Oregon Restated Articles of Incorporation adopted June  
25 26, 2012, at Article III, a copy of which is attached hereto as Exhibit B.

1 non-profit public benefit corporation and, to the extent excess profits were accumulated, to use  
2 such funds consistent with Regence's corporate mandate as a non-profit corporation.

3 **B. Regence Has Not Used Excess Profits for the Benefit of its Policyholders.**

4 24.

5 Despite its mandate to operate as a non-profit insurer, and in violation of its Articles of  
6 Incorporation and Oregon law, Regence has amassed millions of dollars in excess profits.

7 25.

8 Further, also in violation of its Articles of Incorporation and Oregon law, Regence has  
9 established a corporate structure with a primary profit motive.

10 26.

11 This conduct has resulted in immense profits for Regence. For the period 2008-2013  
12 alone, Regence had net income from operations of over \$190 million as reflected in the  
13 following chart:<sup>6</sup>

14 ////

15 ////

16 ////

17 ////

18 ////

19 ////

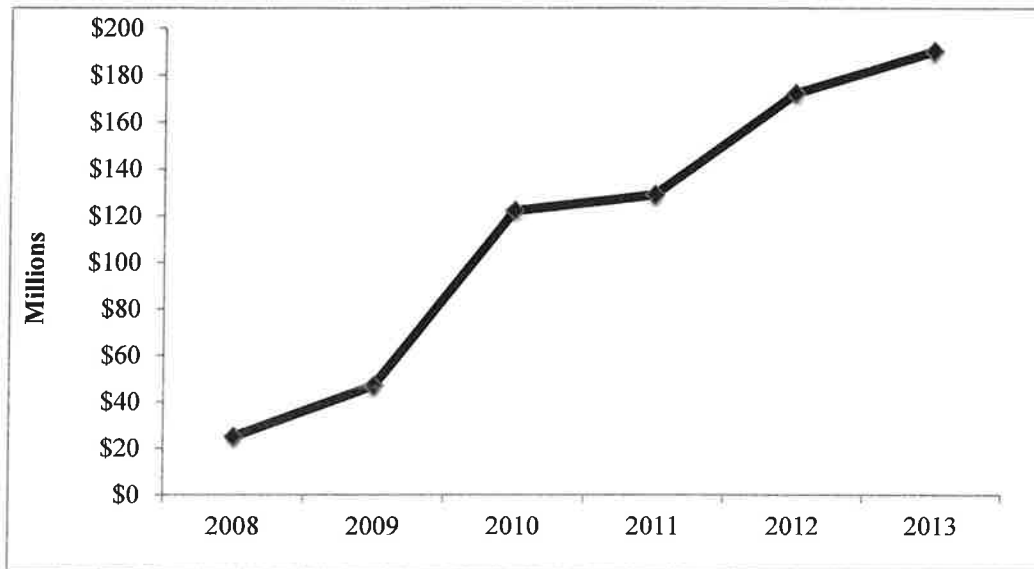
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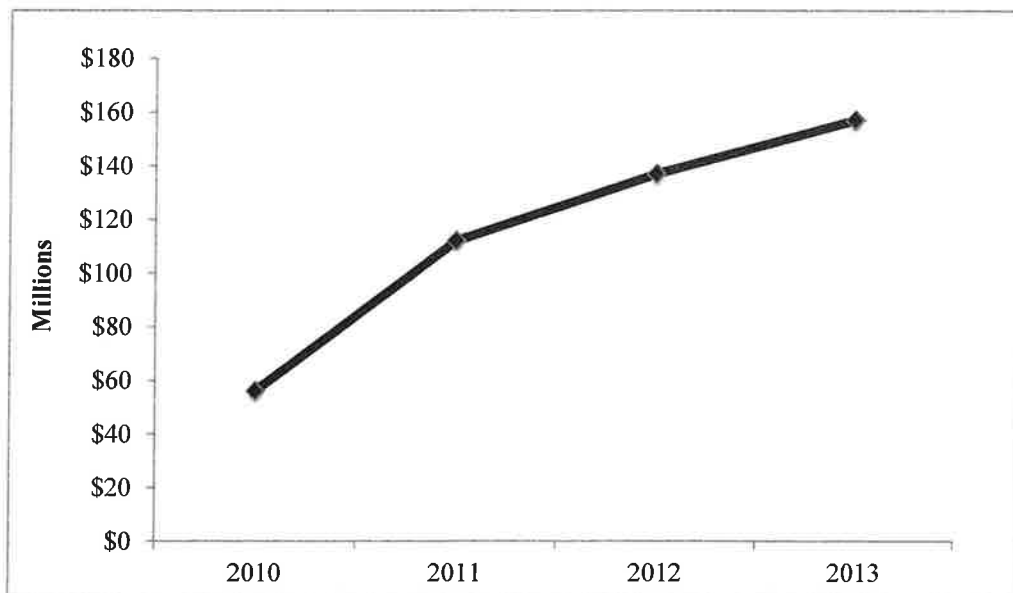
23  
24 <sup>6</sup> See Exhibit A at 29, l. 12; see also Excerpt of the Regence 2011 Statutory Financial Statement  
25 at 28, l. 12, attached hereto, made a part hereof and marked as Exhibit C.



(**Chart 1**, showing Regence's cumulative net income from 2008 to 2013.)

27.

Regence's profits were so massive that Regence transferred over \$100 million of profits to its parent company, Cambia Health Solutions, for the years 2010-2013 as follows:



(**Chart 2**, showing Regence's cumulative profit transfers from 2010 to 2013.)



1 28.

2 Further, Regence's executive-level employees profit from Regence's abdication of its  
3 obligations under its Articles of Incorporation and Oregon law. According to news reports in  
4 2012, Regence's Chief Executive Officer's salary more than doubled due to bonuses based on  
5 company performance.<sup>7</sup>

6 29.

7 Over the past three years (2011-2013), the top executives at Regence have earned nearly  
8 \$3,500,000 in bonus money solely from their positions at Regence. On top of this, the same  
9 executives received additional compensation from Cambia, Regence's parent company.<sup>8</sup>

10 30.

11 A review of Regence's own historical reported financial information, compared with  
12 recognized standards for measuring excess profits, reveals Regence's unmistakable accumulation  
13 of excess profits.

14 31.

15 Specifically, Blue Plans historically have represented that retained profits of three (3)  
16 months of claims payments was more than sufficient to cover any unexpected financial  
17 contingency.

18 32.

19 Regence, however, maintains excess profits of nearly four (4) months of claims  
20 payments—an amount in excess of over \$150 million above the benchmark 3-month standard.

21  
22  
23 <sup>7</sup>See Nick Budnick, Health plan CEO touts reform, makes waves with Regence BlueCross  
24 BlueShield, others The Oregonian (Aug. 11, 2012), [http://www.oregonlive.com/health/index.ssf/2012/08/health\\_plan\\_ceo\\_touts\\_reform\\_m.html](http://www.oregonlive.com/health/index.ssf/2012/08/health_plan_ceo_touts_reform_m.html).

25 <sup>8</sup> See Supplemental Compensation Exhibit of Regence, attached hereto as Exhibit D.

1 33.

2 Such an amount is deemed excessive because retaining profits in an amount equal to  
3 three (3) months of all claim payments, as well as every operating expense of the company,  
4 provides protection against virtually any conceivable financial situation such as an insurer  
5 receiving no revenue whatsoever for three (3) months.

6 34.

7 On a statutory financial statement basis, Regence exceeds this standard, as reflected  
8 below:

9 Total Adjusted Capital as of Dec. 31, 2013	\$ 627,670,085 <sup>9</sup>
10 Total Claim Expenses for 2013 11 (including claim adjustment and 12 administrative expenses)	\$ 1,898, 811,448 <sup>10</sup>
13 Average Monthly Claims Expenses (approx.)	\$ 158,234,287 <sup>11</sup>
14 Months of Claims Expenses Held (approx.)	3.96 <sup>12</sup>
15 Amount Required to provide for 3 16 Months of Claims Expenses	\$ 474,702,862 <sup>13</sup>
17 Excess Profits Held By Regence	\$ 152,967,223 <sup>14</sup>

18  
19  
20 <sup>9</sup> See Exhibit A at 29, l. 14.

21 <sup>10</sup> See Exhibit A at 29, ll. 6–9.

22 <sup>11</sup> This figure was derived by dividing the Total Claims Expenses for 2013 by twelve.

23 <sup>12</sup> This figure was derived by dividing the Total Adjusted Capital by Monthly Claims Expenses.

24 <sup>13</sup> This figure was derived by multiplying the Monthly Claims Expenses by three.

25 <sup>14</sup> This figure was derived by subtracting Amount Needed for 3 Months of Claims Expenses from  
Total Adjusted Capital.

1 35.

2 The result of this improper conduct is that Regence plans, generates, accumulates, and  
3 retains an ever-increasing amount of profits. In particular, Regence’s total adjusted capital, as  
4 shown above, is an amount that obliterates its purpose as a non-profit corporation and exceeds  
5 the bounds of the proper exercise of business judgment. In addition, Regence has accumulated—  
6 and continues to accumulate—excess profits without providing any substantial benefit to its  
7 policyholders.

8 36.

9 In accumulating excess profits, and failing to use those excess profits for the benefit of its  
10 policyholders, Regence has violated its obligations necessitating judicial relief for the benefit of  
11 all policyholders of Regence adversely affected by the accumulation of excess profits as of  
12 December 31, 2013.

13 37.

14 Plaintiffs allege, therefore, that the actions of Regence in accumulating excess profits and  
15 conducting its operations as a “for profit” enterprise despite its non-profit status and in violation  
16 of its Articles of Incorporation and Oregon law constitutes an abuse of its corporate franchise  
17 and breach of contract.

18 **CLASS ACTION ALLEGATIONS**

19 38.

20 Plaintiffs bring this action on behalf of themselves and as members of the class under the  
21 provisions of ORCP 32. Plaintiffs seek declaratory and other appropriate relief both on their own  
22 behalf, and on behalf of a class (hereinafter the “Class”) defined as follows.

23 All current policyholders of Defendant who were also policyholders of  
24 Defendant as of December 31, 2013. Excluded from the class are  
25 Defendant, its affiliates, subsidiaries and predecessors in interest, and all  
officers or employees of any such entity.

1 39.

2 **Numerosity:** On information and belief, the Class consists of tens of thousands of  
3 policyholders as described above. Their exact number and identities are currently unknown to  
4 Plaintiffs, but are known or knowable to Regence.

5 40.

6 **Commonality:** Common questions of law and fact exist as to all members of the Class.  
7 Regence's alleged actions in this case affect Plaintiffs and the Class members the same way, and  
8 Plaintiffs' lawsuit challenges the common practices of Regence with respect to its accumulation  
9 and retention of excess profits. Regence's actions raise common questions with respect to the  
10 Class that predominate over individual issues. These common questions include, but are not  
11 limited to:

12 (a) Whether Regence has failed to meet its obligations as a non-profit corporation;

13 (b) Whether Regence's Articles of Incorporation create a standard of conduct  
14 applicable to Regence towards its policyholders;

15 (c) Whether a duty of good faith and fair dealing is incorporated within Regence's  
16 contracts with its policyholders;

17 (d) Whether Regence's failure to adhere to its Articles of Incorporation results in a  
18 breach of contract; and

19 (e) Whether Regence's breach of duty of good faith and fair dealing results in a  
20 breach of contract.

21 41.

22 **Typicality:** The claims of Plaintiffs are typical of the claims of the Class as all members  
23 of the class are policyholders of Regence and the claims of all Class Members are based on the  
24 same theories and have the same issues.

1 42.

2 **Adequate Representation:** Plaintiffs will fairly and adequately represent and protect the  
3 interests of the Class, and has retained counsel competent and experienced in complex litigation  
4 and class actions. Plaintiffs' claims are representative of the claims of the other members of the  
5 Class. Plaintiffs also have no interests antagonistic to those of the Class, and Regence has no  
6 defenses unique to Plaintiffs. Plaintiffs and their counsel are committed to vigorously  
7 prosecuting this action on behalf of the members of the Class, and have the financial resources to  
8 do so. Neither Plaintiffs nor their counsel have any interest adverse to the Class.

9 43.

10 **Notice:** Plaintiffs have complied with the prelitigation notice provisions of ORCP 32H, in  
11 that this Complaint does not seek damages.

12 44.

13 **Superiority:** This class action is also appropriate for certification because a class action  
14 is superior to other available methods for the fair and efficient adjudication of the controversy,  
15 and it meets the factors that Oregon courts consider when determining if superiority is met,  
16 including the following:

17 (a) This class action satisfies the requirements of ORCP 32B(1)(a)-(b) because the  
18 prosecution of separate lawsuits by individual Class members would create the risk of  
19 inconsistent or varying adjudications with respect to individual member of the Class that would  
20 establish incompatible standards of conduct for Regence. This is so because a fixed amount of  
21 money exists (the Excess Profits), the wrongful retention of which by Regence affects the  
22 proposed Class Members equally.

23 (b) This class action satisfies the requirements of ORCP 32B(2) because Plaintiffs  
24 and the Class seek declaratory and injunctive relief against Regence that would necessarily affect  
25 the Class as a whole.

1 (c) This class action satisfies the requirements of ORCP 32B(3) because the common  
2 questions discussed above predominate over individual issues, and Regence's practices apply to  
3 and affect the members of the Class uniformly. Plaintiffs' challenge of those practices hinges on  
4 Regence's conduct with respect to the Class as a whole, not on facts or law applicable only to  
5 Plaintiffs.

6 (d) This class action also satisfies the remaining requirements of ORCP 32B(4)-(8)  
7 because this is the only litigation pending against Regence challenging the conduct alleged  
8 herein and this forum is proper for adjudicating the claims against Regence, which is a Oregon  
9 non-profit public benefit corporation. A class action provides the benefits of single adjudication,  
10 economies of scale, and comprehensive supervision by a single court. Economies of time, effort,  
11 and expense will be fostered and uniformity of decisions will be ensured.

12 **COUNT I**

13 **DECLARATORY JUDGMENT**

14 **(On behalf of Plaintiffs and the Class)**

15 45.

16 Plaintiffs reallege all preceding paragraphs.

17 46.

18 ORS 28.020 allows declaratory relief to be sought by:

19 Any person interested under a deed, will, written contract or other writing  
20 constituting a contract, or whose rights, status or other legal relations are  
21 affected by a constitution, statute, municipal charter, ordinance, contract  
22 or franchise may have determined any question of construction or validity  
arising under any such instrument, constitution, statute, municipal charter,  
ordinance, contract or franchise and obtain a declaration of rights, status or  
other legal relations thereunder.

23 47.

24 Plaintiffs and all of Regence's policyholders are affected by Regence's abuse of its  
25 corporate franchise and violation of its Articles of Incorporation.

1 48.

2 Plaintiffs, therefore, may seek declaratory relief that Regence’s conduct is an abuse of its  
3 corporate franchise and a violation of its Articles of Incorporation.

4 49.

5 Under ORS 28.030, “[a] contract may be construed either before or after there has been a  
6 breach thereof.”

7 50.

8 Plaintiffs and all of Regence’s policyholders, therefore, also may seek a declaratory  
9 judgment that Regence has breached its contracts by engaging in the following acts and  
10 omissions:

11 (a) Planning, generating, accumulating and retaining excess profits as of December  
12 31, 2013 for the years 2008-2013 and failing to use such funds for the benefit of policyholders;

13 (b) Acting as a for-profit company with a primary profit motive for the years 2008–  
14 2013, resulting in excess profits as a non-profit public benefit corporation; and

15 (c) Improperly distributing said excess profits as bonuses paid to certain members of  
16 Regence’s management.

17 51.

18 The present complaint presents a justiciable controversy because, as a result of Regence’s  
19 improper conduct, there is an actual and substantial controversy between parties having adverse  
20 legal interests.

21 52.

22 Further, the present controversy involves present facts and Plaintiffs seek a binding  
23 decree as to the impropriety of Regence’s conduct.

24 53.

25 Declaratory relief therefore is appropriate because: (a) there is a controversy in which a

1 claim is asserted against Regence, who has an interest in contesting the claim; (b) the  
2 controversy is between parties who are adverse; (c) the party asserting the claim has a legal  
3 interest in the claim; and (d) the controversy is ripe for judicial determination.

4 **COUNT II**

5 **BREACH OF CONTRACT**

6 **(On behalf of Plaintiffs and the Class)**

7 54.

8 Plaintiffs reallege all preceding paragraphs.

9 55.

10 Plaintiffs, as policyholders, were parties to contracts for health insurance coverage with  
11 Defendant for the years 2008-2013. These contracts are in Regence's possession and, therefore,  
12 there is no need to attach copies of them to this Complaint.

13 56.

14 Plaintiffs, who were and are parties to contracts with Regence, have performed all of their  
15 material obligations under all contracts with Regence.

16 57.

17 As a matter of law, Regence's Articles of Incorporation, its statutory obligations and any  
18 obligations under Oregon law are incorporated into its contracts with its policyholders.

19 58.

20 A duty of good faith and fair dealing also is incorporated into all contracts between  
21 Plaintiffs and Regence.

22 59.

23 Regence repeatedly breached its contracts with Plaintiffs by engaging in the following  
24 acts and omissions:

25 (a) Planning, generating, accumulating and retaining excess profits as of December



1 31, 2013 for the years 2008 to 2013 and failing to use such funds for the benefit of policyholders;

2 (b) Acting as a for-profit company with a primary profit motive for the years 2008 to  
3 2013, resulting in excess profits as a non-profit public benefit corporation; and

4 (c) Improperly distributing said excess profits as bonuses paid to certain members of  
5 Regence’s management.

6 60.

7 Plaintiffs have been harmed as a direct and proximate result of Regence’s breaches of  
8 contract.

9 **COUNT III**

10 **BREACH OF CONTRACT**

11 **(On behalf of Plaintiffs and the Class)**

12 61.

13 Plaintiffs reallege all preceding paragraphs.

14 62.

15 Regence’s Articles of Incorporation constitute a contract between Regence and the State  
16 of Oregon as well as between Regence and its member. This contract is also subject to the duty  
17 of good faith and fair dealing.

18 63.

19 Regence’s Articles of Incorporation expressly state that Regence is a “public benefit  
20 corporation” and that it exists “to furnish, provide, contract for or pay for health care services”  
21 and to do so “[w]ithout profit to itself.”<sup>15</sup>

22  
23  
24 

---

<sup>15</sup> See Exhibit B.

1 64.

2 Plaintiffs, as members of the public **and** Regence policyholders, are recipients of these  
3 services from Regence and are therefore intended third party beneficiaries of Regence's Article  
4 of Incorporation.

5 65.

6 As intended third party beneficiaries of Regence's Articles of Incorporation, Plaintiffs  
7 have standing to bring an action against Regence for breach or violation of these Articles of  
8 Incorporation.

9 66.

10 Regence repeatedly breached its Articles of Incorporation by engaging in the following  
11 acts and omissions:

12 (a) Planning, generating, accumulating and retaining excess profits as of December  
13 31, 2013 for the years 2008 to 2013 and failing to use such funds for the benefit of policyholders;

14 (b) Acting as a for-profit company with a primary profit motive for the years 2008 to  
15 2013, resulting in excess profits as a non-profit public benefit corporation; and

16 (c) Improperly distributing said excess profits as bonuses paid to certain members of  
17 Regence's management.

18 67.

19 Plaintiffs have been harmed as a direct and proximate result of Regence's breaches of  
20 contract.

21 **WHEREFORE**, Plaintiffs pray for the following relief:

22 (a) An order certifying the Class as defined above, appointing Dischinger  
23 Orthodontics, PC, Tanya L. March, individually and as parent and natural guardian of  
24 BMS#1, a minor, and BMS#2, a minor, as class representatives, and appointing its  
25 counsel as Class Counsel;

1 (b) An order declaring that Regence has breached its obligations under  
2 Oregon law, its Articles of Incorporation and its contracts with its policyholders by  
3 accumulating excess profits, by acting with a primary profit motive in violation of its  
4 status as a non-profit public benefit corporation and by not using those excess profits for  
5 the benefit of policyholders;

6 (c) An order requiring Regence to recover improperly distributed excess  
7 profits;

8 (d) An award of appropriate injunctive relief;

9 (e) An order for such other and further relief as may be appropriate under the  
10 circumstances with regard to the disposition of excess amounts held by the Regence;

11 (f) An award of reasonable attorneys' fees and costs under provisions  
12 including but not limited to ORCP 32M; and

13 (g) Such other and further relief that the Court deems reasonable and just.  
14

15 DATED: June 18, 2014.  
16

17 SLINDE NELSON STANFORD

18  
19 By: 

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*Of Attorneys for Plaintiffs*



# HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2013  
OF THE CONDITION AND AFFAIRS OF THE

## Regence BlueCross BlueShield of Oregon

NAC Company Code: 54933    Employer's ID Number: 93-0238155  
 State: Oregon    State of Incorporation or Part of Entity: Oregon  
 Country: United States of America  
 HMD: \_\_\_\_\_  
 Commercial Business: 66071942  
 Street and Number: 100 SW Market Street    City or Town, State, Country and Zip Code: Portland, OR, US 97201  
 (Street and Number)    (Area Code) (Telephone Number): 503 225 5221  
 P.O. Box: 1271 MS G2A    City or Town, State, Country and Zip Code: Portland, OR, US 97207-1271  
 (Street and Number)    (Area Code) (Telephone Number): 503 225 6069  
 www.Regence.com  
 Officer (Name): Gen. W. Strain    (Area Code) (Telephone Number): 503 225 6069  
 (Area Code) (Telephone Number): 503 273 4128  
 (FAX Number): \_\_\_\_\_  
**OFFICERS**  
 Secretary: Kerry E Barnett    Treasurer: Andreas B Ellis  
**OTHER**  
John Massas # Vice President, Network Management  
**DIRECTORS OR TRUSTEES**  
William L Chenevich    Peggy Y Foster  
Luis Machuca

I, the undersigned, being duly sworn, depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above  
 I am a member of the board of directors, officers and explanatory items contained, referred or referred to, as a full and true statement of all the assets and liabilities and of the  
 condition and affairs of the reporting entity as of the reporting period stated above and of its income and deductions therefrom for the period ended, and have been completed  
 in accordance with the NAC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may offer or (2) that state  
 law requires otherwise. If the statement of the reporting entity is not related to accounting practices and procedures, according to the best of their information, knowledge and belief,  
 the statement of the reporting entity also includes the related corresponding electronic filing with the NAIC, when required, that is an  
 electronic filing of the statement of the reporting entity. The electronic filing may be requested by various regulators in favor of its addition  
 to the annual statement.

\_\_\_\_\_    \_\_\_\_\_    \_\_\_\_\_  
 Secretary    Kerry E Barnett    Treasurer    Andreas B Ellis

a. Is this an original filing?    Yes [X] No [ ]  
 b. If no:  
 1. State the amendment number  
 2. Date filed  
 3. Number of pages attached



**FIVE-YEAR HISTORICAL DATA**

	1 2013	2 2012	3 2011	4 2010	5 2009
<b>Balance Sheet (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 28)	1,008,235,016	938,365,997	934,713,178	933,530,882	1,000,273,897
2. Total liabilities (Page 3, Line 24)	380,925,209	373,405,599	412,712,641	389,367,191	435,076,391
3. Statutory surplus	20,025,092	20,025,092	20,158,750	20,429,222	565,197,607
4. Total capital and surplus (Page 3, Line 33)	627,309,807	564,960,398	522,000,538	544,163,691	565,197,607
<b>Income Statement (Page 4)</b>					
5. Total revenues (Line 8)	1,891,155,543	1,852,509,161	1,865,874,980	1,892,922,218	2,440,405,372
6. Total medical and hospital expenses (Line 18)	1,634,003,941	1,562,772,940	1,610,730,341	1,560,421,394	2,130,598,739
7. Claims adjustment expenses (Line 20)	131,306,722	129,485,498	129,591,544	122,198,162	125,214,786
9. Total administrative expenses (Line 21)	133,500,785	143,721,486	142,864,910	174,187,396	186,642,907
9. Net underwriting gain (loss) (Line 24)	17,655,905	16,549,237	(17,311,815)	36,115,266	(2,051,060)
10. Net investment gain (loss) (Line 27)	36,326,663	39,483,828	36,309,659	56,377,696	28,541,610
11. Total other income (Lines 28 plus 29)	(1,558,434)	(2,568,860)	15,374,817	(4,437,843)	1,536,737
12. Net income or (loss) (Line 32)	17,974,524	43,188,312	6,932,273	75,158,557	21,885,285
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11)	2,941,673	21,612,884	34,249,421	(8,120,356)	(3,610,017)
<b>Risk-Based Capital Analysis</b>					
14. Total adjusted capital	627,670,085	565,244,445	522,265,146	544,462,247	565,468,118
15. Authorized control level risk-based capital	63,881,045	56,772,482	57,938,571	56,120,978	78,112,642
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7)	497,891	472,902	468,915	513,522	718,680
17. Total members months (Column 8, Line 7)	5,951,010	5,617,527	5,694,874	6,687,419	8,844,842
<b>Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0</b>					
19. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)	86.4	84.4	86.3	82.4	87.3
20. Cost containment expenses	3.0	2.8	2.1	1.8	1.9
21. Other claims adjustment expenses	4.0	4.2	4.8	4.7	3.2
22. Total underwriting deductions (Line 23)	100.4	99.1	100.9	98.1	100.1
23. Total underwriting gain (loss) (Line 24)	(0.4)	0.9	(0.9)	1.9	(0.1)
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
24. Total claims incurred for prior years (Line 13, Col. 5)	153,840,920	160,216,716	157,449,575	198,996,605	210,251,911
25. Estimated liability of unpaid claims (prior year (Line 13, Col. 6))	173,395,726	197,149,069	160,067,307	237,402,942	256,323,716
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)	1,640,000	1,640,000	1,640,000	1,640,000	1,640,000
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)		0	0	0	0
28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)	7,238,513	4,942,709	5,143,189	5,074,923	4,702,380
29. Affiliated short-term investments (subtotal included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	0
30. Affiliated mortgage loans on real estate					
31. All other affiliated		0	0	6,565,004	0
32. Total of above Lines 26 to 31	8,878,513	6,582,709	6,783,189	13,279,927	6,342,380
33. Total investment in parent included in Lines 26 to 31 above					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?  
If no, please explain:

Yes [ ] No [ ]



Restated Articles of Incorporation - Nonprofit

Secretary of State - Corporation Division - 255 Capitol St. NE, Suite 151 - Salem, OR 97310-1327 - http://www.FilingInOregon.com - Phone: (503) 966-2200

FILED

JUL 17 2012

OREGON SECRETARY OF STATE

REGISTRY NUMBER: 041991-13

In accordance with Oregon Revised Statute 192.410-192.490, the information on this application is public record. We must release this information to all parties upon request and it will be posted on our website. Please Type or Print Legibly in Black Ink. Attach Additional Sheet if Necessary.

For office use only

- 1) NAME OF CORPORATION: Regence BlueCross BlueShield of Oregon
- 2) NEW NAME OF THE CORPORATION: (If changed) \_\_\_\_\_
- 3) A COPY OF THE RESTATED ARTICLES MUST BE ATTACHED.

4) CHECK THE APPROPRIATE STATEMENT:

- The restated articles contain amendments which do not require membership approval. The date of the adoption of the amendments and restated articles was \_\_\_\_\_. These amendments were duly adopted by the board of directors.
- The restated articles contain amendments which require membership approval. The date of the adoption of the amendments and restated articles was June 26, 2012.

The vote of the members was as follows:

Class(es) entitled to vote	Number of members entitled to vote	Number of votes entitled to be cast	Number of votes cast FOR	Number of votes cast AGAINST
1	1	1	1	

5) EXECUTION: (Must be signed by at least one officer or director.)

By my signature, I declare as an authorized authority, that this filing has been examined by me and is, to the best of my knowledge and belief, true, correct, and complete. Making false statements in this document is against the law and may be penalized by fines, imprisonment or both.

Signature:

Printed Name:

Michael T. Mudrow

Title:

Assistant Secretary

Cc

REGENCE BLUECROSS BLUESHIELD OF

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PH



4199113-13652806

RSTART

**FEEES**

Required Processing Fee \$50

Processing Fees are nonrefundable. Please make check payable to "Corporation Division."

Free copies are available at [FilingInOregon.com](http://FilingInOregon.com), using the Business Name Search program.

041991-13

**REGENCE BLUECROSS BLUESHIELD OF OREGON**  
**RESTATED ARTICLES OF INCORPORATION**

Adopted June 26, 2012

Pursuant to Section 65.451 of the Oregon Revised Statutes (ORS), the undersigned hereby submits for filing the following Restated Articles of Incorporation of Regence BlueCross BlueShield of Oregon, a corporation organized under the Oregon Nonprofit Corporations Act, ORS Chapter 65 (the "Act"):

**ARTICLE I**

The name of this corporation (the "Corporation") is: Regence BlueCross BlueShield of Oregon.

**ARTICLE II**

The duration of the Corporation shall be perpetual. The Sole Member of the Corporation shall be Regence Insurance Holding Corporation, an Oregon nonprofit public benefit corporation.

**ARTICLE III**

This corporation is a public benefit corporation. The purposes of the Corporation shall be:

Without profit to itself to furnish, provide, contract for or pay for health care services, including but not limited to medicine, medical and surgical treatment, nursing, hospital service, ambulance service, dental service, and any other necessary services, whether or not contingent upon sickness, injury or accident; and

Any other lawful purpose for which a corporation may be formed under the Oregon Nonprofit Corporation Law.

**ARTICLE IV**

In the event of the dissolution of this corporation, all of its assets, after payment of its liabilities shall be distributed by its Board of Directors to its Sole Member.

**ARTICLE V**

1. To the maximum extent permitted by the Oregon Nonprofit Corporation Act (Chapter 65 of the Oregon Revised Statutes) this corporation exonerates each director from personal liability to the corporation for monetary damages arising out of his or her service as a director.
2. This Articles does not relieve a director from liability arising out of any of the following:
  - a. A breach of the duty of loyalty to the corporation;

# 041991-13

- b. An act or omission not in good faith or involving intentional misconduct or a knowing violation of law;
  - c. An unlawful distribution;
  - d. A transaction from which the director derived improper personal benefit; or
  - e. An act or omission in violation of laws relating to conflict of interest, loans or guarantees to directors, or unlawful distributions.
3. Protection provided to directors by this Article is in addition to and not in lieu of any other protection provided to directors by the Articles of Incorporation or Bylaws of this corporation or otherwise.

CERTIFICATION

These Restated Articles of Incorporation correctly set forth the provisions of the Articles of Incorporation of the Corporation, as heretofore amended. These Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, the Corporation has caused these Restated Articles of Incorporation to be executed this 26<sup>th</sup> day of June, 2012.

REGENCE BLUECROSS BLUESHIELD OF OREGON



By: Donald M. Antonucci  
President





**ANNUAL STATEMENT FOR THE YEAR 2011 OF THE Regence BlueCross BlueShield of Oregon**

**FIVE - YEAR HISTORICAL DATA**

	1 2011	2 2010	3 2009	4 2008	5 2007
<b>Balance Sheet (Pages 2 and 3)</b>					
1 Total admitted assets (Page 2, Line 28)	934,713,178	933,530,882	1,000,273,997	905,394,008	1,034,489,182
2 Total liabilities (Page 3, Line 24)	412,712,641	389,367,191	435,076,391	419,269,770	482,301,046
3 Statutory surplus	20,158,750	20,429,222	565,197,607	486,124,238	552,188,131
4 Total capital and surplus (Page 3, Line 33)	522,000,538	544,163,691	565,197,607	486,124,238	552,188,131
<b>Income Statement (Page 4)</b>					
5 Total revenues (Line 8)	1,865,874,980	1,892,922,218	2,440,405,372	2,595,653,513	2,282,451,997
6 Total medical and hospital expenses (Line 16)	1,610,730,341	1,560,421,394	2,130,598,739	2,335,370,649	2,024,410,967
7 Claims adjustment expenses (Line 20)	129,591,544	122,198,162	125,214,786	123,820,274	131,385,940
8 Total administrative expenses (Line 21)	142,864,910	174,187,396	186,642,907	165,762,200	182,674,067
9 Net underwriting gain (loss) (Line 24)	(17,311,815)	36,115,266	(2,051,060)	(29,299,610)	(56,018,977)
10 Net investment gain (loss) (Line 27)	36,309,659	56,377,696	28,541,610	54,821,549	83,114,906
11 Total other income (Lines 28 plus 29)	(5,374,817)	(4,437,643)	1,536,737	2,218,029	536,131
12 Net income or (loss) (Line 32)	6,932,273	75,158,557	21,885,285	25,093,568	20,851,464
<b>Cash Flow (Page 6)</b>					
13 Net cash from operations (Line 11)	34,245,421	(8,120,356)	(3,610,017)	4,367,684	47,393,008
<b>Risk-Based Capital Analysis</b>					
14 Total adjusted capital	522,265,146	544,462,247	565,468,118	486,293,028	554,380,563
15 Authorized control level risk-based capital	57,938,571	56,120,978	78,112,642	86,410,866	74,384,437
<b>Enrollment (Exhibit 1)</b>					
16 Total members at end of period (Column 5, Line 7)	468,915	513,522	718,680	776,647	1,106,170
17 Total members months (Column 6, Line 7)	5,694,874	6,687,419	8,844,842	11,411,487	13,232,746
<b>Operating Percentage (Page 4)</b>					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18 Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19 Total hospital and medical plus other non-health (Lines 16 plus Line 19)	86.3	82.4	87.3	90.0	88.7
20 Cost containment expenses	2.1	1.8	1.9	1.9	2.1
21 Other claims adjustment expenses	4.8	4.7	3.2	2.9	3.7
22 Total underwriting deductions (Line 23)	100.9	98.1	100.1	101.1	102.5
23 Total underwriting gain (loss) (Line 24)	(0.9)	1.9	(0.1)	(1.1)	(2.5)
<b>Unpaid Claims Analysis</b>					
(U&I Exhibit, Part 2B)					
24 Total claims incurred for prior years (Line 13, Col. 5)	157,449,575	198,996,605	210,251,911	251,516,580	218,319,909
25 Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	160,067,307	237,402,942	256,323,716	245,178,526	247,403,432
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26 Affiliated bonds (Sch. D Summary, Line 12, Col. 1)	1,640,000	1,640,000	1,640,000	1,640,000	1,640,000
27 Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)	0	0	0	0	0
28 Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)	5,143,189	5,074,923	4,702,390	4,130,311	26,616,664
29 Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)	0	0	0	0	0
30 Affiliated mortgage loans on real estate	0	0	0	0	0
31 All other affiliated	0	5,585,004	0	5,302,353	47,413,692
32 Total of above Lines 26 to 31	6,783,189	13,279,927	6,342,390	12,072,664	75,670,356

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain: \_\_\_\_\_

COPY

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Insurance Division  
State of Oregon

ANNUAL STATEMENT FOR THE YEAR 2013 OF THE Regence BlueCross BlueShield of Oregon

**SUPPLEMENTAL COMPENSATION EXHIBIT**

For the Year Ended December 31, 2013  
(To be filed by March 1)

**PART 1 - INTERROGATORIES**

- The reporting insurer is a member of a group of insurers or other holding company system: Yes  No  If yes, do the amounts below represent 1) total gross compensation paid to each individual by or on behalf of all companies which are part of the group: Yes ; or 2) allocation to each insurer: Yes
- Did any person while an officer, director, or trustee of the reporting entity receive directly or indirectly, during the period covered by this statement any commission on the business transactions of the reporting entity? Yes  No
- Except for retirement plans generally applicable to its staff employees, has the reporting entity any agreement with any person, other than contracts with its agents for the payment of commissions whereby it agrees that for any service rendered or to be rendered, that he/she shall receive directly or indirectly, any salary, compensation or emolument that will extend beyond the period of 12 months from the date of the agreement? Yes  No

**PART 2 - OFFICERS AND EMPLOYEES COMPENSATION**

1 Name and Principal Position	2 Year	3 Annual Compensation			6 Totals
		3 Salary	4 Bonus	5 All Other Compensation	
Chief Executive Officer	2013	264,856	111,321	21,175	397,352
DOWLING, ANGELA M	2012	162,500	62,764	66,935	312,199
Market President for Oregon	2011				0
1. GANZ, MARK B	2013	292,145	521,492	43,339	856,976
Cambia President & CEO	2012	280,540	277,755	49,698	607,993
	2011	268,812	338,417	40,730	647,959
2. ANTONUCCI, DONALD M	2013	358,810	141,085	43,614	543,609
Past Market President For Oregon	2012	324,446	32,701	56,775	413,922
	2011	222,885	111,630	28,132	362,647
3. SHORT, JARED L	2013	185,563	187,650	22,905	396,118
Division President HIS	2012	164,721	77,101	22,126	263,948
	2011	339,845	157,302	49,734	546,881
4. BARNETT, KERRY E	2013	171,774	158,439	24,522	354,735
Group EVP Corporate Services	2012	161,088	103,333	27,447	291,868
	2011	140,843	91,102	22,498	254,443
5. PRICE, VINCENT P	2013	164,647	146,664	17,971	329,282
EVP CFO	2012	146,484	81,584	19,701	247,779
	2011				0
6. MYERS, KAREN	2013	98,283	204,552	15,496	318,331
Sales Executive Sr	2012				0
	2011				0
7. KLAUS, LAUREL S	2013	165,656	122,999	18,520	307,175
Dir Sales	2012	160,093	77,220	30,670	267,973
	2011	152,168	118,759	30,385	301,312
8. NAIR, MOHANDAS	2013	142,245	128,471	19,263	289,979
Chief Innovation Officer	2012				0
	2011				0
9. REYES, LANCE D	2013	86,822	171,085	17,728	275,645
Sales Executive Sr	2012				0
	2011				0

**PART 3 - DIRECTOR COMPENSATION**

1 Name and Principal Position or Occupation	2 Compensation Paid or Deferred for Services as Director	3 All Other Compensation Paid or Deferred	4 Totals
Luis Machuca, Director	11,360		11,360
Peggy Y. Foster, Director	10,360		10,360
William L. Chenevich, Director	10,360		10,360