



January 5, 2015

Delivered via email: Thomas.Betlach@azahcccs.gov

Thomas Betlach
Director, Arizona Health Care Cost Containment System
801 E. Jefferson St.
MD 4100
Phoenix, AZ. 85034

Subject: Notification of Acquisition and Request for Prior Approval

Dear Director Betlach,

In accordance with contract YH14-0001 between AHCCCS and Care1st Health Plan Arizona, Inc. (Care1st AZ), Section D, Paragraph 52 (Merger, Reorganization and Change of Ownership), as well as AHCCCS Contractor Operations Manual, Policy 317 (Merger, Acquisition, Reorganization, Joint Venture and Change of Ownership Requests), please accept this letter as official notification of a proposed change of ownership of Care1st Health Plan, Inc. (Care1st) and all of its affiliated companies, including Care1st AZ. This notice serves as a follow up to Care1st AZ's initial notification letter dated December 9, 2014, and AHCCCS' response dated December 12, 2014. Care1st and its shareholders have entered into a Stock Purchase Agreement, dated as of December 4, 2014, with California Physicians' Service, Inc., a California nonprofit corporation, d/b/a/ Blue Shield of California ("CPS") and Cumulus Holding Company, Inc. ("Cumulus"), a newly created nonprofit affiliate of CPS (the "Purchase Agreement") contemplating the sale by Care1st shareholders of all of the issued and outstanding shares of Care1st to CPS through Cumulus (the "Transaction").

The acquisition of Care1st brings over 20 years of Medicaid experience and infrastructure to CPS's 75 years of Commercial and Medicare experience. CPS is acquiring Care1st as a complementary, strategic expansion of the company. By joining forces with CPS, Care1st will have the resources to better serve the growing Medicaid and Medicare population in its service areas. The Care1st senior management team in both California and Arizona will remain in place as of closing. Because there is very little overlap in our businesses, CPS has indicated its intention to retain as many Care1st leadership and support staff as possible to retain their experience and expertise.

Over eleven years ago, Care1st was fortunate to earn its initial contract award in Arizona from the AHCCCS Administration. Since then it has been successful in two additional procurement cycles, most recently expanding its service area to Pima County and growing to more than 100,000 covered lives. In this short amount of time, Care1st AZ has established itself as a true partner to the AHCCCS program, a well-regarded organization, and a leader in collaboration efforts with other AHCCCS plans.

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CPS shares Care1st's commitment to the AHCCCS program and will add value, leadership and resources while continuing to build upon the foundation that Care1st has created in Arizona.

Attached is a transition plan that addresses AHCCCS' primary focus points for this type of transition. Those points are as follows:

- Ensure uninterrupted services and ongoing adequate access to care and choice for members;
- Ensure the new entity's ability to maintain and support the contract requirements including the commitments in the proposal submitted to AHCCCS during the procurement process;
- Ensure major functions of the Contractor's organization, as well as AHCCCS programs, are not adversely affected; and
- Ensure the integrity of a fair, competitive AHCCCS procurement process for managed care contracts, which is one of the founding principles of the AHCCCS program.

In summary, although Care1st and Care1st AZ will be acquired by CPS, there is a commitment from CPS to fully maintain the health plan's current operations, and to add value through its vast infrastructure, mature and stable non-profit organization, and innovative ACO strategies.

I look forward to answering any questions that you and your team have in order to gain your approval for this strategic partnership. We are excited to become part of an organization with the history, reputation and resources that CPS has built over the past 75 years.

If you have any questions, please do not hesitate to contact me at scummings@care1st.com or 602.778.1860.

Sincerely,



Scott Cummings
Chief Administrative Officer

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