

September 5, 2019

VIA EMAIL ONLY

Phil Stutzman
pdc@pdc.wa.gov

Erick Agina
erick.agina@pdc.wa.gov

Re: PDC Case No. 53342 – Patrick M. Shanahan

Dear PDC Staff:

I write to follow up on the conversations and email communications between us. As you know, we represent Patrick M. Shanahan in this matter.

Initially, Mr. Shanahan and I wish to express our gratitude and thanks for your agreeing to consider materials submitted to you no later than September 6, 2019. As I believe you now know, none of the addresses, email or physical, you possessed for Mr. Shanahan were working, and he did not receive notice of Mr. Blackhorn's letter of July 24, 2019 until Thursday, August 22, 2019. He left me a message the next day to discuss the matter. We spoke on Monday, August 26th. Mr. Shanahan retained Corr Cronin and me on August 27th, and I spoke with Mr. Stutzman on August 28th. Certainly, since we did receive notice, we have acted expeditiously to respond. Again, we most appreciate your cooperation and consideration in considering materials that are being submitted at this time.

Essentially, the citizen complaint filed by Michelle Kaplan revolves around two subjects: (1) PDC F-1 Reports relating to Mr. Shanahan's residence in the State of Washington; and (2) disclosure on the F-1s relating to one of his multiple brokerage accounts. As you know, Mr. Shanahan was required to file the disclosures because of his position as Regent at the University of Washington, not as a candidate for elected office or officeholder.

Where appropriate, we intend to file amended F-1s no later than this Friday, September 6th. However, we wanted to submit this letter and its exhibits to you earlier so that you will have as much time as possible to consider them and any potential resolutions can be discussed. The F-1 for calendar year 2014 will be amended to reflect the disclosure of the residence and the brokerage account. The F-1 for calendar year 2015 will be amended to disclose the brokerage account (as the residence was listed in the original filing for the calendar year 2015). The F-1 filed for calendar year 2016 will not be amended as it disclosed both the residence and the brokerage account as originally filed. If you feel further amendments are necessary, please advise.

1. The Shanahan Residence

The family home, which had belonged to a trust managed by Mr. Shanahan's mother, was located at 3941 NE Surber Drive in Seattle. Shortly after his appointment as a Regent on January 17, 2012, Mr. Shanahan filed his first F-1 on January 23, 2012.¹ The January 2012 filing of the F-1 did not reflect the Surber residence because while Mr. Shanahan was residing at that address at that time, he was renting the property. As he did not own the property, he was not required to report it. As the complaint notes, the property was not purchased until March 6, 2012.

Mr. Shanahan never attempted to conceal the property, as his Senate Questionnaire, required because of his appointment by the Governor as a Regent, which was also submitted on January 23, 2012, reflected that the Surber property was currently his residence. Copies of six F-1s reflecting filings in 2012 through 2017 are submitted as Exhibits 1 through 6 accompanying these submissions. The Senate Questionnaire submitted January 23, 2012 is submitted as Exhibit 7.

It is true that Mr. Shanahan purchased the residence on March 6, 2012 from the family trust. His mother was residing in a retirement community at that time. Contrary to the allegations in the complaint that it was non-arms-length transaction, Mr. Shanahan paid the full market value of \$2.8 million for the property. Mr. Shanahan has two brothers and his mother wanted to ensure that there was not early distribution of assets among the children.

As noted above, Mr. Shanahan was not required to report the Surber residence on his initial 2012 F-1 filing as he did not own it at that time. Once he purchased the house, and began serving as a Regent, he was concerned about listing his private residence on the publicly available F-1's because of his children's safety. Initially, there was no physical barrier at his residence to prevent access. The security concern stemmed from both his role at The Boeing Company as well as his responsibilities on the University of Washington Board of Regents. At the time of his service as a Regent, Mr. Shanahan was the Senior Vice President of Commercial Airplane Programs for The Boeing Company. Some 50,000 people worked under him and he was responsible for manufacturing and engineering at the plants in Renton, Everett, and Charleston for all of the product lines produced at those plants and the profit and loss related to those product lines. While on the Board the issue of animal care and research was controversial and explosive. The No New Animal Labs group picketed Regents' residences. There were multiple protests at Mr. Shanahan's residence. Seattle and University police were involved during the active protests. The University Police regularly communicated the status of potential protests in order for Mr. Shanahan and his family to make plans to be away from the residence. Mr. Shanahan eventually had a tall security wall and gate installed for his family's safety. Pictures taken at the residence reflecting such picketing are submitted as Exhibit 8.

¹ The complaint references Mr. Shanahan's first filing of an F-1 in April, 2012. That is incorrect. It was signed and filed on January 23, 2012. Please see Exhibit 1.

At all times, while Mr. Shanahan signed and takes complete responsibility for the contents of all F-1 reports, they were always prepared by his assistant at Boeing, Ms. Jillian Hinkston. Ms. Hinkston followed Mr. Shanahan to the Department of Defense and currently works as an assistant for him. All of the PDC filings were initially prepared by Ms. Hinkston who, like Mr. Shanahan, had no experience in this area. It was common for Mr. Shanahan to rely upon others such as Ms. Hinkston, and it would have been impossible for him to fulfill either his civic service or his business responsibilities without significant delegation.

Ms. Hinkston interfaced with UW Board of Regent staff and with Public Disclosure Commission staff in 2012.² Mr. Shanahan and Ms. Hinkston learned from conversations with Regent staff and other Regents that it was not uncommon to exclude a personal residence in filings. Ms. Hinkston became aware that personal residences could be excluded but did not either understand or communicate to Mr. Shanahan that a formal application hearing process was required. Otherwise, Mr. Shanahan would have followed through and engaged in such a process.

It is important to note that the property at issue, the Surber residence, was disclosed on both the 2015 and 2016 F-1s filed on April 11, 2016 and May 3, 2017, respectively (Exhibits 5 and 6), along with the mortgage and debt information. It might also be noted that Mr. Shanahan always disclosed the existence of a vacation property on Whidbey Island (Exhibits 1 through 6). Again, the property as Mr. Shanahan's residence was disclosed on the first page of the January 23, 2012 Senate Questionnaire (Exhibit 7).

2. Stock Brokerage Accounts.

The initial F-1 filed on January 23, 2012 (not April 2012 as incorrectly stated in the complaint) disclosed the brokerage accounts with McAdams, Wright, Ragen in Bellevue, among several others. The accounts were exclusively broker-managed and the reporting consisted of the ownership of funds, not particular individual equities. As the complaint correctly points out, the account was listed on the first F-1 although the particular holdings were not. As the individual acquisitions need not be reported for PDC purposes if broker-managed, the complaint's discussion of the number of securities is immaterial.

In order to finance the purchase of the Surber residence, the McAdams accounts were essentially liquidated in 2012 and the funds transferred to Mr. Shanahan's bank account. Mr. Shanahan did not place any additional funds into the accounts until after the F-1 was filed on April 10, 2013, so the brokerage firm was appropriately not listed. Please note that McAdams, Wright, Ragen merged with Rbt. W. Baird & Co. in 2014 and the addresses reflected on the F-1s for the brokerage account managers is the same. Through an oversight, the broker-managed accounts were omitted from the later reporting, again probably the result of Mr. Shanahan's

² Ms. Hinkston has recently remarried. The relevant contacts would reflect her name at that time as Jillian Berrios.

failure to communicate to Ms. Hinkston that the accounts had been refunded. The account was listed in the 2016 F-1 filed in 2017, listing the name of the successor firm, Rbt. W. Baird & Co.

These problems with the PDC reports were largely discovered when Ms. Hinkston prepared the Executive Branch Personnel Public Financial Disclosure Report (OGE Form 278e), attached as Exhibit 9. Mr. Shanahan and Ms. Hinkston took care to ensure that the PDC filings were consistent with the federal filings which is why the 2016 F-1 discloses the existence of the broker-managed account, now at Rbt. W. Baird & Co., and at the same address and suite number reported for the predecessor brokerage firm.

3. Conclusion.

There is no question that the shortcomings in the filings were inadvertent and not the product of any intent to conceal or fail to comply with all reporting requirements. This reality is underscored by the fact that the existence of the residence (at a time it was not owned) was disclosed in the Senate Questionnaire filed in January 2012. As soon as the security features at the residence were installed, the residence was appropriately disclosed in the F-1 filings for 2015 and 2016. Similarly, the broker-managed account was appropriately disclosed in the first F-1 filed in 2012. Unbeknownst to the complainant, it was not active for a period afterward and was inadvertently left off of the F-1s when refunded. It was disclosed in the 2016 F-1 filed in 2017. Mr. Shanahan's F-1s always reported several other stock ownerships and financial accounts. **By the time the 2016 F-1 was filed in 2017 on behalf of Mr. Shanahan, the residence, the residence debt, and the brokerage accounts were all appropriately disclosed.**

The compliant form asks for discussion of the impact of the alleged violations on the public. We understand that Ms. Kaplan is not a resident of the State of Washington, but rather resides in California. It is questionable what her intent might be to file such a complaint as it relates to the citizens of Washington State. As noted, Mr. Shanahan was neither a candidate nor holder of elected office. As a civic obligation, he was serving as a Regent. A truly interested party could have determined in early 2012 that he resided at the Surber residence (as indicated in the Senate Questionnaire) and that he had a broker-managed account in Bellevue (as disclosed on the 2012 F-1). The subsequent non-disclosures could not and did not involve any intervening events that would or could have impacted the public. And, ultimately, there was complete and accurate disclosure of all the items under discussion.

Mr. Shanahan very much regrets these errors and any inconvenience the complaint has caused the State of Washington or its citizens. Throughout his tenure at Boeing, as the Chair of the University of Washington Board of Regents, at the United States Department of Defense, his culture and commitment to service was always number one. By no means did he intentionally withhold any information regarding his personal real estate or financial holdings that he thought was required to be reported. He apologizes for the errors that occurred and takes complete responsibility for them.

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Mr. Shanahan and I stand ready to assist you with any further inquiry and address any questions or concerns you might have. Thank you very much for your consideration.

Very truly yours,

CORR CRONIN LLP



C. James Frush

Enclosures

cc: Peter LaVallee
Barbara Sandahl
Patrick M. Shanahan