

Northwest Physicians Network, LLC
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Tacoma, WA 98402

Physicians of Southwest
Washington, LLC
319 Seventh Avenue SE, Suite 201
Olympia, WA 98501

May 4, 2009

Washington State Office of Insurance Commissioner
PO Box 40255
Olympia, Washington 98504-0255

Re: Proposed Purchase and Sale of HMSO Ownership Interest in Puget Sound Health Partners (PSHP) by Northwest Physicians Network (NPN) and Physicians of Southwest Washington (PSW)

Dear Mr. Odiorne and Ms. Philhower:

You will have separately received correspondence from PSHP related to concerns expressed by Mr. Julnes in his April 28th letter and correspondence from HMSO dated May 4th related to the same matters as well as their position regarding approval of the pending Form A application. We believe that these letters are fully responsive to the issues in Mr. Julnes' letter. Our two shareholder organizations believe that it is time for NPN's and PSW's perspective about the Form A application and pending purchase and sale to be formalized and incorporated into the deliberations of the OIC. The purpose of this letter is to make explicit our perspective.

As Tim Parker has discussed with Ms. Philhower, we do not believe that a Form A application was in fact required because our proposed acquisition of HMSO's interest in PSHP will not be an "acquisition of control" as contemplated by RCW48.31C.020. However, we followed a Form A approach because that was requested by Mr. Pastuch and we wanted to cooperate fully with the OIC in moving this forward.

The NPN and PSW independent physician associations (IPAs) each have more than a decade of experience in contracting with managed health plans and assuming global capitated risk for Medicare Advantage member lives. This long term experience has also included having separate delegation agreements from the contracted health plans for provider credentialing, medical management, and claims processing. Both of our IPAs have been successful in this, our core business, and through our contracted networks of providers, we have assured

access to physicians for Medicare beneficiaries at a time when most physicians in our communities were declining to accept additional Medicare patients. We have also implemented quality improvement activities, including promotion of use of technology in provider offices and assisting clinicians to implement the chronic care model in outpatient primary care settings. Nurses on our staff have provided case management services to members with complex needs. We have preserved critical access to physicians for Medicare beneficiaries and, together with our network of providers, are partnering with PSHP to improve the delivery of health services to these Medicare beneficiaries.

Recognizing the important benefits to Medicare patients and physicians that our IPA's and Their Medicare Advantage contracts have provided, it has long been a goal of both of our organizations to assure that this model of care delivery remains available in our communities. To that end we came together in 2006 when UnitedHealthcare announced that it did not intend to sustain global capitation network agreements in our markets. Physicians from NPN and PSW, together with the HMSO hospital physician network, invested in the formation of PSHP. We did so to assure access to Medicare beneficiaries of affordable, comprehensive Medicare Advantage benefit plans through our founding organizations' core service delivery networks.

PSHP has exceeded our planning goals as confirmed in our original OIC application; for 2008 PSHP exceeded its projected initial enrollment and efficiently administered this enrollment so as to produce financial results 5% more positive than the budget initially approved by the OIC for our first year of operation. PSHP was one of nineteen new Medicare Advantage organizations in the US for 2008, and achieved the highest enrollment of any of the new Medicare Advantage plans. We believe that PSHP's values and philosophy as manifest in our responsible, understandable, and affordable benefit plan choices, have a positive effect on the benefit offerings of other competing MA plans in our market. We are very proud that in the CMS evaluation of quality of MA plans as posted on the CMS website, PSHP has earned a 4.5 star rating for its "Prescription Drug Plan Quality"; PSHP together with Group Health Cooperative are the only two MA plans in our four county service area who have earned this 4.5 star quality rating. Our nearest competitors are rated at 3.5 stars or below.

We are pleased with first quarter 2009 financial results which demonstrate plan profitability in this our second year of active operations. We are pleased with the modest and sustainable growth of market share in our initial three county market service area and the fact that our disenrollment rate among existing members, including involuntary disenrollment due to deaths, was 5%. This is contrasted with much higher disenrollment rates which are normally experienced by plans for this product. With regard to our 2009 expansion to an additional county, we recognize that a foreign competitor brought to market a competing plan with great success. We believe that the plan offered by this competitor is actuarially flawed and unsustainable. We are not alone in this belief. The presence of what

some have characterized as a 'loss leader' not only adversely affected PSHP enrollment in Snohomish County, but also impacted other Medicare Advantage health plan enrollment as well.

NPN and PSW have always understood that in order for a health plan to prosper, it must be appropriately capitalized and it must demonstrate sustained, managed growth. From the outset it was clear to both our IPAs that contracting with and enrolling members from additional individual providers and provider groups in our initial and evolving service areas would be necessary, and that such growth would impact on the capital needs of the company. Our sustained belief in PSHP's important future has been manifest by the voluntary additional investment of half a million dollars each in the purchase of additional Class A shares of PSHP stock earlier this year, and further by our willingness to acquire the one third ownership in PSHP by our founding partner, HMSO, which purchase is the basis of the pending Form A application. In other words, our initial and continued investments demonstrate that we are in this for the long term.

HMSO was clear from the beginning that their organization, unlike either NPN or PSW, previously had no interest in or plans to own or operate a growing health plan. Their participation in the formation of PSHP was motivated by the decision of UnitedHealthcare to withdraw from global capitated agreements for the Secure Horizons MA plan, and the absence in the fall of 2006 of any firm commitment from Molina or any other MA plan to enter into the general MA marketplace using a network global capitated model. HMSO was clear that investing in PSHP was a necessity to be assured of a globally capitated MA health plan for the 2008 benefit year.

NPN and PSW believe that PSHP is adding significant value to our Medicare enrollees in Washington State and plays an important role in assuring a robust competitive market place for such plans. PSHP was seen as such a significant new competitor to UnitedHealthcare, that the OIC itself intervened and held a public hearing in response to retaliatory and anticompetitive actions of PacifiCare of Washington, the Washington regulated subsidiary of United HealthCare, which actions were precipitated by the formation of PSHP.

HMSO has subsequently secured network global capitation agreements for Medicare beneficiaries with both PacifiCare of Washington for Secure Horizons members and with Molina, in addition to its current provider network agreement with PSHP. We are pleased that negotiations have commenced between PSHP executive management and the HMSO organization with regard to a 2010 and 2011 provider network agreement, which agreement we anticipate being finalized once the OIC can recommend approval of the sale transaction. With such an agreement in place, Medicare eligible patients affiliated with HMSO providers will continue to have a choice of three health plans. NPN also currently contracts

with Molina offering the choice of two health plans; PSW has had preliminary communication with Molina about a possible future network agreement. Litigation between PacifiCare/United HealthCare and PSW has recently ended when PacifiCare withdrew its counterclaims against PSW. PSW has offered to contract with PacifiCare for Secure Horizons members insured through the PEBB program for state retirees. Unfortunately PSW's interest in a possible PEBB Secure Horizon agreement is not being considered by PacifiCare at this time. From the above it is clear that NPN and PSW support competition in the marketplace. We believe that PSHP is an integral participant in assuring that consumers have a choice of plans.

NPN and PSW will always be grateful to HMSO and its leadership staff for partnering with us in the formation of PSHP. However, it has become painfully clear that the fundamental priorities of our three organizations are not aligned. In particular, HMSO is not supportive of growth of enrollment at this time and is unwilling to make further financial investments in PSHP as may be required to sustain growth desired by PSW and NPN. The Bylaws of PSHP have established that all critical and many routine business matters of the corporation, such as approval of the annual budget, require supermajority approval of the PSHP directors. This structure can only work with alignment of the values of the shareholders and with directors of the health plan voting as individual health plan fiduciaries. Not only are the shareholders in disagreement about PSHP's long term goals, but the HMSO directors have consistently voted in direct opposition with that of the other six Board Members. The PSHP board is currently dysfunctional and paralyzed in moving forward with decisions supported by a two thirds majority of the board. In reality the PSHP board is currently held captive by 'supermajority' decision requirements, The control issues exercisable by HMSO which are of concern to your office should the Form A application and sale not be approved are already occurring to the detriment of PSHP, and can only be amicably relieved through approval of the proposed purchase and sale of HMSO stock to NPN and PSW.

NPN and PSW believe that, notwithstanding historical and current significant business disagreements among and between the three shareholders, a fair and amicable purchase of the current health plan investment by HMSO has been negotiated and is reflected in the Form A application.

Should the OIC not approve the pending Form A application, we believe that there will be adverse consequences at many levels:

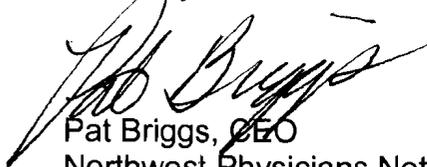
- HMSO will continue to exert control over PSHP through minority rule, related to withholding of approval of PSHP business decisions, which decision delays will hamper PSHP's ability to make business decisions that NPN and PSW believe appropriate, including decisions to invest additional capital or enter into treaty reinsurance or even approve the budget that includes expenditures that NPN and PSW believe are essential.

- HMSO would be less likely to contract with PSHP for 2010 or 2011.
- The disagreements between HMSO, NPN, PSW and PSHP would most likely progress into costly and burdensome litigation that will drain financial and key executive resources of all the organizations, including PSHP itself. Such a legal dispute would threaten the solvency and survival of PSHP, and would divert financial and management resources from prudent management of the health plan.
- PSHP may not survive. As a result:
 - The probability of need for OIC intervention in the management and operation of PSHP is enhanced;
 - Competition in the marketplace for Medicare beneficiaries will be reduced; and
 - The dispute involving PSHP ownership and the refusal of the OIC to approve a reasonable transaction will be very public.

NPN and PSW believe that it is essential that HMSO be allowed to sell its interest in PSHP, since remaining an owner is no longer necessary to HMSO's own business, and since HMSO has no long term commitment to ownership or investment to assure the growth and prosperity of the PSHP health plan. NPN and PSW are committed to the long term viability and success of PSHP and to meeting and exceeding the legitimate oversight standards imposed by the OIC.

We respectfully request that the OIC acknowledge the additional information provided by PSHP in response to each of the questions raised in evaluation of the Form A application. We further request that the OIC review its position with regard to the pending application, and work cooperatively with PSHP management to come to agreement on any reasonable stipulations that will lead to a recommendation to approve the Form A application. We further request that the Form A hearing be expedited so that PSHP, its remaining two shareholders NPN and PSW, can focus on strengthening PSHP in the marketplace, and so that HMSO and PSHP can focus on establishing and maintaining a new long term, business appropriate, participating provider network relationship.

Sincerely,



Pat Briggs, CEO
Northwest Physicians Network



Mariella Cummings, CEO
Physicians of Southwest Washington

CC: Ron Pastuch, Dennis Julnes, Jodi Thompson
