

CARNEY  
BADLEY  
SPELLMAN

Jon M. Schorr

LAW OFFICES  
A PROFESSIONAL SERVICE CORPORATION

701 FIFTH AVENUE, SUITE 3600  
SEATTLE, WA 98104-7010  
TEL (206) 622-8020  
FAX (206) 467-8215

DIRECT LINE (206) 607-4129

Email: schorr@carneylaw.com

**FILED**

JUL - 2 2009

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

July 2, 2009

VIA EMAIL [wendyg@oic.wa.gov](mailto:wendyg@oic.wa.gov)  
OVERNIGHT MAIL

The Honorable Patricia D. Petersen  
Chief Hearing Officer  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

Re: Puget Sound Health Partners  
09-0032

Dear Judge Petersen:

Pursuant to my legal assistant, Val Plachy's, telephone conference of July 1, 2009, with Wendy Galloway, we are emailing, the following documents pertaining to the above-referenced matter in advance of the hearing to be held on July 10, 2009:

1. Opening Statement Offered On Behalf Of Physicians Of Southwest Washington, LLC, Northwest Physicians Network Of Washington, LLC, And Puget Sound Health Partners, Inc.;
2. Declaration of April Golenor;
3. Declaration of Mariella Cummings;
4. Declaration of Patricia Briggs; and
5. Closing Statement Offered On Behalf Of Physicians Of Southwest Washington, LLC, Northwest Physicians Network Of Washington, LLC, And Puget Sound Health Partners, Inc.

Patricia D. Petersen  
Chief Hearing Officer  
Office of the Insurance Commissioner  
July 2, 2009  
Page 2

With the exception of Item No. 2 above, which will be forwarded to you via overnight mail directly from Ms. Golenor's office, the remaining documents will be forwarded by our office via overnight mail today.

Should you have any questions concerning the enclosed, please do not hesitate to contact the undersigned.

Sincerely,

CARNEY BADLEY SPELLMAN, P.S.



Jon M. Schorr

JMS:vwp

Enclosures

cc: Wendy Galloway, Administrative Assistant, OIC  
April Golenor, Chief Executive Officer, PSHP  
Mariella Cummings, Chief Executive Officer, PSW  
Patricia Briggs, Chief Executive Officer, NPN  
Karen Lee, President, HMSO  
James J. Fredman III, Esq.  
Christopher G. Emch, Esq.  
(all w/encls.)

*Pursuant to U.S. Treasury Circular 230, this communication is not intended or written by Carney Badley Spellman, P.S. to be used, and it may not be used by you or any other person or entity, for the purpose of (i) avoiding any penalties that may be imposed on you or any other person or entity under the United States Internal Revenue Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter that is addressed herein.*

**FILED**

JUL - 2 2009

Insurance Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

**In the Matter of the Proposed** )  
**Acquisition and Control of:** ) 09-0032  
)  
**PUGET SOUND HEALTH PARTNERS,** ) OPENING STATEMENT OFFERED  
**INC.,** ) ON BEHALF OF PHYSICIANS OF  
) SOUTHWEST WASHINGTON, LLC,  
By ) NORTHWEST PHYSICIANS  
) NETWORK OF WASHINGTON, LLC,  
**NORTHWEST PHYSICIANS** ) AND PUGET SOUND HEALTH  
**NETWORK OF WASHINGTON, LLC,** ) PARTNERS, INC.  
**and PHYSICIANS OF SOUTHWEST** )  
**WASHINGTON, LLC,** )  
)  
**Applicants.** )  
)

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**I. INTRODUCTION**

My name is Timothy J. Parker. I am a lawyer admitted to practice in the State of Washington and am a shareholder in the law firm of Carney Badley Spellman P.S. Together with Jon Schorr and Michael Havers of my firm, I represent Applicants Physicians of Southwest Washington, LLC ("PSW") and Northwest Physicians Network of Washington, LLC ("NPN"), as well as Puget Sound Health Partners, Inc. ("PSHP"). Applicants seek approval of the referenced transaction under which PSW and NPN will acquire all the stock in PSHP currently owned by Highline Medical Services Organization, Inc. ("HMSO").

## **II. EVIDENCE**

The evidence in this hearing will include the Form A filed with the Washington Office of the Insurance Commissioner (the "OIC") on November 26, 2008 and an Amended Form A filed on February 18, 2009 (together, the "Form A"), as well as testimony from representatives of the Applicants, PSHP, which is the health plan whose stock is the subject of this application, and the OIC. The parties anticipate the evidence will establish the following:

The referenced Form A filed with the OIC, together with supplemental information provided to the Commissioner, included all information required by applicable statute and regulation. Specifically, the Form A identified the parties and fully described the proposed transaction. The OIC carefully reviewed the Form A and determined that it is a complete filing within the meaning of RCW 48.31C.030 and all other legal requirements. In the course of its review, the OIC posed certain questions and requests to the parties, which Applicants believe have been fully addressed to the Commissioner's satisfaction, subject only to the filing of some affidavits which will have been filed with the OIC before the hearing.

Thereafter, the OIC and the parties requested this public hearing. The OIC caused reasonable notice to be provided to interested parties and the public. No objections to the transaction have been received by the OIC or the parties.

## **III. RELIEF REQUESTED**

RCW 48.31C provides that the Commissioner shall approve an acquisition of this type unless, after public hearing, the Commissioner finds that one or more of the criteria identified in

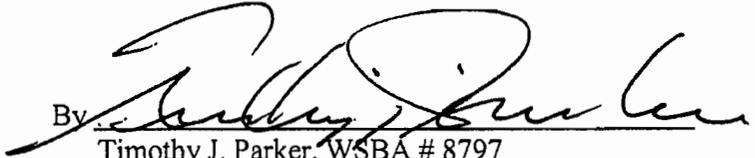
RCW 48.31C.030(5)(a) exists. The evidence will establish that neither of these criteria exists and that approval of the transaction is in the public interest.

#### IV. CONCLUSION

The Applicants, PSHP and HMSO appreciate the diligence and efficiency that the Office of the Insurance Commissioner Company Supervision Department and the Office of the Insurance Commissioner Chief Hearing Officer have given this matter. We are now prepared to offer testimony in support of the above and to answer any questions posed by the Chief Hearing Officer.

Respectfully submitted this 1 day of July, 2009.

CARNEY BADLEY SPELLMAN, P.S.

By 

Timothy J. Parker, WSBA # 8797

Jon M. Schorr, WSBA # 2176

Michael J. Havers, WSBA # 10652

Attorneys for Northwest Physicians Network of  
Washington, LLC, Physicians of Southwest  
Washington, LLC and Puget Sound Health  
Partners, Inc.

JUL - 2 2009

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

<b>In the Matter of the Proposed</b>	)	
<b>Acquisition and Control of:</b>	)	<b>09-0032</b>
	)	
<b>PUGET SOUND HEALTH PARTNERS,</b>	)	<b>DECLARATION OF APRIL</b>
<b>INC.,</b>	)	<b>GOLENOR</b>
	)	
by	)	
	)	
<b>NORTHWEST PHYSICIANS</b>	)	
<b>NETWORK OF WASHINGTON, LLC,</b>	)	
<b>and PHYSICIANS OF SOUTHWEST</b>	)	
<b>WASHINGTON, LLC,</b>	)	
	)	
<b>Applicants.</b>	)	
	)	

I, April Golenor, hereby declare and state as follows:

1. **Name; Office.** My name is April Golenor. I serve as Chief Executive Officer for Puget Sound Health Partners, Inc. ("PSHP"), a Washington corporation, and as such am an authorized person of PSHP. I make this declaration based on my personal knowledge.

2. **Personal Background.** I joined PSHP as Chief Executive Officer in February 2009, having spent more than 20 years in the health care field. From March, 2003 until April, 2008, I held the positions of Chief Operating Officer, Vice-President, President and Chief Executive Officer of Group Health Options, Inc. From June, 1996 until November, 2002, I held

several management positions for PacificCare Health Systems, Inc. including Chief Financial Officer and Vice President of Health Plan Administration for PacificCare Asia Pacific. From June, 1994 until June, 1996, I was employed as a Senior Auditor with Ernst & Young, LLP where I audited numerous entities in the healthcare industry. I hold a Bachelor of Science Degree, in Business Administration with a concentration in Accounting from California State University at San Bernardino, California and have subsequently obtained a Lean Six Sigma Certificate from Villanova University.

**3. Form A.** I am familiar with the Applicants' Form A Statement and its attached Exhibits regarding the acquisition of the shares of Highline Medical Services Organization ("HMSO") in PSHP. The Form A dated November 25, 2008, was filed on behalf of Northwest Physicians Network of Washington, LLC ("NPN") and Physicians of Southwest Washington, LLC ("PSW") with the Washington Office of the Insurance Commissioner ("OIC") on November 26, 2008. An Amended and fully restated Form A dated February 2, 2009, was filed with the OIC on February 18, 2009. The original Form A and the Amended Form A are together referred to as the "Form A." The original Form A and the Amended Form A were signed by Patricia Briggs, the Chief Executive Officer of NPN, and Mariella Cummings, the Chief Executive Officer of PSW. The Form A requests the approval by the OIC of the Applicants' request to acquire the shares in PSHP currently owned by HMSO. The Applicants propose to acquire the 270,000 shares in PSHP that are now owned by HMSO, which currently consist of 29.68 % of the total issued and outstanding shares on an undiluted basis of PSHP.

4. **Applicants.** The Applicants are NPN and PSW. They are described in the declarations filed by their respective Chief Executive Officers.

5. **Acquisition of HMSO Stock in PSHP.** The acquisition by NPN and PSW of HMSO's stock in PSHP is discussed in the declarations filed by their respective chief executive officers.

6. **Organization of PSHP.** PSHP was organized as a Washington for profit health care service contractor pursuant to the Washington Business Corporations Act and Title 48 of the Revised Code of Washington State. The total number of shares of capital stock that PSHP is authorized to issue is 1,200,000 shares of common stock, par value \$10.00 per share. At the time of formation, a total of 810,000 shares were issued to the founding owners in equal holdings, i.e., 270,000 shares to each of NPN, PSW and HMSO. Subsequent to the filing of the original Form A, PSHP received approval from the OIC to issue an additional 100,000 shares, 50,000 shares to each of NPN and PSW. Thus, currently NPN and PSW each own 320,000 shares of PSHP and HMSO owns 270,000 shares. NPN and PSW therefore each now own 35.16% of the outstanding shares of PSHP and HMSO own 29.68%.

After the proposed sale, NPN and PSW will each own 455,000 shares of PSHP.

7. **Individuals Associated with Applicants.** I am familiar with the affidavits filed with the OIC by the officers and directors of PSHP. My experience with, and knowledge about, these persons has led me to believe that they all, individually and collectively, have the requisite

competence, experience and integrity required by law, business and personal ethics, to successfully operate and indirectly control the operations of PSHP.

**8. Statutory Approval Criteria.** I am familiar with the Washington statutory framework for the approval of this acquisition and conclude that none of the criteria supporting disapproval exists. Specifically:

**(a) Licensure Requirements Remain Satisfied.** It is my opinion, after reviewing all matters, documents and materials related to the proposed transaction, that following the acquisition of HMSO's shares in PSHP by NPN and PSW, PSHP will remain able to satisfy the Washington requirements for registration as a health care service contractor.

**(b) Effect on Competition.** The acquisition by PSW and NPN of the PSHP stock now owned by HMSO will not substantially lessen competition in health insurance in the State of Washington nor will it tend to create a monopoly therein. To the contrary, as PSHP increases market penetration in the counties in which PSHP currently offers its Medicare Advantage products and in the future as it expands its service area to other counties in Washington, competition will increase among the pool of companies from which Washington recipients may choose to acquire Medicare Advantage policies. Each Applicant is an independent physicians association and neither of them is an owner, directly or indirectly, of any other health carrier service contractor. Although there will be an increase in each of NPN's and PSW's stock ownership in PSHP, no additional shares will be issued by PSHP.

**(c) Financial Soundness of PSHP - Present.** As indicated in the financial information previously submitted to the OIC, PSHP is on a sound financial footing. As discussed in the declarations filed on behalf of the Applicants, Applicants are financially strong, well suited for the acquisition of full ownership of PSHP, and neither their interests nor those of the Medicare Advantage patients of their physician members will be adversely affected by the proposed acquisition. The financial condition of the Applicants after the acquisition will not jeopardize the financial ability of PSHP or prejudice the interests of its Medicare Advantage members.

**(d) Financial Soundness of PSHP — Future.** It is my opinion that as a result of the proposed stock transfer, PSHP's financial position will continue to improve. PSHP has no present plan or proposal to declare an extraordinary dividend, liquidate, sell its assets or merge with any person or persons or to make any other changes in the business, investment policy, operations, corporate structure or management of the Company.

**(e) Applicants' Management.** Applicants' management is experienced and their leadership possesses the requisite integrity and qualifications for control of a health care service contractor domiciled in this State.

**(f) Public Interest.** The proposed stock acquisition will not be hazardous or prejudicial to the general public, including, without limitation, those Medicare Advantage patients receiving professional health care services pursuant to Medicare Advantage arrangements made between PSHP and its contracted service providers.

**(g) Management of PSHP.** The proposed acquisition will solidify the management of PSHP. Currently, the Articles and Bylaws of PSHP governing its operations require a super majority approval by seven out of nine of its directors prior to its management undertaking many routine, but substantive corporate actions. Consequently, because of the significantly divergent aspirations of the three current PSHP shareholders, PSHP has been unable for over a year to obtain the super majority approval necessary to accomplish such simple tasks as approving an operating budget, considering enhancements to its product line or approving a marketing budget and associated marketing plan. This situation is also discussed in the declarations of the Applicants' Chief Executive Officers. This failure to reach the required Board supermajority approval levels has significantly hampered PSHP management, and has impeded PSHP's ability to conduct even ordinary business operations. All of these management difficulties are expected to be resolved upon approval and finalization of the proposed stock purchase by NPN and PSW, because the shareholders' interests are substantially aligned. As is noted in the declarations submitted on behalf of the Applicants, at the time of acquisition, it will be necessary to modify PSHP's Articles, Bylaws and Shareholder Agreement to reflect the revised, equal shareholdings of PSW and NPN.

**9. No Objections to Proposed Transaction.** PSHP has received no communication expressing either an objection or concern regarding the proposed transaction.

I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF WASHINGTON THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

DATED this 1<sup>st</sup> day of July, 2009, at Seattle, WA.

  
\_\_\_\_\_  
April Golenor  
Chief Executive Officer of PSHP

JUL -6 2009

**Galloway, Wendy (OIC)**

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**Hearings Unit, OIC**  
**Patricia D. Petersen**  
**Chief Hearing Officer**

**From:** Plachy, Valorie [plachy@carneylaw.com]  
**Sent:** Monday, July 06, 2009 8:18 AM  
**To:** Galloway, Wendy (OIC)  
**Cc:** April.G@ourpshp.com; mariellac@pswipa.com; pbriggs@nnpwa.net; karen.l@hmsoinc.org; fredj@foster.com; emchc@foster.com; Schorr, Jon; Havers, Michael; Parker, Tim; Philhower, Andrea (OIC)  
**Subject:** Puget Sound Health Partners - Hearing July 10, 2009  
**Attachments:** M Cummings Full Declaration.pdf

Wendy:

You should be receiving our overnight package today that was sent on Thursday. Attached is the full Declaration of Mariella Cummings. On Thursday, I sent the wrong attachment, the one I sent contained only her signature page. Here is the full Declaration that was included in the Thursday mailing.

Sorry or any inconvenience this may have caused you.

Thank you for all of your assistance in this matter. Please call if any questions.

Val

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**CARNEY  
BADLEY  
SPELLMAN**

Val Plachy

Legal Assistant to Steven J. Hopp, Jon M. Schorr, John B. Greene and Kevin M. Sullivan

LAW OFFICES

A PROFESSIONAL SERVICE CORPORATION

701 FIFTH AVENUE, SUITE 3600

SEATTLE, WA 98104-7010

FAX (206) 467-8215

TEL (206) 622-8020

DIRECT LINE (206) 607-4173

Email: plachy@carneylaw.com

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7/6/2009

**FILED**

JUL - 6 2009

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

**In the Matter of the Proposed** )  
**Acquisition and Control of:** ) 09-0032  
 )  
**PUGET SOUND HEALTH PARTNERS,** ) **DECLARATION OF MARIELLA**  
**INC.,** ) **CUMMINGS**  
 )  
by )  
 )  
**NORTHWEST PHYSICIANS** )  
**NETWORK OF WASHINGTON, LLC,** )  
**and PHYSICIANS OF SOUTHWEST** )  
**WASHINGTON, LLC,** )  
 )  
**Applicants.** )  
 )

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I, Mariella Cummings, hereby declare and state as follows:

1. **Name; Office.** My name is Mariella Cummings. I serve as Chief Executive Officer for Physicians of Southwest Washington, LLC ("PSW") and as such am an authorized person of PSW. I make this declaration based on my personal knowledge.

2. **Personal Background.** I joined PSW as Chief Executive Officer in March 2001 under a management services contract between PSW and Results Incorporated, an S corporation in which I serve as President and sole employee. My responsibilities as CEO with PSW are full time. My consulting work through Results Incorporated was part time from 1991 to 1998, and

has been full time since then. From 1993 to 1998 I was employed by the Washington Department of Health as Director of the Office of Infectious Disease and Reproductive Health, which office included managing the DOH programs related to HIV/AIDS epidemiology, prevention and care services. While employed by the DOH and for a period of time thereafter, I was appointed to serve as the 'consumer representative' to the Washington Health Insurance Pool (WSHIP) by then OIC Commissioner Deborah Senn. From 1975 to 1991 I served on the executive management teams of acute care hospitals: Director of Nursing at Missoula Community Hospital in Missoula, MT; Assistant Administrator for Nursing at Winona Memorial Hospital, Indianapolis, IN; Vice President for Nursing at Froedtert Memorial Lutheran Hospital, Milwaukee, WI; Associate Administrator and Chief Operating Officer at North Miami Medical Center, North Miami, FL; and Chief Executive Officer of Capital Medical Center, Olympia, WA. For a five year period in the early 1980's I left hospital management to become the Vice President for Claims at Golden Rule Insurance, Indianapolis, IN. I received a Bachelor of Science in Nursing from the University of Washington in 1968 and a Master of Science from the University of Arizona School of Nursing in 1975, with a focus in medical surgical nursing administration. I served as the initial Chief Executive Officer of PSHP during the initial incorporation process and through the application process to the Washington OIC for PSHP's original approval as a health care services contractor and through the initial application by PSHP for a managed care organization contract with CMS. I have continuously served on the PSHP Board of Directors as an appointee of PSW, and as a member of the PSHP Executive Committee. I currently serve as Chairman of the PSHP Board of Directors.

3. **Form A.** I have reviewed, and hereby confirm, paragraph 3 of the declaration (the "PSHP Declaration") made by April Golenor, the Chief Executive Officer of Puget Sound Health Partners, Inc. ("PSHP") regarding the original and amended Form A Statements filed on behalf of PSW and Northwest Physicians Network of Washington, Inc. ("NPN"), and the proposed acquisition by PSW and NPN of HMSO's shares in PSHP. The other statements in the PSHP Declaration that relate to the Applicants are true and correct.

4. **Applicant's Organization and Membership.** PSW is a member-owned, manager-managed limited liability company formed and existing under the laws of Washington state. It conducts business as an independent physicians association with its principal office in Olympia. Its member physicians have practices based in Thurston County. 35 of its members are primary care specialists and 34 practice in other specialties. No member physician holds a 10% or greater voting interest in PSW.

5. **Acquisition of HMSO's Stock in PSHP under the Stock Purchase Agreement.** NPN and PSW have similar perspectives and plans for PSHP. NPN and PSW have always understood that in order for a health plan to prosper, it must be appropriately capitalized and must demonstrate sustained, managed growth. From the outset it was clear to both PSW and NPN 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 affect the capital needs of the health plan. NPN's and PSW's sustained belief in PSHP's future has been manifest by the voluntary additional investment by Applicants 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 HMSO's ownership interest in PSHP, which purchase is the basis of the pending application. In other words, the Applicants' initial and continued investments demonstrate that they are committed to the long term future of PSHP.

HMSO was clear from the beginning that their organization, unlike NPN or PSW, 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 any other Medicare Advantage ("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.

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. HMSO has recently entered into a provider network agreement with PSHP for 2010. 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. From the above it is clear that NPN and PSW support competition in the marketplace. Both Applicants believe that PSHP is a key participant in assuring that consumers have a choice of plans.

While NPN and PSW have the same perspectives and goals for PSHP, it has become clear over the past eighteen months that HMSO does not share those aims. It has become clear that the fundamental priorities of our three organizations are not aligned. In particular, HMSO does not support growth of enrollment at this time and is unwilling to make further financial investments in PSHP as may be required to sustain growth as 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 by seven out of the nine of the PSHP directors. This structure can only work with alignment of the values of the shareholders. Not only are the shareholders in disagreement about PSHP's long term goals, but the three HMSO directors have regularly voted in opposition to the other six board members. The PSHP board is currently held captive by 'supermajority' decision requirements. These control issues can only be relieved through approval of the proposed sale of HMSO's stock in PSHP to NPN and PSW.

NPN and PSW believe that, notwithstanding historical and current business disagreements among the three shareholders, a fair and amicable purchase of the current health plan investment by HMSO has been negotiated and agreed to in the Stock Purchase Agreement made among HMSO, NPN, PSW and PSHP dated as of November 24, 2008 (as amended and extended pursuant to a series of agreed amendments filed with the OIC, the "Stock Purchase Agreement").

NPN and PSW believe that it is appropriate and, indeed, essential that HMSO be allowed to sell its interest in PSHP, since HMSO's remaining ownership is no longer necessary

to HMSO's own business, and since HMSO has no long term commitment to ownership of or investment in PSHP to assure its growth and prosperity.

NPN and PSW believe that PSHP is adding significant value to our Medicare enrollees in Washington State and that it plays an important role in assuring a robust competitive market place for such plans.

Following completion of the proposed stock purchase transaction, PSW and NPN would need to modify the articles, bylaws and shareholder agreement of PSHP to reflect the revised, equal shareholdings of PSW and NPN.

**6. Individuals Associated with PSW; PSW's Management.** I am familiar with the persons associated with the Applicant whose biographical affidavits have been submitted to the OIC. My experience with and knowledge about these persons has led me to the opinion that they all, individually and collectively, have the requisite competence, experience and integrity required by law, business, and personal ethics, to successfully manage the operations of the Applicant.

**7. Stock Purchase Agreement.** I am familiar with the Stock Purchase Agreement. Pursuant to the Stock Purchase Agreement, the Applicants propose to acquire HMSO's entire ownership interest in PSHP. The total consideration for the proposed acquisition by the Applicants, based on the number of lives currently enrolled with PSHP through HMSO through the end of 2009, is \$1,304,000. That amount is payable out of the funds in escrow and in cash installments, as reflected in the Stock Purchase Agreement. The closing of the transaction is conditioned upon the receipt of approval of the transaction by the OIC.

**8. Funding of the Stock Purchase.** The Applicant has already paid out of its own funds \$250,000, representing its one-half share of the "Initial Installment" under the Stock Purchase Agreement. That amount, together with NPN's equivalent payment, is held in escrow. Those funds, and all remaining payments to be made under the Stock Purchase Agreement, have been and will be made from PSW's own funds, without borrowing from any third party.

**9. No Material Change in Business Operations.** PSW and NPN have no current plans to have PSHP declare an extraordinary dividend, or to liquidate PSHP, sell its assets or merge it with another person.

**10. Statutory Approval Criteria.** I am familiar with the Washington statutory framework for the approval of this acquisition and conclude that none of the criteria supporting disapproval exists. I have reviewed, and hereby confirm, the specific statements and opinions reflected in paragraph 8 of the PSHP Declaration. I further specifically affirm the following:

**(a) Financial Soundness of PSW.** PSW has submitted its audited financial statements to the OIC as part of the annual Form B submission. Our fiscal year is from October 1<sup>st</sup> through September 30<sup>th</sup> of the following year. PSW has generated an operating surplus in each of its 14 completed fiscal years since inception. For the fiscal year to date, our unaudited financials continue to reflect a current operating surplus. We have sufficient cash to meet our ongoing needs, including the ability to have invested another \$500,000 in PSHP in the first quarter of 2009, and to meet our planned obligations associated with the Stock Purchase Agreement, which agreement is reflected in the Form A application. PSW has an established, ongoing capacity to manage its financial affairs as an independent physicians association,

including and not limited to fulfilling our shareholder responsibilities to PSHP and to contracting with PSHP under a global capitation risk agreement.

(b) **Management of PSW.** PSW is managed by a managing board consisting of 8 managing members elected by the organization's membership. I am familiar with all of those individuals and believe they are persons having the requisite integrity, experience and competence to manage the Applicant.

(c) **Public Interest.** The proposed acquisition will not be hazardous or prejudicial to the general public or, specifically, persons seeking health insurance coverage under Medicare Advantage Plans. On the basis of my testimony above and that of Patricia Briggs for NPN and April Golenor for PSHP, including my testimony as to the financial strength and resources of PSW, the experience of the management of PSW, NPN and PSHP and their plans to continue current business plans and operations of PSHP, I believe this proposed transaction satisfies Washington's statutory criteria and would not be detrimental in any way to the public. PSW has received no objections or concerns regarding the proposed transaction.

I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF WASHINGTON THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

DATED June 30, 2009, at Olympia, Washington.

Mariella Cummings  
Mariella Cummings

JUL - 2 2009

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

including and not limited to fulfilling our shareholder responsibilities to PSHP and to contracting with PSHP under a global capitation risk agreement.

(b) **Management of PSW.** PSW is managed by a managing board consisting of 8 managing members elected by the organization's membership. I am familiar with all of those individuals and believe they are persons having the requisite integrity, experience and competence to manage the Applicant.

(c) **Public Interest.** The proposed acquisition will not be hazardous or prejudicial to the general public or, specifically, persons seeking health insurance coverage under Medicare Advantage Plans. On the basis of my testimony above and that of Patricia Briggs for NPN and April Golenor for PSHP, including my testimony as to the financial strength and resources of PSW, the experience of the management of PSW, NPN and PSHP and their plans to continue current business plans and operations of PSHP, I believe this proposed transaction satisfies Washington's statutory criteria and would not be detrimental in any way to the public. PSW has received no objections or concerns regarding the proposed transaction.

I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF WASHINGTON THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

DATED June 30, 2009, at Olympia, Washington.

Mariella Cummings  
Mariella Cummings



case management programs and use of health information technology among independent practices. NPN continues to serve over 13,000 Healthy Options and Medicare Advantage patients.

I am currently on the boards of the American Medical Group Association and Puget Sound Health Partners and past chair of the Pierce-Metro American Heart Association Board of Directors. I am also a member of the Washington State Office of Insurance Commissioner's Advisory Committee on Health Care Administrative Simplification.

Prior to joining NPN, I had 11 years of experience in the greater health care field in provider and health insurance organizations. The following is a chronology of that experience:

- 1995-1998: Unified Physicians of Washington, Associate Director of Networks and Contracts
- 1990-1995: Franciscan Health Services Northwest, Director, Managed Care
- 1986-1990: Sisters of Providence Health Plans of Washington, Group Services Manager.

I graduated from Oregon State University in 1967 with a B.A. degree.

Working within both physician and hospital organizations and health insurance entities has given me a well rounded experience in the elements essential to serving on the board of a health insurance contractor like Puget Sound Health Partners ("PSHP") and helping to ensure its success.

**3. Form A.** I have reviewed, and hereby confirm, paragraph 3 of the declaration (the "PSHP Declaration") made by April Golenor, the Chief Executive Officer of PSHP regarding the original and amended Form A Statements filed on behalf of NPN and Physicians of Southwest Washington, LLC ("PSW"), and the proposed acquisition by NPN and PSW of HMSO's shares in PSHP.

**4. Applicant's Organization and Membership.** NPN is a member-owned, manager-managed limited liability company formed and existing under the laws of Washington State. It conducts business as an independent physicians association with its principal office in Tacoma. Its member physicians have practices based in Pierce, King and Kitsap Counties. 73 of its members are primary care specialists and 171 practice in other specialties. No member physician holds a 10% or greater voting interest in PSW.

**5. Acquisition of HMSO's Stock in PSHP under the Stock Purchase Agreement.** NPN and PSW have similar perspectives and plans for PSHP. NPN and PSW have always understood that in order for a health plan to prosper, it must be appropriately capitalized and must demonstrate sustained, managed growth. From the outset it was clear to both NPN and PSW 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 affect the capital needs of the health plan. NPN's and PSW's sustained belief in PSHP's future has been manifest by the voluntary additional investment by Applicants 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 HMSO's ownership interest in PSHP, which purchase is the basis of the pending application. In other words, the Applicants' initial and continued investments demonstrate that they are committed to the long term future of PSHP.

HMSO was clear from the beginning that their organization, unlike NPN or PSW, 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 any other Medicare Advantage ("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.

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. HMSO has recently entered into a provider network agreement with PSHP for 2010. 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. From the

above it is clear that NPN and PSW support competition in the marketplace. Both Applicants believe that PSHP is a key participant in assuring that consumers have a choice of plans.

While NPN and PSW have the same perspectives and goals for PSHP, it has become clear over the past eighteen months that HMSO does not share those aims. It has become clear that the fundamental priorities of our three organizations are not aligned. In particular, HMSO does not support growth of enrollment at this time and is unwilling to make further financial investments in PSHP as may be required to sustain growth as 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 by seven out of the nine of the PSHP directors. This structure can only work with alignment of the values of the shareholders. Not only are the shareholders in disagreement about PSHP's long term goals, but the three HMSO directors have regularly voted in opposition to the other six board members. The PSHP board is currently held captive by 'supermajority' decision requirements. These control issues can only be relieved through approval of the proposed sale of HMSO's stock in PSHP to NPN and PSW.

NPN and PSW believe that, notwithstanding historical and current business disagreements among the three shareholders, a fair and amicable purchase of the current health plan investment by HMSO has been negotiated and agreed to in the Stock Purchase Agreement made among HMSO, NPN, PSW and PSHP dated as of November 24, 2008 (as amended and extended pursuant to a series of agreed amendments filed with the OIC, the "Stock Purchase Agreement").

NPN and PSW believe that it is appropriate and, indeed, essential that HMSO be allowed to sell its interest in PSHP, since HMSO's remaining ownership is no longer necessary to HMSO's own business, and since HMSO has no long term commitment to ownership of or investment in PSHP to assure its growth and prosperity.

NPN and PSW believe that PSHP is adding significant value to our Medicare enrollees in Washington State and that it plays an important role in assuring a robust competitive market place for such plans.

Following completion of the proposed stock purchase transaction, NPN and PSW would need to modify the articles, bylaws and shareholder agreement of PSHP to reflect the revised, equal shareholdings of NPN and PSW.

**6. Individuals Associated with NPN; NPN's Management.** I am familiar with the persons associated with the Applicant whose biographical affidavits have been submitted to the OIC. My experience with and knowledge about these persons has led me to the opinion that they all, individually and collectively, have the requisite competence, experience and integrity required by law, business, and personal ethics, to successfully manage the operations of the Applicant.

**7. Stock Purchase Agreement.** I am familiar with the Stock Purchase Agreement. Pursuant to the Stock Purchase Agreement, the Applicants propose to acquire HMSO's entire ownership interest in PSHP. The total consideration for the proposed acquisition by the Applicants, based on the number of lives currently enrolled with PSHP through HMSO through the end of 2009, is \$1,304,000. That amount is payable out of the funds in escrow and in cash installments, as reflected in the Stock Purchase Agreement. The closing of the transaction is conditioned upon the receipt of approval of the transaction by the OIC.

**8. Funding of the Stock Purchase.** NPN has already paid out of its own funds \$250,000, representing its one-half share of the "Initial Installment" under the Stock Purchase Agreement. That amount, together with PSW's equivalent payment, is held in escrow. Those funds, and all remaining payments to be made under the Stock Purchase Agreement, have been and will be made from NPN's own funds, without borrowing from any third party.

**9. No Material Change in Business Operations.** NPN and PSW have no current plans to have PSHP declare an extraordinary dividend, or to liquidate PSHP, sell its assets or merge it with another person.

**10. Statutory Approval Criteria.** I am familiar with the Washington statutory framework for the approval of this acquisition and conclude that none of the criteria supporting disapproval exists. I have reviewed,

and hereby confirm, the specific statements and opinions reflected in paragraph 8 of the PSHP Declaration. I further specifically affirm the following:

(a) **Financial Soundness.** NPN has submitted its audited financial statements to the OIC as part of the annual Form B submission. NPN's fiscal year is from January 1st to December 31st. NPN has generated an operating surplus in all but one year since 2000. In 2004 NPN eliminated its deficit and since then has been building a reserve from surpluses generated since 2004. NPN has sufficient cash reserves to meet its ongoing operational needs, including the ability to have invested another \$500,000 in PSHP in the first quarter of 2009 and to meet its planned obligations associated with the Stock Purchase Agreement, which agreement is reflected in the Form A application. NPN has an established ongoing capacity to manage its financial affairs as an independent physicians association, including but not limited to fulfilling its shareholder responsibilities to PSHP and to contracting with PSHP and Molina Healthcare under global capitation agreements.

(b) **Management of NPN.** NPN is managed by a managing board consisting of 12 managing members elected by the organization's membership. I am familiar with all of those individuals and believe they are persons having the requisite integrity, experience and competence to manage the Applicant.

(c) **Public Interest.** The proposed acquisition will not be hazardous or prejudicial to the general public or, specifically, persons seeking health insurance coverage under Medicare Advantage Plans. On the basis of my testimony above and that of Mariella Cummings for PSW and April Golenor for PSHP, including our testimony as to the financial strength and resources of NPN, the experience of their management of NPN and PSHP and their plans to continue current business plans and operations of PSHP, I believe this proposed transaction satisfies Washington's statutory criteria and would not be detrimental in any way to the public. NPN has received no objections or concerns regarding the proposed transaction.

I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF WASHINGTON THAT THE FOREGOING IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

DATED July 1, 2009, at Tacoma, Washington.

*Patricia C. Briggs*

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Patricia Briggs

JUL - 2 2009

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

<b>In the Matter of the Proposed</b>	)
<b>Acquisition and Control of:</b>	) 09-0032
	)
<b>PUGET SOUND HEALTH PARTNERS,</b>	) CLOSING STATEMENT OFFERED
<b>INC.,</b>	) ON BEHALF OF PHYSICIANS OF
	) SOUTHWEST WASHINGTON, LLC,
By	) NORTHWEST PHYSICIANS
	) NETWORK OF WASHINGTON, LLC,
<b>NORTHWEST PHYSICIANS</b>	) AND PUGET SOUND HEALTH
<b>NETWORK OF WASHINGTON, LLC,</b>	) PARTNERS, INC.
<b>and PHYSICIANS OF SOUTHWEST</b>	)
<b>WASHINGTON, LLC,</b>	)
	)
<b>Applicants.</b>	)
	)

In adopting Chapter 48.31C, Revised Code of Washington, the legislature established a two-step process for reviewing an acquisition of control of a domestic health carrier. As a first step, the applicants are required to submit detailed and verified information to the Office of the Insurance Commissioner. The Insurance Commissioner reviews this information, provided in a "Form A" application, to determine if any basis exists for disapproving the transaction. The commissioner may request additional information, pose questions to the involved parties and otherwise take steps to confirm the completeness and reliability of the information provided by the applicants and other persons.

The second stage is a hearing conducted by the commissioner or his designee. RCW 48.31C.030(5)(a) provides that "the commissioner shall approve an acquisition of control referred to in subsection (1) of this section unless, after a public hearing thereon, he or she finds" one of the two identified bases for disapproval set forth in that statute.

The Hearing Officer is intimately familiar with those statutory criteria, having identified each of them in the Notice of Hearing. In addition, the parties have addressed them today in opening statement and testimony, so I will not repeat them here.

Insofar as the first stage of the review process is concerned, Mr. Pastuch has testified that the Applicants' Form A and Amended Form A and the information provided by all involved parties is complete. Further, Mr. Pastuch, on behalf of the commissioner, has recommended that the acquisition be approved and has proposed a form of Stipulation and Agreed Order. That proposed order is subject to: (a) the terms of the "Agreement Regarding Approval of Application for Acquisition of Controlling Interest in Puget Sound Health Partners" and (b) the Hearing Officer's approval of such proposed Stipulation and Agreed Order.

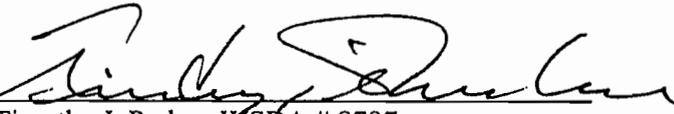
Insofar as the statutory criteria are concerned, all of the testimony this morning is consistent that neither of the bases for disapproval exists.

On behalf of the Applicants, I respectfully request that the Hearing Officer approve the acquisition on behalf of the OIC.

Thank you.

DATED this 1 day of July, 2009.

CARNEY BADLEY SPELLMAN, P.S.

By 

Timothy J. Parker, WSBA # 8797

Jon M. Schorr, WSBA # 2176

Michael J. Havers, WSBA # 10652

Attorneys for Northwest Physicians Network of  
Washington, LLC, Physicians of Southwest  
Washington, LLC, and Puget Sound Health  
Partners, Inc.

**FILED**

**JUL - 2 2009**

**Hearing Unit, OIC  
Patricia O. Petersen  
Chief Hearing Officer**

**BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER**

**In the Matter of the Proposed  
Acquisition and Control of:** )  
 ) **09-0032**

**PUGET SOUND HEALTH  
PARTNERS, INC.,** ) **CERTIFICATE OF SERVICE**

by )

**NORTHWEST PHYSICIANS  
NETWORK OF WASHINGTON,  
LLC, and PHYSICIANS OF  
SOUTHWEST WASHINGTON, LLC,** )

**Applicants.** )

I hereby certify that I have this day served copies of the following documents upon the parties of record below in this proceeding as follows:

Email and US First Class Mail Copy Only:

James J. Fredman III, Attorney  
Foster Pepper PLLC  
1111 Third Avenue  
Seattle, WA 98101-3299

Email: fredj@foster.com

Email and US First Class Mail Copy Only:

Wendy Galloway  
Administrative Assistant  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

Email: wendyg@oic.wa.gov

Email and US Express Mail

Patricia D. Petersen, Chief Hearing Officer  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

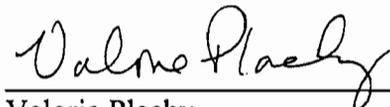
Email: wendyg@oic.wa.gov

Email and US First Class Mail Copy Only:

Christopher G. Emch  
Foster Pepper & Shefelman  
1111 Third Ave., Ste. 3400  
Seattle, WA 98101

Email: emchc@foster.com

DATED this 2<sup>nd</sup> day of July, 2009.

  
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Valorie Plachy