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BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed)	
Acquisition and Control of:)	Docket No. 09-0032
)	
PUGET SOUND HEALTH PARTNERS,)	FINAL ORDER APPROVING
INC.,)	ACQUISITION
)	
by)	
)	
NORTHWEST PHYSICIANS)	
NETWORK OF WASHINGTON, LLC,)	
and PHYSICIANS OF SOUTHWEST)	
WASHINGTON, LLC,)	
)	
Applicants.)	
)	

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AND TO: Mike Kreidler, Insurance Commissioner
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James T. Odiorne, Deputy Commissioner, Company Supervision Div.
Carol Sureau, Deputy Commissioner, Legal Affairs Division
Andrea Philhower, Staff Attorney, Legal Affairs Division
Ronald Pastuch, Holding Company Manager, Company Supervision
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I. INTRODUCTION

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31C.030, and Chapter 284-18 WAC, and after notice to interested parties and persons (see notice detailed below), the above-entitled matter came on regularly for hearing before the undersigned commencing at 10:00 a.m. on July 10, 2009, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501. All persons to be affected by the above-entitled matter were given the right to be present at such hearing, during the presentation of testimony, and had reasonable opportunity to inspect all documentary evidence, to examine witnesses and present oral and written statements. The Insurance Commissioner was represented by Andrea Philhower, Esq., Staff Attorney in his Legal Affairs Division. During prehearing conferences in this matter, and as indicated in the Form A, the Notices of Appearance and statements of counsel during prehearing conference, the carrier whose shares are proposed to be sold, Puget Sound Health Partners, Inc., was represented by Jon M. Schorr, Esq. and Timothy J. Parker, Esq. of Carney Badley Spellman P.S. in Seattle. The Applicants, Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC

FINAL ORDER APPROVING ACQUISITION

were represented by Michael J. Havers, Esq. of the same firm. However, at some time prior to the hearing herein, Messrs. Schorr and Parker began to represent all three entities (Puget Sound Health Partners, Inc., Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC). For this reason, at the request of the undersigned, on July 17, 2009, Mr. Schorr filed a Notice of Appearance on behalf of himself and Mr. Parker stating that effective July 1, 2009 Messrs. Schorr and Parker represent the two Applicants as well as Puget Sound Health Partners, Inc. A review of the Notice of Appearances filed herein indicates that Mr. Havers remains counsel for just the Applicants. Highline Medical Services Organization, Inc. was represented by James Fredman, Esquire of Foster Pepper PLLC in Seattle.

II. NATURE OF PROCEEDING

Pursuant to RCW 48.31C.030, on November 26, 2008, Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC, filed a preacquisition notification with the Insurance Commissioner ("Form 'A' Statement Regarding the Acquisition of Control of a Domestic Insurer") and on February 18, 2009, filed an Amended Form A. By filing said Form A, the Applicants are requesting approval of their proposed acquisition and change of control of Puget Sound Health Partners, Inc. as described below, and as further set forth in detailed documents included in the hearing file and published in their entirety on the Insurance Commissioner's website at http://www.insurance.wa.gov/orders/hearings_proceedings.shtml. Briefly, Puget Sound Health Partners, Inc. was founded in 2006 by Northwest Physicians Network of Washington, LLC, Physicians of Southwest Washington, LLC and Highline Medical Services Organization, Inc. each owning 1/3, or 270,000, shares. On February 10, 2009 Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC each properly purchased 50,000 additional shares of Puget Sound Health Partners, Inc. and so currently Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC each own 320,000 shares of Puget Sound Health Partners, Inc. The purpose of this adjudicative proceeding herein is to consider the requests of Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC to purchase all of the shares currently owned by Highline Medical Services Organization, Inc. equally, totaling 135,000 shares each. Should this proposed acquisition be approved, therefore, Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC will each own 455,000 shares and Highline Medical Services Organization, Inc. will no longer own any shares.

On March 17, 2009, the Commissioner designated the undersigned to conduct the adjudicative proceeding herein to receive evidence and arguments presented and to enter the final decision whether this proposed acquisition and change of control should be approved or disapproved, with no input from the Commissioner or members of his staff involved in this case. RCW 48.31C.030, part of the Washington Holding Company Act for Health Care Service Contractors and Health Maintenance Organizations, requires that the Commissioner hold an adjudicative proceeding to examine the evidence and determine whether the proposed acquisition and change of control of Puget Sound Health Partners, Inc. should be approved or disapproved, based on the statutory criteria set forth therein.

III. FINDINGS OF FACTS

Having considered the written and oral evidence presented at the hearing, and the documents filed herein, including the Form A Statement Regarding the Merger and Acquisition of Control of a Domestic Insurer filed with the Commissioner November 26, 2008, the Amended Form A filed February 18, 2009, the exhibits to the Form A and Amended Form A, the testimony of the parties and the entire hearing file, the undersigned finds as follows:

1. The Commissioner has duly and properly appointed the undersigned to conduct the adjudicative proceeding in this matter and to make the final decision herein. The hearing was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied.

2. The entity being proposed to be acquired is Puget Sound Health Partners, Inc. ("PSHP"), a for-profit Health Care Service Contractor as defined in Chapter 48.44 RCW. PSHP is domiciled in Washington, with its headquarters located in Tacoma, Washington. PSHP holds Certificate of Registration No. 500108, issued by the Commissioner in February 2007. PSHP was founded in 2006 by Northwest Physicians Network, LLC (Northwest Physicians"), Physicians of Southwest Washington ("Physicians of Southwest Washington") and Highline Medical Services Organization, Inc. ("Highline"), with each of these entities owning 1/3 of PSHP's issued shares of common stock, totaling 270,000 shares each, since that time. On or about January 23, 2009, PSHP requested approval from the Commissioner for 100,000 additional common shares of PSHP to be issued and sold to Northwest Physicians and Physicians of Southwest Washington. The Commissioner approved said request and issued a Solicitation Permit for Subsequent Financing of a Domestic Health Care Service Contractor, Permit No. 368, to PSHP on February 3, 2009, for the issuance and sale of 50,000 common shares of PSHP common stock to Northwest Physicians and 50,000 shares to Physicians of Southwest Washington at \$10. per share for a total of 100,000 additional shares for the purchase price of \$1,000,000 which has been paid to PSHP. The sale closed on February 10, 2009 and therefore currently Northwest Physicians owns 320,000 shares, Physicians of Southwest Washington owns 320,000 shares, and Highline owns 270,000 shares. [Ex. 1, Form A, Stock Purchase Agreement and Amendments to Stock Purchase Agreement dated December 30, 2008, March 2 and June 17, 2009.]

3. Northwest Physicians, a proposed Purchaser and an Applicant herein, is an independent physicians association in the form of a corporation. Northwest Physicians is domiciled in Washington, with its headquarters located in Tacoma, Washington. Northwest Physicians was formed in mid-1994 and incorporated in Washington in January 1995. Physician membership includes both primary care and specialists. [Ex. 1, Form A.]

4. Physicians of Southwest Washington a proposed Purchaser and an Applicant herein, is an independent physicians association in the form of a limited liability corporation. Physicians of Southwest Washington was established in 1995 and is domiciled in Washington, with its headquarters located in Olympia, Washington. Physicians of Southwest Washington provides utilization and case management on behalf of approximately 64 physicians in the Olympia region plus a network of an additional 130 contracted physicians and ancillary providers. [Ex. 1, Form A.]

5. Highline, the proposed Seller, is a Washington State nonprofit mutual and miscellaneous corporation, incorporated in 1993. Highline is organized as a Physician Hospital Organization, represents a network of primary care providers and specialists throughout Southwest King County and provides comprehensive inpatient and outpatient services. Its purposes include the operation of an integrated delivery system on a risk contract basis. As a Physician Hospital Organization, Highline has physician members and a hospital member. Highline's physician members consist of local primary care and specialist physicians and a physician group. Highline Medical Center, in Burien, Washington, is the sole hospital member. Highline maintains risk based medical services contracts with multiple insurance companies, including PSHP. Highline is fully delegated under each of its risk contracts for claims management and utilization. Its President is Karen Lee, and its board consists of elected physician members and appointed hospital representatives. [Ex. 1, Form A.]

6. Each of the two Applicants propose to acquire the 270,000 total shares of PSHP common stock currently owned by Highline (135,000 shares to be owned by each Applicant), and thereby to consolidate the control of PSHP from three shareholders to two shareholders. Pursuant to the Stock Purchase Agreement entered into by the parties on November 24, 2008 and Amendments to Stock Purchase Agreement dated December 30, 2008, March 2, 2009 and June 17, 2009, copies of which are included in the hearing file and published on the Commissioner's website, to purchase these additional shares the Applicants would pay to Highline an initial one time payment at time of approval, if any, of \$500,000 plus quarterly payments thereafter ranging from 10,000 and 95,000 depending upon the number of lives then enrolled in PSHP, for a total purchase price of between \$620,000 and \$1,640,000. These funds are to come from Applicants' cash reserves. [Ex. 1, Form A.] Should this proposed acquisition be approved, Northwest Physicians and Physicians of Southwest Washington would jointly control PSHP with each owning 50% of its outstanding shares: specifically, whereas now Northwest Physicians owns 320,000 shares, Physicians of Southwest Washington owns 320,000 shares and HMSO owns 270,000 shares, should this proposed acquisition be approved Northwest Physicians and Physicians of Southwest Washington would each own 455,000 shares and Highline would no longer have any ownership interest. PSHP itself would continue to hold the same 290,000 unissued shares it currently owns. [Ex. 1, Form A, Stock Purchase Agreement and Amendments thereto.]

7. PSHP has agreed to be acquired by Applicants. [Ex. 1, Form A, Stock Purchase Agreement and Amendments thereto.]

8. Pursuant to RCW 48.31C.030, on November 26, 2008 the Applicants filed their abovereferenced Form A and on February 18, 2009 filed their Amended Form A. Said Form A, as amended, was filed over 60 days prior to the proposed effective date of the proposed acquisition. In response to additional instructions from the Commissioner, and later requests from the undersigned, additional documents material to a proper review of this proposed transaction were filed by Applicants and included in the Form A, as amended. By agreement of the Commissioner and Applicants, said Form A, as amended, were entered into evidence in this proceeding together as Exhibit 1. These documents include 1) substantial information and numerous agreements concerning this proposed acquisition as required by RCW 48.31C.030 and in accordance with RCW 48.31C.030(2), including the Stock Purchase Agreement dated November 24, 2008 and Amendments thereto dated December

30, 2008, March 2 and June 17, 2009; and 2) extensive and detailed information and agreements relative to the issues which must be the subject of findings pursuant to RCW 48.31C.030(5), biographical information of all persons whom the Applicants assert are either 1) directors; 2) executive officers; or 3) owners of ten percent or more of the voting securities of the Applicants and other information as required by RCW 48.31C.030.

9. After the proposed acquisition and change of control, PSHP will continue to be able to satisfy the requirements for registration as a health care service contractor. [Testimony of Ronald Pastuch; Ex. 1.]

10. Neither the Antitrust Division of the Office of the Attorney General or any federal antitrust enforcement agency has chosen to undertake a review of the proposed acquisition and the OIC pursuant to his own review has found that there is not substantial evidence that the effect of the acquisition may substantially lessen competition or tend to create a monopoly in the health coverage business. Pursuant to June 26, 2009 email to the Antitrust Division of the Attorney General's Office regarding this proposed acquisition, based on the information given to that office by the OIC, the Antitrust Division of the Attorney General's Office in its July 9, 2009 letter to the OIC concludes that there does not appear to be sufficient evidence to conclude that the proposed transaction raises competitive concerns that would warrant further review by the Attorney General's Office although that office advises that it has not had the opportunity to have full discussions with individuals from the Federal Center for Medicare and Medicaid Services. [Ex. 2.] For the reason that the Antitrust Division of the Attorney General's Office has chosen not to undertake a review of the proposed acquisition, the OIC has conducted his own review. [Ex. 1, Form A including Declaration of Pastuch; Testimony of Pastuch.]

11. There is not substantial evidence to the effect that the proposed acquisition may substantially lessen competition or tend to create a monopoly in the health coverage business. PSHP's business includes less than 9% of the health coverage market in the region in which it operates. [Ex. 1, Form A including Declaration of Pastuch; Testimony of Pastuch.]

12. The financial condition of the Applicants is not such as might jeopardize the financial stability of PSHP, or prejudice the interest of its subscribers. [EX. 1, Form A including Declaration of Pastuch; Testimony of Pastuch.]

13. After completion of this proposed acquisition, the Applicants have no plans or proposals to liquidate PSHP, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management which are unfair or unreasonable to subscribers of PSHP or not in the public interest. [Ex. 1, Form A including Declaration of Pastuch; Testimony of Patricia Briggs, CEO; Testimony of Mariella Cummings, CEO; Testimony of Pastuch.] The only changes Applicants anticipate are those to accommodate the result that Highline will no longer be an owner of PSHP and therefore will no longer have position(s) in the corporate structure of PSHP. [Testimony of Briggs, CEO; Testimony of Cummings, CEO.]

14. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of PSHP are not such that it would not be in the interest of subscribers of the

health carrier and of the public to permit the proposed acquisition. [Ex. 1, Form A including additional Biographical Affidavits filed by Applicants up until the date of hearing herein and Declaration of Pastuch; Testimony of Briggs, CEO; Testimony of Cummings, CEO; Testimony of Pastuch.]

15. It is not likely that the proposed acquisition is not likely to be hazardous or prejudicial to the insurance-buying public. [Ex. 1, Form A including Declaration of Pastuch; Testimony of Pastuch.]

16. As indicated in the subject Notice of Hearing, all interested parties were given the opportunity to submit any comments on, or objections to, this proposed acquisition to the undersigned until the day prior to the hearing on July 10, 2009 by fax, U.S. Mail, personal delivery, or e-mail. All interested parties were also advised in said Notice of Hearing that they would be given the opportunity to present evidence at hearing and to examine and cross-examine witnesses and offer oral and written arguments, and in connection therewith to conduct discovery proceedings. The Notice of Hearing, which contains information concerning this proposed acquisition and the public hearing thereon, was published in its entirety on the Washington State Insurance Commissioner's website on June 12, 2009 and continuously from that time until at least the date of the hearing herein. This Notice constitutes reasonable and adequate notice to interested parties. [Ex. 1; Testimony of Pastuch; Declaration of Pastuch.]

17. Neither the OIC or the undersigned received any objections of any kind to this proposed acquisition. [Testimony of Pastuch; Declaration of Pastuch.]

18. Witnesses appearing on behalf of the OIC were Ronald J. Pastuch, Holding Company Manager in the OIC's Company Supervision Division. Mr. Pastuch presented his testimony in a detailed and credible manner with no apparent biases.

19. Ms. Patricia Briggs, CEO of Northwest Physicians Network LLC, appeared as a witness on behalf of Applicant Northwest Physicians Network LLC. Ms. Briggs presented her testimony in a detailed and credible manner with no apparent biases.

20. Ms. Mariella Cummings, CEO of Physicians of Southwest Washington, appeared as a witness on behalf of Applicant Physicians of Southwest Washington. Ms. Cummings presented her testimony in a detailed and credible manner with no apparent biases.

21. Ms. April Golenor, CEO of PSHP appeared as the witness on behalf of PSHP. Ms. Golenor presented her testimony in a detailed and credible manner with no apparent biases.

22. It is here found that it is reasonable that the proposed acquisition contemplated herein should be approved effective immediately.

IV. CONCLUSIONS OF LAW

The undersigned, having made the above Findings of Fact, hereby makes the following Conclusions of Law:

FINAL ORDER APPROVING ACQUISITION

1. Pursuant to Chapter 48.31C RCW, the Insurance Commissioner has jurisdiction over the proposed plan of acquisition and change of control of Puget Sound Health Partners, Inc. which is the subject of the adjudicative proceeding herein.
2. On November 26, 2009, Puget Sound Health Partners, on behalf of Northwest Physicians Network and Physicians of Southwest Washington, filed a preacquisition statement, Form A Statement for the Approval of the Acquisition of Control of Puget Sound Health Partners, Inc., which is a sufficient period before the requested effective date of this proposed acquisition, as required by RCW 48.31C. On January 9, 2009, Puget Sound Health Partners, Inc. filed the original Form A application with signature. The preacquisition notification, Form A, contains the information required by RCW 48.31C. On February 18, 2009, Puget Sound Health Partners, Inc. filed an Amendment and Fully Stated Form A dated February 2, 2009 with the additional information requested in the OIC's December 17, 2008 deficiency letter. Subsequently, the OIC determined this filing, including additional Biographical Affidavits and other documents as requested by the OIC, to be complete and on March 17, 2009, the OIC requested that the undersigned schedule a hearing in this matter and make the final decision herein.
3. After the proposed acquisition of control, Puget Sound Health Care, Inc. continue to be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which the company is presently licensed as contemplated by RCW 48.31C.030.
4. The effect of this proposed acquisition of control of Puget Sound Health Care, Inc. would not be substantially to lessen competition in insurance in this state or to create a monopoly therein as contemplated by RCW 48.31C.030.
5. The financial condition of the Applicants is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of Puget Sound Health Care, Inc. or prejudice the interests of Puget Sound Health Care, Inc. subscribers as contemplated by RCW 48.31C.030.
6. After completion of this proposed acquisition, there are no plans to liquidate Puget Sound Health Care, Inc., sell its assets, consolidate or merge it with any person, or make any other material change in its business or corporate structures or management which are unfair and unreasonable to subscribers of Puget Sound Health Care, Inc. or not in the public interest as contemplated by RCW 48.31C.030.
7. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of Puget Sound Health Care, Inc. after the proposed acquisition are such that it would not be in the interest of Puget Sound Health Care Inc.'s subscribers and of the public to permit the acquisition of control as contemplated by RCW 48.31C.030.
8. It is not likely that this proposed acquisition of Puget Sound Health Care, Inc. is hazardous or prejudicial to the insurance-buying public as contemplated by RCW 48.31C.030.

9. The application of the Applicants, Physicians of Southwest Washington LLC and Northwest Physicians Network LLC, for approval of their proposed acquisition of control of Puget Sound Health Care, Inc. should be approved.

10. The provisions of the Insurance Code of the State of Washington, Chapter 48.31C RCW, and specifically RCW 48.31C.030 governing the approval of acquisitions of Health Care Service Contractors, have been met. Pursuant to Chapter 48.31C RCW, and specifically RCW 48.31C.030, the application of the Applicants, Physicians of Southwest Washington LLC and Northwest Physicians Network, LLC, for approval of their proposed acquisition of control of Puget Sound Health Care, Inc., wherein Applicant Physicians of Southwest Washington LLC will increase its ownership of the total issued and outstanding shares of Puget Sound Health Care, Inc. from 35.16% to 50% and Applicant Northwest Physicians Network, LLC will increase its ownership of the total issued and outstanding shares of Puget Sound Health Care, Inc. from 35.16% to 50%, should be approved.

V. FINAL ORDER

Based on the Findings of Fact and Conclusions of Law, to the effect that the statutory criteria for approval of this proposed acquisition have been met, and to the effect that the approval of this proposed acquisition should be granted,

IT IS HEREBY ORDERED that the application of Physicians of Southwest Washington, LLC and Northwest Physicians Network, LLC for approval of their proposed acquisition of control of Puget Sound Health Care, Inc., wherein Applicant Physicians of Southwest Washington, LLC will increase its ownership of the total issued and outstanding shares of Puget Sound Health Care, Inc., from 35.16 % to 50% and Applicant Northwest Physicians Network, LLC will increase its ownership of the total issued and outstanding shares of Puget Sound Health Care, Inc. from 35.16% to 50%, is hereby approved effective immediately. Closing of this transaction may be effectuated at any time.

ENTERED this 21st day of July, 2009 at Tumwater, Washington, pursuant to Title 48 RCW, and particularly RCW 48.04 and RCW 48.31C.030, Title 34 RCW, and regulations applicable thereto.



PATRICIA D. PETERSEN
Presiding Officer
Chief Hearing Officer

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: Michael Havers, Jon Schorr, Timothy Parker, April Golenor, Patricia Briggs, Mariella Cummings, James Fredman, Karen Lee, James Odiorne, Carol Sureau, Andrea Philhower and Ronald Pastuch and forwarded a PDF copy electronically as requested to Insurance Commissioner Mike Kreidler and Mike Watson.

DATED this 22 day of July, 2009.



WENDY GALLOWAY