

STATE OF WASHINGTON

Phone: (360) 725-7000

MIKE KREIDLER  
STATE INSURANCE COMMISSIONER



OFFICE OF  
INSURANCE COMMISSIONER

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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,	)	NOTICE OF HEARING
INC.,	)	
	)	
by	)	
	)	
NORTHWEST PHYSICIANS	)	
NETWORK OF WASHINGTON, LLC,	)	
and PHYSICIANS OF SOUTHWEST	)	
WASHINGTON, LLC,	)	
	)	
Applicants.	)	
	)	

**TO:** Michael J. Havers, Esq.  
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**AND TO:** Mike Kreidler, Insurance Commissioner  
Mike Watson, Chief Deputy Insurance Commissioner  
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  
Office of the Insurance Commissioner  
PO Box 40255  
Olympia, Washington 98504-0255

### **NATURE OF PROCEEDING**

Pursuant to RCW 48.31C.030, on November 26, 2008, Northwest Physicians, LLC and Physicians of Southwest Washington, LLC (together referred to as the "Applicants" where appropriate) 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. ("PSHP") 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](http://www.insurance.wa.gov/orders/hearings_proceedings.shtml).

On March 17, 2009, Ronald J. Pastuch, CPA, Holding Company Manager in the Insurance Commissioner's Company Supervision Division, deemed the Form A as amended to be complete, and on March 17, 2009 transmitted said Form A to the undersigned with the request that an adjudicative proceeding be held to receive evidence and arguments presented and to enter the final

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decision concerning whether this proposed acquisition and change of control is approved or disapproved.

### **DETAILS OF PROPOSED ACQUISITION AND CHANGE OF CONTROL**

Northwest Physicians Network, LLC (“Northwest Physicians”), a proposed Purchaser, 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.

Physicians of Southwest Washington, LLC (“Physicians of Southwest Washington”), a proposed Purchaser, 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.

Highline Medical Services Organization, Inc., (“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 Puget Sound Health Partners, Inc. 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.

Puget Sound Health Partners, Inc. is a for-profit Health Care Service Contractor as defined in Chapter 48.44 RCW. Puget Sound Health Partners, Inc. is domiciled in Washington, with its headquarters located in Tacoma, Washington. Puget Sound Health Partners, Inc. holds Certificate of Registration No. 500108, issued by the Commissioner in February 2007. Puget Sound Health Partners, Inc. was founded in 2006 by Northwest Physicians, Physicians of Southwest Washington and Highline, with each of these entities owning 1/3 of Puget Sound Health Partners Inc.’s issued shares of common stock, totaling 270,000 shares each, since that time. On or about January 23, 2009, Puget Sound Health Partners, Inc. requested approval from the Commissioner for 100,000 additional common shares of Puget Sound Health Partners, Inc. 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 Puget Sound Health Partners, Inc. on February 3, 2009, for the issuance and sale of 50,000 common shares of Puget Sound Health Care, Inc. 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 Puget Sound Health Partners, Inc. 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 HMSO owns 270,000 shares.

In this proposed acquisition, Northwest Physicians and Puget Physicians of Southwest Washington propose to acquire the 270,000 total shares of Puget Sound Health Partners, Inc. common stock currently owned by Highline, and thereby to consolidate the control of Puget Sound Health Partners, Inc. from three shareholders (Northwest Physicians, Physicians of Southwest Washington and HMSO) to two shareholders (Northwest Physicians and Physicians of Southwest Washington). Pursuant to the Stock Purchase Agreement entered into by the parties on November 24, 2008 and Amendments thereto dated December 30, 2008 and March 2, 2009 (and which is currently being updated to account for the scheduled hearing date), copies of which are included in the hearing file and published on the Commissioner's website, to purchase these additional shares 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 Puget Sound Health Partners, Inc. for a total purchase price of between \$620,000 and \$1,640,000. Should this proposed acquisition be approved, Northwest Physicians and Physicians of Southwest Washington would jointly control Puget Sound Health Partners, Inc. and 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 405,000 shares and Highline would no longer have any ownership interest. Puget Sound Health Partners, Inc. itself would continue to hold the same 290,000 unissued shares it currently owns.

Pursuant to RCW 48.31C.030, the abovereferenced Form A and Amended Form A shall be entered as evidence herein. 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 and March 2, 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 who are directors, executive officers or owners of ten percent or more of the voting securities of the Applicants and other information as required by RCW 48.31C.030.

Pursuant to 48.31C.030(5), first, the Commissioner shall approve an acquisition of a domestic Health Care Service Contractor unless he finds that 1) after the change of control, the domestic Health Care Service Contractor would not be able to satisfy the requirements for registration as a Health Care Service Contractor in Washington; or 2) the antitrust section of the Office of the Attorney General and any federal antitrust enforcement agency has chosen not to undertake a review of the proposed acquisition and the Commissioner pursuant to his own review finds that there is substantial evidence that the effect of the acquisition may substantially lessen competition or tend to create a monopoly in the health coverage business. Second, the Commissioner may not disapprove the acquisition if the Commissioner finds that: 1) the acquisition will yield substantial economies of scale or economies in resource use that cannot be feasibly achieved in any other way, and the public benefits that would

arise from the economies exceed the public benefits that would arise from more competition; or 2) the acquisition will substantially increase or will prevent significant deterioration in the availability of health care coverage, and the public benefits of the increase exceed the public benefits that would arise from more competition. Third, the Commissioner may condition the approval of the acquisition on the removal of the basis of disapproval, as follows, within a specified period of time: 1) the financial condition of an acquiring party is such as might jeopardize the financial stability of the Health Care Service Contractor, or prejudice the interest of its subscribers; 2) the plans or proposals that the acquiring party has to liquidate the Health Care Service Contractor, 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, are unfair and unreasonable to subscribers of the Health Care Service Contractors and not in the public interest; 3) the competence, experience, and integrity of those person who would control the operation of the Health Care Service Contractor are such that it would not be in the interest of subscribers of the Health Care Service Contractor and of the public to permit the acquisition of control; or 4) the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

Guided by the issues presented in RCW 48.31C.030(5)(a) set forth above, the parties are advised that the Insurance Commissioner is expected to testify as to whether he has given reasonable advance notice to the public of the hearing scheduled herein and whether he or any members of his staff have received any objections or concerns relative to this proposed transaction and provide details of these objections or concerns. The Insurance Commissioner is also expected to testify as to the conclusions he has reached during his examination of the subject Form A, as amended, insofar as they relate to the above stated issues. An authorized representative of each of the two Applicants is expected to testify as to the above stated issues and as to whether either has received any objections or concerns regarding the proposed transaction and provide details of these objections or concerns. Finally, a duly authorized representative of Puget Sound Health Partners, Inc. is expected to testify as to the above stated issues and as to whether it has received any objections or concerns relative to the proposed transaction. The representatives of these entities must be duly authorized, such as officers or directors and not outside counsel. While live testimony from the Insurance Commissioner, the Applicants and Puget Sound Health Partners, Inc. will be taken during the hearing as to the above identified issues, written declarations from those parties must be filed at least five working days prior to the date of the hearing. Further, oral opening statements and closing arguments from the Applicants and Puget Sound Health Partners, Inc. are expected, along with written opening statements and closing arguments, to be filed at least five working days prior to the date of the hearing. Said written documents will be published on the Commissioner's website when received. Finally, the Applicants are requested to submit a single proposed Findings of Facts, Conclusions of Law and Order at the time of the hearing.

### **NOTICE**

**YOU ARE HEREBY NOTIFIED that a hearing will be held commencing at 10 a.m., Pacific Standard Time, on Friday, July 10, 2009, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the proposed acquisition of 135,000 additional shares of Puget Sound Health Partners, Inc. common stock by Northwest Physicians Network of Washington, LLC, and 135,000 additional shares of Puget Sound Health Partners, Inc.,**

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common stock by Physicians of Southwest Washington, LLC, the Applicants herein, from Highline Medical Services Organization, Inc., which would create a change of control of Puget Sound Health Partners, Inc. from the Applicants and Highline Medical Services Organization, Inc. each owning 1/3 of the shares of Puget Sound Health Partners, Inc. (until February 10, 2009 when 320,000 shares each became owned by Applicants and Highline Medical Services Organization, Inc., remained owning 270,000 shares) to Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC each owning ½ of the total ownership, or 455,000 shares, of common stock of PSHP and Highline Medical Services Organization, Inc. no longer owning any shares.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and specifically RCW 48.31C.030, and shall have as its purpose consideration of Northwest Physicians and Physicians of Southwest Washington, LLC's application for approval of their proposed acquisition and control of Puget Sound Health Partners, Inc.

**YOU ARE FURTHER NOTIFIED that all interested individuals and entities may submit written comments on, or objections to, this proposed acquisition to the undersigned. Said comments or objections, which will be included in the hearing record and will be considered by the undersigned prior to her making her final decision, must be submitted by 5:00 p.m., Pacific Standard Time, on Thursday, July 9, 2009, by fax, U.S. mail, personal delivery, or e-mail. The fax number of the undersigned is (360) 664-2782, her mailing address is PO Box 40255, Olympia, WA 98504-0255, her delivery address is 5000 Capitol Boulevard, Tumwater, Washington 98501, and the e-mail address for her Paralegal, Wendy Galloway, is [Wendyg@oic.wa.gov](mailto:Wendyg@oic.wa.gov). YOU ARE FURTHER NOTIFIED that, pursuant to RCW 48.31C.030(4), any person whose interest is or might be affected may present evidence, examine and cross-examine witnesses, and offer oral and written arguments, and in connection therewith may conduct discovery proceedings as authorized by Title 34 RCW.**

Finally, all parties may participate in the hearing. They may examine witnesses and fully respond and present evidence and argument on all issues involved, as required by the Administrative Procedure Act. The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW.

The Commissioner will be represented by Andrea L. Philhower, Esq., Staff Attorney in his Legal Affairs Division, 5000 Capital Blvd., Tumwater, Washington, and can be reached at (360) 725-7063 or [AndreaP@oic.wa.gov](mailto:AndreaP@oic.wa.gov). Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, L.L.C. will be represented by Michael J. Havers, Esq., and Puget Sound Health Partners, Inc. will be represented by Jon M. Schorr, Esq. and Timothy J. Parker, Esq., all of Carney Badley Spellman P.S., 701 Fifth Avenue, Suite 3600, Seattle, Wa. 98104. They all can be reached at (206) 622-8020. Highline Medical Services Organization, Inc. will be represented by James J. Fredman, Esq. and Christopher G. Emch, Esq. of Foster Pepper PLLC, 1111 Third Avenue, Suite 3400, Seattle, Wa. 98101. Messrs. Fredman and Emch can be reached at (206) 447-2909.

Based upon a delegation of authority from the Commissioner, the undersigned will conduct the hearing and will make the final decision and enter the final Order (in the form of Findings of Facts,

Conclusions of Law and Final Order as required) relative to this matter without input from the Insurance Commissioner or his staff or any other individual who has knowledge of the issues herein, except as will be presented as evidence in the hearing. Her address is P.O. Box 40255, Olympia, WA 98504-0255 and her telephone number is (360) 725-7105. All questions or concerns should be directed to Wendy Galloway, Paralegal to the undersigned, who may be reached at the telephone, e-mail and fax number specified above.

On March 27, 2009, the undersigned held a first prehearing conference in this matter. The Commissioner appeared pro se, by and through Andrea L. Philhower, Esq. Northwest Physicians Network of Washington, LLC and Physicians of Southwest Washington, LLC were represented by Michael Havers, Esq., Puget Sound Health Partners, Inc. was represented by Jon M. Schorr, Esq., and Timothy J. Parker, Esq. and Highline Medical Services Organization, Inc. was represented by James J. Fredman, Esq. During said first prehearing conference, the undersigned briefly outlined procedure to be expected at hearing and responded to all questions and concerns of the parties. It was agreed upon by the parties that the Commissioner needed more time to review information submitted by the Applicants and that the filing was then incomplete. Accordingly, on May 6, 2009 the undersigned held a second prehearing conference which included all parties, the Commissioner advised that the Form A was now complete and a hearing date of July 10, 2009 was agreed upon. As stated above, should any party have any further questions or concerns prior to the hearing date, they are advised to telephone or e-mail Wendy Galloway, Paralegal to the undersigned, for assistance or to schedule a third prehearing conference, if necessary, which would again include all parties and the undersigned.

Pursuant to WAC 10-08-040(2) and in accordance with ch. 2.42 RCW, if a limited English-speaking or hearing impaired or speech impaired party or witness needs an interpreter, a qualified interpreter will be appointed. There will be no cost to the party or witness therefore, except as may be provided by ch. 2.42 RCW. Following this Notice is a form you may use to advise the Chief Hearing Officer of your need for an interpreter.

**ENTERED** at Tumwater, Washington, this 10th day of June, 2009, pursuant to Title 48 RCW and specifically 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, Insurance Commissioner Mike Kreidler, Mike Watson, James Odiorne, Carol Sureau, Andrea Philhower and Ronald Pastuch.

DATED this 10th day of June, 2009.

  
WENDY GALLOWAY



OFFICE OF  
INSURANCE COMMISSIONER  
HEARINGS UNIT

Fax: (360) 664-2782

Patricia D. Petersen  
Chief Hearing Officer  
(360) 725-7105

Wendy Galloway  
Paralegal  
(360) 725-7002  
[wendyg@oic.wa.gov](mailto:wendyg@oic.wa.gov)

To request an interpreter, complete and mail this form to:

Chief Hearing Officer  
Office of Insurance Commissioner  
P.O. Box 40255  
Olympia, Washington 98504-0255

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**REQUEST FOR INTERPRETER**

I am a party or witness in Matter No. \_\_\_\_\_, before the Insurance Commissioner. I NEED AN INTERPRETER and request that one be furnished.

Please check the statements that apply to you:

I am a non-English-speaking person. I cannot readily speak or understand the English language. My primary language is \_\_\_\_\_ (insert your primary language). I need an interpreter who can translate to and from the primary language and English.

I am unable to readily understand or communicate the spoken English language because:

- I am deaf.
- I have an impairment of hearing.
- I have an impairment of speech.

[Please state below or on the reverse side any details which would assist the commissioner or presiding officer in arranging for a suitable interpreter, or in providing appropriate mechanical or electronic amplification, viewing, or communication equipment.]

Date: \_\_\_\_\_ Signed: \_\_\_\_\_

Please print or type your name: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_

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