

# **Attachment 19**

## Executive Summary of Contemplated Transactions

## EXECUTIVE SUMMARY

### FORM A STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER TO ACQUIRE CONTROL OF SOUNDPATH HEALTH, INC.

#### I. Summary of Transaction

On October 19, 2012, CollabHealth Plan Services, Inc., a Colorado corporation (“CHPS”), filed a Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (the “Form A”) for approval from the Office of the Insurance Commissioner in Washington (the “OIC”) to acquire control of Soundpath Health, Inc., a Washington health care service contractor (“Soundpath”).

Soundpath is currently owned by Northwest Physicians Network of Washington, LLC (“NPN”) and Physicians of Southwest Washington, L.L.C. (“PSW”). NPN owns 41% and PSW owns 59% of the issued and outstanding shares of Class A stock of Soundpath. NPN and PSW collectively are referred to herein as the “Sellers.”

On October 18, 2012, the parties entered into the following three (3) purchase agreements with respect to the acquisition of shares of stock of Soundpath as well as the assets of Soundpath by CHPS: (a) Stock Purchase Agreement by and among CHPS, Sellers and Soundpath (the “Master Purchase Agreement”); (b) Class R Preferred Stock Purchase Agreement by and among CHPS, Sellers and Soundpath (the “R Shares Stock Purchase Agreement”); and (c) Asset Purchase Agreement by and among CHPS, Sellers and Soundpath (the “Asset Purchase Agreement”).

#### II. Purchase Agreements

##### A. Master Purchase Agreement

Pursuant to the terms of the Master Purchase Agreement and subject to the approval of the OIC and the satisfaction of certain other closing conditions set forth in the Master Purchase Agreement, CHPS agreed to acquire and Sellers agreed to sell 55.60% of the issued and outstanding Class A shares of capital stock of Soundpath (the “Class A Shares”). CHPS will purchase 309,400 Class A Shares from NPN and 196,560 Class A Shares from PSW.

At the closing of the transaction contemplated in the Master Purchase Agreement (the “Closing”), each of NPN and PSW will deposit a portion of the proceeds of the sale of their Class A Shares into separate security reserve accounts that will be controlled jointly with Soundpath. Such amounts in the security reserve accounts will be sufficient to satisfy fully those incurred but not reported claims arising from NPN’s or PSW’s respective capitated Soundpath provider contracts (“IBNR Reserves”) as of the Closing as determined by a third party actuarial analysis. Pursuant to such provider agreements, NPN and PSW will maintain funds in their respective security reserve accounts equal to the IBNR Reserves on an ongoing basis, and the funds in the security reserve accounts will be maintained and disbursed as set forth in the security reserve amendments to such provider agreements.

## **B. R Shares SPA**

Pursuant to the R Shares SPA, Soundpath will authorize the sale and issuance of one thousand (1,000) shares of Class R preferred stock (the "**Class R Shares**") to CHPS. The proceeds from the sale of the Class R Shares the ("**R Share Reserves**") will be maintained as reserves and not used for working capital or for any other purpose.

Class R Shares will be non-voting and, at such times as determined by the Board of Directors of Soundpath (the "**Board**") and upon the approval of the OIC, Soundpath will pay all interest or investment income generated by such reserves to CHPS, except to the extent the same is required to maintain reserves in accordance with applicable legal requirements or the policy established by the Board. Any and all amounts to be paid to CHPS in connection with the Class R Shares will be cumulative.

## **C. Asset Purchase Agreement**

On the Closing Date, CHPS will purchase all of Soundpath's assets that are related to Soundpath's insurance administration capabilities, including without limitation, all assets related to processes, certain intellectual property, rights under personal property leases, real property leases, fixed assets, rights under certain contracts, software and all other assets related to the administration of Soundpath's insurance business (collectively the "**Purchased Assets**"). The Purchased Assets will not include Soundpath's license to engage in the health insurance business in the State of Washington, cash, cash equivalents, reserves, fixed income investments, capital and surplus, the name "Soundpath Health", provider contracts and other contracts related to the delivery of insurance products.

The proceeds of the purchase price will be maintained by Soundpath as reserves to meet Soundpath's required reserves under applicable law.

## **III. Other Agreements**

### **A. Administrative Services Agreement**

At the Closing, CHPS and Soundpath will enter into an Administrative Services Agreement. Pursuant to the Administrative Services Agreement, CHPS will provide administrative services for Soundpath, including but not limited to, care management, claims adjudication, customer service and premium collection. The term of the Administrative Services Agreement is five (5) years. The administration fee payable to CHPS from Soundpath under the Administrative Services Agreement is based upon a fair market value assessment determined by a third party appraiser. This administration fee is adjusted annually based on the Consumer Price Index.

### **B. Employee Leasing Agreement**

CHPS will perform the services under the Administrative Services Agreement through individuals currently employed by Soundpath. At the Closing, Soundpath and CHPS will enter into an Employee Leasing Agreement (the "**Leasing Agreement**") pursuant to which Soundpath will lease its employees to CHPS.

Upon termination of the Leasing Agreement, the Soundpath employees will be employed by CHPS on substantially similar terms as they were employed by Soundpath.

**C. Shareholder Agreement**

At the Closing, NPN, PSW and CHPS will enter into a Shareholders Agreement (the "**Shareholders Agreement**") to provide for continuity and harmony in the management of Soundpath and to make provisions for future dispositions of the Class A Shares.

With respect to disposition of the Class A Shares, the Shareholders Agreement provides for a right of first refusal, tag-along and take-along rights and various put and call rights among the shareholders. In addition, the Shareholders Agreement provides the Sellers with an option to sell their Class A Shares to CHPS for any reason and for a pre-determined purchase price during the period beginning two (2) years after Closing and ending five (5) years after Closing.

In addition, the Shareholders Agreement provides for a Board consisting of nine (9) directors. As of the Closing, CHPS will have the right to elect five (5) directors, PSW may elect three (3) directors and NPN may elect one (1) director.

**D. Loan to NPN**

On October 18, 2012, CHPS made a loan to NPN (the "**Loan**") that was advanced to NPN in two (2) separate tranches. The first advance was made to NPN on October 19, 2012 and the second advance was made to NPN on October 31, 2012. NPN delivered a Promissory Note to CHPS (the "**Note**") that is secured by Class A Shares owned by NPN.

**E. Non-Competition Agreements**

At the Closing, each of NPN and PSW will enter into Non-Competition Agreements (each a "**Non-Competition Agreement**") whereby each of NPN and PSW will agree not to compete against Soundpath. In addition, each Non-Competition Agreement will restrict each of NPN and PSW from soliciting employees of Soundpath or CHPS.

In addition and pursuant to the terms of the Shareholder Agreement, CHPS has agreed that during such time as NPN and PSW own Class A Shares and during such time as Soundpath holds a current and valid license in the State of Washington as a domestic health care service contractor that is a Medicare Advantage health insurance carrier, CHPS will not apply for a Medicare Advantage Agreement with CMS in the State of Washington.

**F. Amendments to Provider Agreements**

At the Closing, NPN and Soundpath will enter into an amendment to NPN's capitated provider agreement with Soundpath, extending the term of such agreement for ninety (90) days from the Closing.

At the Closing, PSW and Soundpath will enter into an amendment to PSW's capitated provider agreement with Soundpath, extending the term of such agreement for five (5) years

from the Closing and to provide for certain terms related to withholding funds from the capitation payment to maintain adequate reserves.

At the Closing, Soundpath and Franciscan Health System, a Washington public benefit corporation and affiliate of CHPS (“FHS”), will enter into an amendment to FHS’s provider agreement with Soundpath, extending the term of such agreement for five (5) years from the Closing.