

ORDER ON PREHEARING CONFERENCE

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AND TO: Stephen J. Bonelli, Chief Financial Officer
Three Arch Mgmt. II, LLC, TAC Mgmt., LLC, Three Arch Mgmt. IV., LLC
3200 Alpine Road
Portola Valley, CA 94028

Barclay Nicholson, Administrative Partner
Three Arch Mgmt. II, LLC, TAC Mgmt., LLC, Three Arch Mgmt. IV., LLC
3200 Alpine Road
Portola Valley, CA 94028

COPY TO: Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, Deputy Commissioner, Company Supervision Div.
Carol Sureau, Deputy Commissioner, Legal Affairs
Charles D. Brown, Senior Staff Attorney, Legal Affairs Division
Ronald J. Pastuch, Holding Company Manager, Company Supervision
Office of the Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

On September 1, 2006, Arcadian Management Services, Inc. (AMS), the parent company of Arcadian Health Plan, Inc., a Washington domiciled health care service contractor, by and through Margaret A. Johnston, Esq., an Arkansas attorney with Mitchell, Williams, Selig, Gates & Woodyard, PLLC in Little Rock, Arkansas, filed an application with the Insurance Commissioner for a solicitation permit in the state of Washington pursuant to RCW 48.06.180, together with a Form A pursuant to RCW 48.31B.015. On February 2, 2007, the Insurance Commissioner transferred this material to the undersigned with the request that a hearing be held thereon.

Accordingly, on February 16, 2007, the undersigned held a first prehearing conference in this matter. The Commissioner was represented by Charles D. Brown, Esq., Senior Staff Attorney with his Legal Affairs Division. AMS, including Arcadian Health Plan, Inc., MSDW Venture Partners IV, LLC, and MSVP 2002 Fund, LLC were represented by Charles B. Cliett, Jr., an Arkansas attorney with Mitchell, Williams, Selig, Gates & Woodyard, PLLC of Little Rock, Arkansas. Several issues have arisen from a review of the documents filed herein and discussion at prehearing conference:

1. No authority to consummate the acquisition. The acquisition of AMS, including Arcadian Health Plan, Inc., which was purported to have occurred on August 17, 2005, was not authorized by the Commissioner, nor was any authorization even sought, in violation of RCW 48.31B.015 and related sections. RCW 48.31B.015(1) requires that:

... No person may enter into an agreement to ... acquire control of a domestic insurer or person controlling a domestic insurer unless, at the time the offer, request, or invitation is made or the agreement is entered into, or before the

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acquisition of the securities if no offer or agreement is involved, the person has filed with the commissioner and has sent to the insurer, a statement containing the information required by this section and the offer, request, invitation, agreement, or acquisition has been approved by the commissioner as prescribed in this section. ... [t]he person shall file a preacquisition notification with the commissioner containing the information set forth in RCW 48.31B.020(3)(a) sixty days before the proposed effective date of the acquisition. Persons who fail to file the required preacquisition notification with the commissioner are subject to the penalties in RCW 48.31B.020(5)(c). Further, RCW 48.31B.015(4)(a) provides that The commissioner shall approve a[n]... acquisition of control ... unless, after a public hearing thereon, he or she finds that ... [numerous specific findings are required, based upon specific testimony of the appropriate parties].

The decision regarding whether the proposed acquisition should or should not be approved is an adjudicative decision based upon numerous statutory criteria specified therein. It was only on September 1, 2006, that the purported buyers and sellers submitted the required information (Form A) and request for approval of this acquisition, nearly one year after the purported consummation of this acquisition.

2. Who are the proposed acquiring parties? The Form A submitted by the proposed purchasers on September 1, 2006, and Amendment No. 1 to the Form A dated February 19, 2007, identify the purchasers as MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC. However, in his March 14, 2007 letter to the undersigned, Attorney Cliett advises that *The detailed chronology requested by Judge Petersen has been included in an Amendment to the Form A Statements submitted on behalf of both sets of applicants – MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC (collectively “MS Venture Partners”) and Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC (collectively “Three Arch Partners”)*. Further, in his April 4, 2007 letter to the undersigned, Attorney Cliett advises *I understand that you would like additional information on why this firm represents both the acquiring parties in this transaction – the Three Arch Partner entities and the Morgan Stanley Venture Fund entities – and the health plan, Arcadian Health Plan (AHP) and its holding company, Arcadian Management Services (AMS).*

Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC are not listed in the Form A and request for approval filed on September 1, 2006, or in the Amendment filed February 19, 2007, as applicants/prospective acquiring parties.

The Form A filed herein must be modified if in fact there are proposed acquiring parties in addition to MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC. Further, as contemplated by RCW 48.31B, all proposed acquiring parties must be specifically identified in detail as to their officers, directors and other management, and the specific purpose and history of these specific entities.

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3. Was the solicitation permit filed timely? AMS, including Arcadian Health Plan, Inc., filed its Application for a Solicitation Permit by letter dated August 31, 2006 filed with the Commissioner on September 1, 2006. In its Application, AMS advises that on August 17, 2005, MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC acquired AMS including Arcadian Health Plan, Inc. Relative to that acquisition, AMS advises that 2,693,544 shares of Series C Preferred Stock were sold at a price of \$7,156 per share for the total amount of \$19,275,000.86. The purpose of said offering was, according to AMS, to raise funds to provide AMS with general working capital including activities such as the expansion of its insurance business and with funds to repurchase stock from shareholders. In its application, AMS further advises that a change of control [of AMS/Arcadian Health Plan, Inc.] was effected by the stock offering and is the subject of a separate Form A filed with the department of even date.

RCW 48.06.180 provides that (1) *No domestic insurer, or insurance holding corporation, ... after (a) it has received a certificate of authority, if an insurer, or (b) it has completed its initial organization and financing if a corporation other than an insurer, shall solicit or receive funds in exchange for any new issue of its corporate securities ... until it has applied to the commissioner for, and has been granted, a solicitation permit.*

4. Should both the proposed acquiring parties and the seller be represented by the same attorney? The undersigned requested Mr. Cliett to submit authority relative to whether he should be permitted to represent both the Applicant for approval of the proposed acquisition (MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC – and possibly others, required to be identified in the Application and Form A – and also the seller, AMS including Arcadian Health Plan, Inc. In his April 4, 2007 letter in response, Mr. Cliett advises that *This firm did not represent any of the parties in relation to the original August 2005 transaction – the negotiation of the stock purchase agreement and other documents that resulted in the Three Arch Partner entities and the Morgan Stanley entities each obtaining more than 10% of the voting securities of AMS [at during second prehearing conference held April 4, 2007 advised that he was unclear who did represent the various parties]. However, we have represented the parties in relation to discussions with the Washington OIC upon the notice last July 5 that it would reject disclaimers of control filed by the Three Arch Partner and Morgan Stanley entities, and in accepting the opportunity offered by the OIC to file Form A statements last summer regarding the transactions that took place in August 2005. ... At the point at which this firm began its joint representation of the parties, each party's interest was aligned and we believe remains aligned – all want to correct regulatory issues and provide the Washington OIC all the information it needs to ratify the August 2005 transactions. The parties all desire to work together toward this goal and the use of a single counsel in these particular circumstances seems appropriate to the parties.*

It appears that, based upon the above information, at this time it is permissible for a single attorney to represent the parties.

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5. Should local Washington counsel be retained? As discussed during the first prehearing conference herein, General Rule 24, Washington Court Rules, provides that administrative tribunals may authorize individuals to act as lay representatives in administrative proceedings. While Rule 24 is interpreted to allow out of state attorneys to represent parties in Washington administrative proceedings, said authorization is in the discretion of the presiding officer. At this time the undersigned has determined that, because of the unusual and serious nature of the issues presented in this particular proceeding, the parties must retain Washington counsel to represent them. The parties' Arkansas counsel may participate throughout the proceeding, however Washington counsel must be retained at this time to represent the parties, must take responsibility for their legal representation and must appear and participate at all stages of this proceeding.

It is the expectation of the undersigned that the required Notice of Hearing will be entered in this matter after 1) Washington counsel is retained and 2) a third prehearing conference, to include Washington counsel, is held. The Applicants are advised to contact the Hearings Unit when it has retained Washington counsel and is ready for the third prehearing conference. As will be detailed in said Notice of Hearing, as contemplated by RCW 48.31B.015, all parties will be required to appear at hearing and their duly authorized representatives, e.g. officers of those specific companies, will be required to testify as to the criteria set forth in that statute.

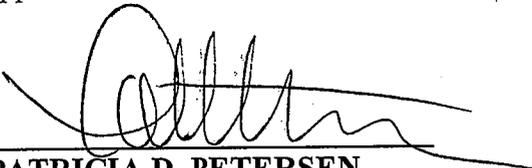
Based upon the above activity,

IT IS HEREBY ORDERED that the Applicants are to retain Washington counsel in this matter. Arkansas counsel may continue to participate throughout this proceeding.

IT IS FURTHER ORDERED that the Applicants shall respond in detail to the above issues. Responses must be submitted by mail in letter form, and may be faxed then mailed if desired.

IT IS FURTHER ORDERED that, when Washington counsel is retained, he or she is to contact the Hearings Unit to schedule a third prehearing conference.

ENTERED at Tumwater, Washington, this 25th day of April, 2007, pursuant to Title 48 RCW, and specifically RCW 48.04 and 48.31B.015, Title 34 RCW, and regulations applicable thereto.



PATRICIA D. PETERSEN

Chief Hearing Officer

Presiding Officer