



OFFICE OF
INSURANCE COMMISSIONER

FILED

DEC 17 2007

Hearings Unit, OIC
Patricia D. Petersen
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 of a true copy of this document to parties listed below
DATED this 18th day of December 2007 at Tumwater, Washington.

Signed: Wendy Galloway

HEARINGS UNIT
Fax: (360) 664-2782

Patricia D. Petersen
Chief Hearing Officer
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Wendy Galloway
Paralegal
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BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Acquisition of:)
ARCADIAN MANAGEMENT SERVICES)
INC., an Insurance Holding Company,)
and ARCADIAN HEALTH PLAN, INC.,)
a Washington Health Carrier, by Applicants)
MSDW VENTURE PARTNERS IV, LLC,)
MSVP 2002 FUND, LLC, THREE)
ARCH MANAGEMENT II, LLC, TAC)
MANAGEMENT, LLC and THREE ARCH)
MANAGEMENT IV, LLC.)

Docket No. G07-12

ORDER APPROVING
ACQUISITION OF CONTROL

TO: Melissa M. Daniels, Executive Director
Scott S. Halsted, Managing Member and General Partner
Debra Abramovitz, Chief Operating Officer
MSDW Venture Partners IV, LLC
MSVP 2002 Fund, LLC
2725 Sand Hill Road, Suite 130
Menlo Park, California 94025

Barclay Nicholson, Administrative Partner
Wilfred Jaeger, M.D., Managing Partner
Three Arch Management II, LLC, TAC Management, LLC,
Three Arch Management IV, LLC
3200 Alpine Road
Portola Valley, California 94028



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John H. Austin, M.D., CEO
Arcadian Management Services, Inc.
Arcadian Health Plan, Inc.
825 Washington Street, Suite 300
Oakland, California 94607

AND TO: Mary M. Cotter, Esquire
James E. Hadley, Esquire
Ryan, Swanson & Cleveland PLLC
1201 Third Avenue, Suite 3400
Seattle, Washington 98101

Charles B. Cliett, Jr., Esquire
Mitchell, Williams, Selig, Gates & Woodyard, PLLC
425 West Capitol Avenue, Suite 1800
Little Rock, Arkansas 72201

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

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31C.030, and Chapter 284-18A WAC, and after notice to interested parties and persons (see notice detailed below), the above-entitled matter came on regularly for hearing before the Insurance Commissioner of the state of Washington ("Commissioner") commencing at 9:00 a.m. on September 7, 2007, in the Office of the Insurance Commissioner, 5000 Capitol Blvd., 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 giving of testimony, and had reasonable opportunity to inspect all documentary evidence, to examine witnesses and present oral and written statements. The Applicants, the affiliated entities MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC (collectively "Morgan Stanley Venture Partners," or "MSVP") and the affiliated entities Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC (collectively, "Three Arch Partners"), were represented by Charles B. Cliett, Jr. of Mitchell, Williams, Selig, Gates & Woodyard, PLLC, of Little Rock, Arkansas, and Mary M. Cotter of Ryan, Swanson & Cleveland, PLLC. In this Order, MSVP and Three Arch Partners are sometimes referred to collectively as the "Applicants" and individually as an "Applicant." Mr. Cliett and Ms. Cotter also represented Arcadian Management Services, Inc. ("AMS"), a holding company, and Arcadian Health Plan, Inc. ("AHP"), a Washington health carrier wholly owned by AMS. The Commissioner was

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represented by Charles D. Brown, Senior Staff Attorney in the Legal Affairs Division. Other individuals participating in the proceeding were John H. Austin, M.D., President, Chief Executive Officer and Chair of the Board of Directors for AMS and CEO and Chair of the Board of Directors of AHP; Les Granow, Chief Financial Officer for AHP; Scott S. Halsted, Director and General Partner of MSVP; Melissa M. Daniels, Executive Director of MSVP; Wilfred Jaeger, M.D., Managing Partner of Three Arch Partners; and Ronald J. Pastuch, Holding Company Manager with the Commissioner's Company Supervision Division. The final required filing made in this matter was received on October 15, 2007.

NATURE OF PROCEEDINGS

On August 17, 2005, the Applicants MSVP and Three Arch Partners entered into a Stock Purchase Agreement whereby they invested capital in AMS in exchange for Series C preferred voting stock of AMS, with a nonconvertible option in common stock. The purpose of these investments of capital in AMS was to fund AMS's health care subsidiaries, including AHP, in the start-up phase of the subsidiaries' Medicare Advantage operations.

Both MSVP and Three Arch Partners obtained controlling [as defined in RCW 48.31C.010(3)] interests in AMS as a result of the investments. Each Applicant also has one seat on the five-member AMS Board of Directors. Representatives of both Applicants and of AMS and AHP testified, however, that neither MSVP, nor Three Arch Partners, has ever controlled the operations of the health carrier, AHP, and neither has participated in the day-to-day management of the holding company, AMS.

Prior to the August 2005 investments, AMS failed to obtain a solicitation permit from the Washington State Insurance Commissioner, as is required by statute, for issuance of the stock pursuant to RCW 48.06.180. The Applicants also failed to file Form A statements seeking approval of the proposed acquisition of control, as is required by RCW 48.31C.030. These oversights were brought to the attention of the parties by the Commissioner.

Since these mistakes were brought to their attention, the Applicants, and AMS and AHP have cooperated with the Commissioner's staff to correct these mistakes. On or about September 1, 2006, AMS filed a request for a solicitation permit seeking authorization for issuance of Series C Voting Stock. This permit was issued by the Commissioner on June 20, 2007, as Permit No. 363. On September 1, 2006, MSVP and Three Arch Partners each filed a Form A Statement seeking ratification of their respective acquisitions of AMS stock. Each Applicant updated its Form A statement on February 16, 2007, and on March 12, 2007.

On or about July 24, 2007, the Commissioner entered into Disciplinary Order No. D07-0205, Consent Order Levying a Fine, against AHP. This Consent Order Levying a Fine, which was entered into by the Commissioner and AHP, stipulated that AHP and its parent, AMS, violated RCW 48.06.180 by failing to timely obtain a solicitation permit prior to issuing and selling the Series C Voting Stock and violated RCW 48.31C.030 based on the failure of the Applicants to

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file Form A statements. Said Consent Order Levying a Fine, which included AHP's agreement to pay a fine of \$15,000 for these violations, was duly paid on August 9, 2007, and is included in the hearing file.

In this hearing of September 7, 2007, Three Arch Partners and MSVP sought to make a full record of remedial steps taken in regard to these matters and to seek the Commissioner's retroactive approval of this acquisition of control of AHP and AMS.

FINDINGS OF FACT

Having considered the written and oral evidence presented at the hearing, and the documents filed herein, including the Form A statements filed by the Applicants, the exhibits to the Form A statements, amendments to such Form A statements and exhibits to those amendments, 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. Further, 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. Applicants are the affiliated entities MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC (collectively, "Morgan Stanley Venture Partners," or "MSVP") and the affiliated entities Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC (collectively, "Three Arch Partners"). [Ex. 1, MSVP Form A; Ex. 2, Three Arch Partners Form A]
3. MSVP has been forming venture capital funds since 1986, focusing primarily on two sectors—technology, where it has invested over \$750 million in more than 100 companies, and health care, where it has invested over \$250 million in more than 40 companies. MSVP is affiliated with Morgan Stanley, the global financial services firm, but operates autonomously from Morgan Stanley, making its own decisions regarding investments and day-to-day operations. [Ex. 1, MSVP Form A; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 3-8]
4. Three Arch Partners has been forming venture capital funds since 1993, focusing on investments in health care companies. It currently manages over \$1 billion in assets and its funds are invested in more than 60 companies. A fund controlled by applicant Three Arch Partners first invested in AMS in 1998, purchasing approximately seven percent of the voting securities of the company at that time. [Ex. 2, Three Arch Partners Form A; Testimony of Wilfred Jaeger; Ex. 10, Written Declaration of Wilfred Jaeger M.D., pp. 4-8]

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5. Arcadian Management Services, Inc. ("AMS") acts as a holding company for Arcadian Health Plan, Inc. ("AHP"), a Washington-domiciled health care service contractor, and health carriers domiciled in other states. AMS formed AHP, its first health carrier subsidiary, in 2004, and AHP obtained its Washington certificate of registration that same year. All health carriers owned by AMS participate solely in Medicare Advantage products, including plans that include Medicare Part D prescription drug benefits. Before forming AHP and its other health carrier subsidiaries, AMS managed risk for other health carriers through provider organization subsidiaries and also performed administrative services such as claims processing and utilization management for independent physician associations and hospitals. AHP first began operations in the Spokane area in January 2005, later expanding its business to other areas in Washington and service areas in Arizona, Maine, South Carolina and Texas. AHP and other health plan subsidiaries of AMS offer Medicare Advantage plans pursuant to contracts with the federal Medicare program in service areas that consist primarily of smaller urban and rural populations. [Ex. 1, MSVP Form A; Ex. 2, Three Arch Partners Form A; Testimony of John H. Austin; Ex. 4, Written Testimony of John H. Austin, pp. 5-7, 10-11]
6. On August 17, 2005, the entities comprising MSVP entered into a Stock Purchase Agreement whereby they invested capital in AMS in exchange for Series C preferred voting stock of AMS, with a convertible option to common stock ("Series C Voting Stock"). The entities comprising MSVP acquired 1,117,943 shares of the Series C Voting Stock, which constituted approximately 15% of the total voting shares of AMS, in exchange for \$7.156 per share, totaling \$8,000,000.11 in cash. As part of the transaction, MSVP also obtained the right to designate one person on the AMS Board of Directors. Scott S. Halsted served as MSVP's designee on the AMS Board from August 2005 until the end of 2006 and Melissa M. Daniels has served as MSVP's designee on the AMS Board since the beginning of 2007. [Ex. 1, MSVP Form A, including exhibits A (Stock Purchase Agreement) and Exhibit D (Investors Rights Agreement); Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, p. 16; Testimony of Melissa M. Daniels; Ex. 9, Written Declaration of Melissa M. Daniels, pp. 4-5]
7. Under the same August 17, 2005 Stock Purchase Agreement, the entities comprising Three Arch Partners acquired 1,467,301 shares of Series C Voting Stock, which constituted just under 20% of the total voting stock of AMS, in exchange for \$7.156 per share, totaling \$10,500,006. Three Arch Partners already owned approximately 7% of AMS's voting stock prior to purchasing the Series C Voting Stock, so it owned just over a quarter of AMS's total voting stock after the August 17, 2005 transaction. After the transaction, Three Arch Partners retained the right to designate one person on the AMS Board of Directors. Three Arch Partners' managing member, Wilfred Jaeger had held a position on AMS's Board of Directors as Three Arch Partners' designee for some time before the August 17, 2005 transaction and has remained on the AMS Board after the transaction. [Ex. 2, Three Arch Partners Form A, including exhibits A (Stock Purchase Agreement, and Exhibit D (Investors Rights Agreement); Testimony of Wilfred Jaeger; Ex. 10, Written Declaration of Wilfred Jaeger, pp. 7-8, 16-17]

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8. The purpose of these investments of capital in AMS by MSVP and Three Arch Partners was to fund AMS's health carrier subsidiaries, including AHP, in the start-up phase of the subsidiaries' Medicare Advantage operations. [Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, p. 16; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 10-11; Testimony of Wilfred Jaeger; Ex. 10, Written Declaration of Wilfred Jaeger, pp. 9-10]
9. Neither MSVP nor Three Arch Partners has ever controlled operation of the health carrier, AHP, and also do not have a role in the day-to-day management of the holding company, AMS. The same senior management that controlled the operations of AHP before the August 17, 2005 transaction continued to control such operations after the transaction, and the same key members of AHP's management team are in place today. [Ex. Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, 17-18, 23-25; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 17; Testimony of Melissa M. Daniels; Ex. 9, Written Declaration of Melissa M. Daniels, pp. 5-6; Testimony of Wilfred Jaeger, Ex. 10, Written Declaration of Wilfred Jaeger, pp. 16-18] The OIC reviewed the background of AHP's senior management at the time AHP was licensed and found no evidence adversely reflecting on the competence, experience or integrity of such management. [Testimony of Ronald J. Pastuch, Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9] Even if MSVP or Three Arch Partners wanted to change AHP's management, which they testified they do not, neither Applicant has the power, acting on its own, to do so. Both Applicants are minority investors and each has only one of five seats on the AMS Board of Directors. [Testimony of Melissa M. Daniels; Ex. 9, Written Declaration of Melissa M. Daniels, pp. 6; Testimony of Wilfred Jaeger; Ex. 10, Written Declaration of Wilfred Jaeger, p. 25]
10. AMS acknowledges that it mistakenly issued the Series C Voting Stock sold in the August 17, 2005 transactions without first obtaining a solicitation permit from the Washington Office of Insurance Commissioner ("OIC") under RCW 48.06.180. The Applicants acknowledge that they mistakenly acquired the Series C Voting Stock in the August 17, 2005 transactions, which resulted in MSVP and Three Arch Partners each acquiring more than 10% of the voting stock of AMS, without first filing Form A statements seeking approval of the investment under RCW 48.31C.030. [Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 19-20; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 18-20; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 18-20]
11. Over the past year, AMS, AHP and the Applicants have cooperated with OIC staff to correct the mistakes made in not timely filing the Request for a Solicitation Permit or the Form A statements. On or about September 1, 2006, AMS filed a Request for a Solicitation Permit seeking authorization for issuance of Series C Voting Stock, including stock referenced in the above Findings of Fact. On June 20, 2007, the OIC issued Solicitation Permit No. 363 for the offer, sale and issuance of 2,693,544 shares of AMS

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Series C Voting Stock at \$7.156 per share. On or about September 1, 2006, MSVP and Three Arch Partners each filed Form A Statements seeking ratification of the acquisition of their controlling, minority interests in AMS. Each Applicant updated its Form A statements in amendment filed on February 16, 2007 and March 12, 2007. [Ex. 1, MSVP Form A; Ex. 2, Three Arch Partners Form A Statement; Testimony of Ronald J. Pastuch, Ex. 3, Written Declaration of Ronald J. Pastuch, para. 7; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, p. 20; Ex. 5, Solicitation Permit No. 363]

12. On July 24, 2007, the OIC entered into Disciplinary Order No. D07-0205, Consent Order Levying a Fine on AHP ("Consent Order"). The Consent Order concluded that AHP and its parent violated RCW 48.06.180 by failing to timely obtain a solicitation permit prior to issuing and selling the Series C Voting Stock and violated RCW 48.31C.030 based on failure by the Applicants to file Form A statements. AHP paid a fine in the amount of \$15,000.00 in accordance with the terms of the Consent Order, and the OIC received payment for the fine on August 9, 2007. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 8; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 20-21; Ex. 6, Consent Order]
13. Although neither Applicant participates in day-to-day management of AMS or AHP, both have been active board members and minority investors, providing financial and investment advice and helping to recruit additional insurance regulatory and financial expertise to AMS's staff and Board. The Applicants request that the Commissioner ratify their acquisition of minority, controlling interests in AMS. [Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 16-18; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 16-17, 22-23, 30-31; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 22-24, 33]
14. The Form A statements filed by the Applicants, along with the Amendments to those statements, were submitted in the form required by, and contain the information required by, the Commissioner and applicable statutes. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9]
15. After the acquisitions of control proposed for ratification by the Applicants, AHP would still be able to satisfy the requirements for registration as a health care service contractor. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 30-31; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 26; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, p. 28]
16. The effect of the acquisitions of control proposed for ratification by the Applicants would not lessen competition in the state or tend to create a monopoly in the health coverage business. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H.

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Austin, pp. 31-32; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 26-27; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 28-29]

17. The financial condition of the Applicants is not such as might, after completion of the acquisitions proposed for ratification, jeopardize the financial stability of AHP or prejudice the interests of its subscribers. [Ex. 1, MSVP Form A; Ex. 2, Three Arch Partners Form A; Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 32; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 27-28; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, p. 30]
18. While Applicants are venture capital funds and may sell their investment in AMS in the future as part of their typical business practices to return income to their investors, there currently are no plans to declare an extraordinary dividend, to liquidate, to sell the assets, consolidate or merge with any other person or persons or to make any other material changes in the business or corporate structure or management of AHP that are unfair or unreasonable to AHP's subscribers and not in the public interest. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 32-33; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 28-30; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 30-32]
19. It cannot be found that the competence, experience and integrity of those persons who would control the operation of AHP after the acquisitions proposed for ratification are such that it would not be in the interest of the members of AHP, or of the public, to ratify such acquisitions. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 23-25; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 21-22; Testimony of Melissa M. Daniels; Ex. 9, Written Declaration of Melissa M. Daniels, pp. 7-8; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 21-22]
20. It is unlikely that the acquisitions proposed for ratification are hazardous or prejudicial to the insurance-buying public. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9; Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, pp. 33-34; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 30; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 32-33]
21. Based on its analysis of the proposed acquisitions in light of the statutory standards described in paragraphs 15-20 above, the OIC staff has recommended approval of the

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- proposed acquisitions at issue in this hearing. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 9]
22. The Notice of Hearing on the acquisitions proposed for ratification was published in its entirety on the OIC's website commencing on August 17, 2007. This Notice remained on the OIC's website continuously from August 17, 2007 through August 29, 2007, when it was replaced by an Amended Notice of Hearing, which remained on the website through the date of the hearing. The Notice was amended solely to correct certain statutory citations, but otherwise remained substantially identical to the original Notice of Hearing, which by terms of the Amended Notice remained effective except for such changes in citations. [Testimony of Ronald J. Pastuch; Ex. 3, Written Declaration of Ronald J. Pastuch, para. 10, exhibits C and D]
 23. The Notice of Hearing and its amendment published on the OIC's website informed and advised all interested parties that any individual or entity is permitted to submit comments on, or objections to, the proposed acquisitions to the undersigned up until September 7, 2007, at 9 a.m., to the undersigned by fax, U.S. mail, or personal delivery or e-mail. All interested parties were also advised therein 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. No communications of any kind were received from outside parties by the Applicants, AMS or AHP. [Testimony of John H. Austin; Ex. 4, Written Declaration of John H. Austin, p. 15; Testimony of Scott S. Halsted; Ex. 7, Written Declaration of Scott S. Halsted, pp. 13; Testimony of Melissa M. Daniels; Ex. 9, Written Declaration of Melissa M. Daniels, pp. 9-10; Testimony of Wilfred Jaeger; Ex. 10 Written Declaration of Wilfred Jaeger, pp. 13] Further, no communications of any kind were received by the Commissioner. [Testimony of Ronald J. Pastuch; Ex. 12, Affidavit of Communications to Ronald J. Pastuch] In addition, no communications of any kind were received by the undersigned or her assistant. Based upon this evidence, it is here found that reasonable notice of the hearing herein was given and that no reasonable objection to this proposed acquisition exist.
 24. Testifying on behalf of OIC staff was Ronald J. Pastuch, Holding Company Manager in the Company Supervision Division of the Office of Insurance Commissioner. Mr. Pastuch presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
 25. John H. Austin, M.D., President, Chief Executive Officer and Chair of the Board of Directors for AMS and CEO and Chair of the Board of Directors of AHP, testified on behalf of AMS and AHP. Dr. Austin presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
 26. Scott S. Halsted, Managing Director and General Partner of MSVP, and Melissa M. Daniels, Executive Director of MSVP, testified on behalf of the affiliated Applicants

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MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC. Mr. Halsted and Ms. Daniels presented their testimony in a clear, detailed and credible manner and exhibited no apparent biases.

27. Wilfred Jaeger, M.D., Managing Partner of Three Arch Partners, testified on behalf of the affiliated Applicants Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC. Dr. Jaeger presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
28. Based upon the above Findings of Facts, it is here found that there exists no basis for denial of the request by Applicants MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC for ratification of their acquisitions of controlling minority interests in AMS, and therefore it is reasonable that such acquisition and change of control be ratified.
29. Based upon the above Findings of Facts, it is here further found that there exists no basis for denial of the request by Applicants Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC for ratification of their acquisitions of controlling, minority interests in AMS, and therefore it is reasonable that such acquisition and change of control be ratified.
30. Both MSVP and Three Arch Partners have requested confidential treatment of financial statements filed as exhibits to the Form A statements and exhibits to those statements, based on the proprietary nature of information contained in those statements, each stating in legal arguments submitted with such filings the bases for why such information should be excluded from public disclosure pursuant to any requests made under RCW 42.56 or any other applicable freedom of information laws. [Ex. 1, MSVP Form A, legal arguments attached to financial filings; Ex. 2, Three Arch Partners Form A, legal arguments attached to financial filings; Request by counsel for parties at hearing] The undersigned agreed that, should a request for this information be received she will maintain jurisdiction to determine whether those requested documents are subject to disclosure or instead are protected as proprietary pursuant to applicable statute.

CONCLUSIONS OF LAW

1. Pursuant to Title 48 RCW and specifically RCW 48.31C, the Washington State Commissioner of Insurance has jurisdiction over the acquisition of minority, but controlling interests (as "controlling" is defined in RCW 48.31C.010(3)) in AHP that are the subject of this hearing. Further, the undersigned has been properly delegated the authority to conduct the proceeding in this matter, to review and consider all documents and evidence presented, and to make the final determination herein.
2. Based on Finding of Fact No. 14 above, the Applicants filed Form A notification statements, along with the amendments to those statements, in the form required by, and

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- containing the information required by the Commissioner and applicable statutes of Chapter 48.31C RCW.
3. Based on Finding of Fact No. 15 above, Applicants' acquisitions of control proposed for ratification would allow AHP to still satisfy the requirements of a health care service contractor as contemplated by RCW 48.31C.030(5)(a)(i).
 4. Based on Finding of Fact No. 16 above, Applicants' acquisition of control proposed for ratification will not substantially lessen competition in health care coverage business in this state or tend to create a monopoly in the state as contemplated by RCW 48.31C.030(5)(a)(ii)(B)(II).
 5. Based on Finding of Fact No. 17 above, the financial condition of the Applicants is not such as might, after completion of the ratification of the acquisitions of control, jeopardize the financial stability of AHP or prejudice the interests of its subscribers as contemplated by RCW 48.31C.030(5)(a)(ii)(C)(I).
 6. Based on Finding of Fact No. 18 above, the Applicants have no current plans to declare an extraordinary dividend, to liquidate, or to sell the assets, consolidate or merge with any other person or persons or to make any other material changes to the business or corporate structure or management of AHP that are unfair or unreasonable to AHP subscribers and not in the public interest as contemplated by RCW 48.31C.030(5)(a)(ii)(C)(II).
 7. Based on Finding of Fact No. 19 above, the competence, experience and integrity of those persons who will control the operation of AHP are such that, should these acquisitions be ratified, it would not be against the interest of subscribers of AHP as contemplated by RCW 48.31C.030(5)(a)(ii)(C)(III).
 8. Based on Finding of Fact No. 20 above, the acquisition of AHP is not likely to be hazardous or prejudicial to the insurance-buying public as contemplated by RCW 48.31C.030(5)(a)(ii)(C)(IV).
 9. Based on Finding of Fact Nos. 22 and 23 above, reasonable notice of this proposed acquisition was given to the public, and no objections exist.
 10. Based on Finding of Fact Nos. 21, 28, and 29 above, the provisions of the Insurance Code of the State of Washington, Chapter 48.31C RCW and specifically RCW 48.31C.030 have been met so as to support the approval of this acquisition.
 11. Based on Finding of Fact No. 30 above, any public disclosure requests that could cover financial records of Applicants submitted as evidence for this hearing will be reviewed and determined by the undersigned consistent with the processes of agency determinations under RCW 42.56 and other applicable statutes.

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ORDER

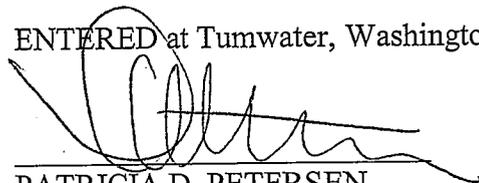
On the basis of the foregoing Findings of Fact and Conclusions of Law, to the effect that the statutory criteria for approval of this acquisition have been met, and to the effect that approval of this acquisition by these Applicants should be granted,

IT IS HEREBY ORDERED that the application of MSDW Venture Partners IV, LLC, and MSVP 2002 Fund, LLC, and by Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC, for the Washington State Insurance Commissioner's approval of the Applicants' acquisition of controlling interests of Arcadian Management Services, Inc, an Insurance Holding Company, and Arcadian Management Services, Inc.'s wholly owned subsidiary, Arcadian Health Plan, Inc., a Washington health carrier, upon the terms included into evidence in the proceeding, is **GRANTED**, effective by oral order of the undersigned on September 7, 2007.

IT IS FURTHER ORDERED that the undersigned will maintain jurisdiction over any public disclosure requests into the financial records of the Applicants submitted as evidence for purposes of this hearing.

This Order is entered pursuant to Title 48 RCW, and specifically RCW 48.31C.030, Title 34 RCW, and regulations applicable to such statutes.

ENTERED at Tumwater, Washington this 17th day of December, 2007.



PATRICIA D. PETERSEN
Chief Hearing Officer
Presiding Officer