



LAW OFFICES

MITCHELL·WILLIAMS  
SELIG • GATES • WOODYARD • PLLC

LITTLE ROCK • ROGERS

CHARLES B. CLIETT, JR.  
DIRECT DIAL: 501-688-8819  
E-MAIL: CCLIETT@MWSGW.COM

425 WEST CAPITOL AVENUE, SUITE 1800  
LITTLE ROCK, ARKANSAS 72201-3525  
TELEPHONE 501-688-8800  
FAX 501-688-8807

RECEIVED

FEB 26 2007

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

February 23, 2007

FILED

MAR 14 2007

VIA FEDERAL EXPRESS

Mr. Ron Pastuch  
Holding Company Manager  
WA Office of Insurance Commissioner  
5000 Capitol Blvd.  
Tumwater, WA 98501

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

Re: MS Venture Partners Amendment 1 to Form A

Dear Ron:

Please find enclosed the original signature page to Amendment 1 to Form A for MS Venture Partners.

Sincerely,

MITCHELL, WILLIAMS, SELIG,  
GATES & WOODYARD, P.L.L.C.

By

*Chuck Cliett by SW*

Charles B. Cliett, Jr.

CBC:sw  
Enclosure

**AMENDMENT NO. 1**

**TO THE**

**FORM A STATEMENT**

**REGARDING THE ACQUISITION OF CONTROL OF A  
DOMESTIC HEALTH CARE SERVICES CORPORATION**

Name of Domestic Health Carrier: Arcadian Health Plan, Inc., a wholly owned subsidiary of Arcadian Management Services, Inc.

Name Of Acquiring Persons (Applicants): MSDW Venture Partners IV, LLC  
MSVP 2002 Fund, LLC

FILED WITH THE INSURANCE COMMISSIONER OF THE STATE OF  
WASHINGTON

Dated: September, 1, 2006

**DATE OF AMENDMENT: February 19, 2007**

Name, Title, Address, and Telephone Number of Individual to Whom Notices and Correspondence Concerning this Statement Should be Addressed:

Charles B. Cliett, Jr.  
Attorney for Applicants  
Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.  
425 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3525  
(501) 688-8819

and

Ms. Melissa Daniels  
~~Vice President~~ Executive Director  
Morgan Stanley Venture Partners  
MSVP 2002 FUND, LLC  
3000 Sand Hill Road  
Building 4, Suite 250  
Menlo Park, CA 94025

## ITEM 1. HEALTH CARRIER AND METHOD OF ACQUISITION.

*The first paragraph after the two bullet points in Item 1 of the Form A Statement is amended as follows:*

The institutional managing members of MSDW IV and MSVP 2002 are wholly owned subsidiaries of the publicly traded company Morgan Stanley, have the same six directors and act in concert with each other in regards to AMS voting securities. Together, therefore, subsequent to August 17, 2005, MSDW IV and MSVP 2002 (collectively referred to as "MS Venture Partners" in this Form A) controlled 14.61% of the voting stock of AMS. A copy of the Stock Purchase Agreement is attached as **Exhibit A**. The total number of issued and outstanding shares of AMS stock has ~~decreased~~ changed since August 17, 2005 due to the exercise of stock options and the company's repurchase of certain shares of stock. Currently, Morgan Stanley controls ~~15.80~~ 15.09% of the voting stock of AMS on a fully diluted basis.

## ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

*Exhibit B, as referenced in Subsection (c) of Item 2 (below), is amended to update current percentages of stock ownership, as reflected in the attached revised Exhibit.*

**(c) Chart identifying and showing relationships between AMS, funds that own AMS shares and MS Venture Partners entities controlling funds.** A chart containing the information described above for MS Venture Partners is attached as **Exhibit B** to this Form A Statement.

## ITEM 5. FUTURE PLANS OF HEALTH CARRIER

**Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate such health carrier, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.**

*Item 5 is revised as follows:*

MS Venture Partners invested in AMS to support initial operations of AHP and its affiliates until operations become profitable. As stated above, MS Venture Partners controls one seat out of five on the AMS Board of Directors and has a voice in management of the company but does not, except as one member of a five-member board, exercise control over management decisions of AMS.

At this time, neither MS Venture Partners, nor, to its knowledge, AMS, has plans to declare an extraordinary dividend (except as described below), to liquidate AHP, to sell AHP's assets to or merge it with any person or persons. Changes to business operations of AHP likely will focus on expanding the Medicare Advantage business operations as

available capital and profitability allow over the next several years. Under terms of the Senior Secured Credit Agreement entered into by AMS and reviewed by the Washington Office of Insurance Commissioner in relation to issuance of Solicitation Permit number 361 for Subsequent Financing, the applicant and AMS would expect that AHP may declare an extraordinary dividend or dividends in future years to assist in repayment of the Promissory Note issued in connection with such Senior Secured Credit Agreement. Repayment on the Promissory Note is not due until a balloon payment in 2010.

## ITEM 8. FINANCIAL STATEMENTS AND EXHIBITS

**(a) Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.**

*MS Venture Partners amends its list of attached financial statements as provided below, and includes the additional statements in the attached **supplement to Exhibit F** of the Form A Statement. The provisions of Item 8 of the Form A Statement regarding confidentiality and notice of public information requests apply to the financial statements provided with this Amendment in the same manner that such provisions applied to financial statements provided with the Form A Statement. MS Venture Partners provides additional explanation for why the financial statements constitute proprietary and trade secret information at the beginning of the attached **supplement to Exhibit F**:*

List of attached audited financial statements (underlined statements attached to this Amendment):

- **Morgan Stanley Dean Witter Venture Partners IV, L.P.:** (1) audited financial statements for calendar years ending 2001, 2002, 2003, 2004 and 2005; (2) unaudited partial-year financial statements for period ending June 30, 2006; unaudited partial year financial statements for period ending September 30, 2006.
- **Morgan Stanley Venture Partners 2002 Fund, L.P.:** (1) audited financial statements for calendar years ending 2003, 2004 and 2005; (2) unaudited partial-year financial statements for period ending June 30, 2006; unaudited partial year financial statements for period ending September 30, 2006.
- **Morgan Stanley Venture Investors 2002 Fund, L.P.:** (1) audited financial statements for calendar years ending 2003, 2004 and 2005; (2) unaudited partial-year financial statements for period ending June 30, 2006; unaudited partial year financial statements for period ending September 30, 2006.

## ITEM 9. SIGNATURE AND CERTIFICATION

**Required signature and certification follow on next page.**

SIGNATURE

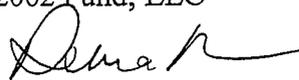
Pursuant to the requirements of RCW 48.31C.030, MS Venture Partners has caused this Amendment No. 1 to its application to be duly signed on its behalf in the City of New York City and State of New York on the 21<sup>st</sup> day of February, 2007.

(SEAL)

MSDW Venture Partners IV, LLC

MSVP 2002 Fund, LLC

BY



Debra Abramovich  
(Print Name)

Executive Director  
(Title)

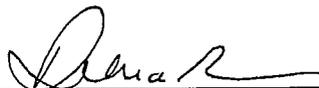
Attest:

  
(Signature of Officer)  
Shawn Walsh  
Executive Director  
(Title)

**Certification**

The undersigned deposes and says that (s)he has duly executed the attached Amendment No. 1 to the application dated September 1, 2006, for and on behalf of MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC; that (s)he is the Executive Director of such company(ies) and that (s)he is authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

Signature:



Print Name:

Debra Abramovich



LAW OFFICES

MITCHELL·WILLIAMS

SELIG · GATES · WOODYARD · P.L.L.C.

LITTLE ROCK · ROGERS

RECEIVED

MAR 14 2007

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

CHARLES B. CLIETT, JR.  
DIRECT DIAL: 501-688-8819  
E-MAIL: CCLIETT@MWSGW.COM

425 WEST CAPITOL AVENUE, SUITE 1800  
LITTLE ROCK, ARKANSAS 72201-3525  
TELEPHONE 501-688-8800  
FAX 501-688-8807

March 13, 2007

FILED

MAR 14 2007

VIA FEDERAL EXPRESS

The Honorable Mike Kreidler, Commissioner  
Office of the Insurance Commissioner  
**Attn: Ron Pastuch, Holding Company Manager**  
Company Supervision Division  
5000 Capitol Boulevard,  
Tumwater, WA 98501

Hearings Unit, OIC  
Patricia D. Petersen  
Chief Hearing Officer

Re: Form A Statement for MSDW Venture Partners IV, LLC and MSVP 2002 Fund,  
LLC (collectively "MS Venture Partners") regarding acquisition of voting securities  
of Arcadian Management Services, Inc.: **Amendment No. 2**

Dear Commissioner Kreidler:

Please find enclosed Amendment No. 2 to the above-referenced Form A Statement,  
including an original signature page executed by Ms. Melissa Daniels of MS Venture Partners.  
Amendment No. 2 contains a chronology of events relating to the Form A Statement, as  
requested by Judge Petersen, the Hearings Officer for this matter.

Please let me know if there are any questions regarding this filing. Thank you very  
much.

Sincerely,

MITCHELL, WILLIAMS, SELIG,  
GATES & WOODYARD, P.L.L.C.

By

  
Charles B. Cliett, Jr.

CBC:sw

**AMENDMENT NO. 2**

**TO THE**

**FORM A STATEMENT**

**REGARDING THE ACQUISITION OF CONTROL OF A  
DOMESTIC HEALTH CARE SERVICES CORPORATION**

Name of Domestic Health Carrier: Arcadian Health Plan, Inc., a wholly owned subsidiary of  
Arcadian Management Services, Inc.

Name Of Acquiring Persons (Applicants): MSDW Venture Partners IV, LLC  
MSVP 2002 Fund, LLC

FILED WITH THE INSURANCE COMMISSIONER OF THE STATE OF WASHINGTON

Dated: September, 1, 2006

**DATE OF AMENDMENT: March 12, 2007**

Name, Title, Address, and Telephone Number of Individual to Whom Notices and  
Correspondence Concerning this Statement Should be Addressed:

Charles B. Cliett, Jr.  
Attorney for Applicants  
Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.  
425 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3525  
(501) 688-8819

and

Ms. Melissa Daniels  
Executive Director  
Morgan Stanley Venture Partners  
MSVP 2002 FUND, LLC  
3000 Sand Hill Road  
Building 4, Suite 250  
Menlo Park, CA 94025

## ITEM 1. HEALTH CARRIER AND METHOD OF ACQUISITION.

*Chronology. Item 1 to the Form A Statement is supplemented with the following chronology relating to acquisition of voting stock of Arcadian Management Services, Inc. ("AMS"):*

1. **August 17, 2005.** The following acquisitions of AMS voting stock occurred:
  - Three limited partnership funds each controlled by a common general partner, MSDW Venture Partners IV, LLC ("MSDW IV"), purchased 558,972 shares of Series C Preferred Stock of AMS, which constituted 7.31% of AMS' voting securities on a fully diluted basis.
  - Two limited partnership funds controlled by a common general partner, MSVP 2002 Fund, LLC ("MSVP 2002"), purchased 558,971 shares of Series C referred Stock of AMS, which constituted 7.31% of AMS' voting securities on a fully diluted basis.

As described in the Form A Statement, MSDW IV and MSVP 2002 have the same six directors and act in concert with each other in regards to AMS voting securities. Together, therefore, subsequent to August 17, 2005, MSDW IV and MSVP 2002 (collectively referred to as "MS Venture Partners" in the Form A) controlled 14.61% of the voting stock of AMS. Detailed information about this transaction is included in the Form A Statement, and the Stock Purchase Agreement, Investors Rights Agreement and Registration Rights Agreement related to this transaction are included as exhibits to the Form A Statement.

2. **May 12, 2006.** Arcadian Health Plan, Inc. ("AHP") reported the MS Venture Partners stock transaction in its Form B Annual Registration Statement filed on May 12, 2006. With this Form B, AHP filed an Affidavit Disclaiming Control executed by a representative of MS Venture Partners. In the Affidavit, MS Venture Partners stated that while it had invested in AMS by purchasing more than 10 percent of the voting stock, it did not in fact exercise control over the company, in part because its role in management consisted of having one vote on the AMS Board of Directors and because it did not exercise control over other directors or shareholders. A copy of the Form B Registration Statement and the Disclaimer are attached as Exhibits 1 and 2 to this Amendment.
3. **July 19, 2006.** The Washington Office of Insurance Commissioner ("OIC") provided notice to AHP, AMS and MS Venture Partners of its intent to disallow the Disclaimer of Control filed by MS Venture Partners, after a hearing. In the alternative, it offered AHP, AMS and MS Venture Partners the opportunity to withdraw the disclaimer and file both a solicitation permit request under RCW 48.06.180 and a Form A Statement under RCW 48.31C.030 in regards to the August 17, 2005 transaction. A copy of the OIC's letter is attached as Exhibit 3 to this Amendment.
4. **July 28-31, 2006.** AMS and AHP agreed to file the solicitation permit request and MS Venture Partners agreed to withdraw the Disclaimer of Control. The OIC allowed the

parties until September 1, 2006 to complete these filings. *See* Electronic Mail Exchange between representatives of OIC and the parties attached as Exhibit 4 to this Amendment.

5. **September 1, 2006.** Ms Venture Partners filed the Form A Statement and AMS filed the solicitation permit request.

#### **ITEM 9. SIGNATURE AND CERTIFICATION**

**Required signature and certification follow on next page.**

SIGNATURE

Pursuant to the requirements of RCW 48.31C.030, MS Venture Partners has caused this Amendment No. 2 to its application to be duly signed on its behalf in the City of Menlo Park and State of California on the 12<sup>th</sup> day of March, 2007.

(SEAL)

MSDW Venture Partners IV, LLC

MSVP 2002 Fund, LLC

BY *M. Daniels*

MELISSA DANIELS

(Print Name)

EXECUTIVE DIRECTOR

(Title)

Attest: \_\_\_\_\_

(Signature of Officer)

\_\_\_\_\_  
(Title)

**Certification**

The undersigned deposes and says that (s)he has duly executed the attached Amendment No. 2 to the application dated September 1, 2006, for and on behalf of MSDW Venture Partners IV, LLC and MSVP 2002 Fund, LLC; that (s)he is the \_\_\_\_\_ of such company(ies) and that (s)he is authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

EXHIBIT

tabbles

1

# Arcadian Health Plan, Inc.

825 Washington Street, Suite 300  
Oakland, California 94607

**Form B as of 12/31/05**

As Submitted on 5/12/06

**Form B.**  
**Health Carrier Holding Company System**  
**Annual Registration Statement**  
**As of 12/31/05**  
**Submitted May 12, 2006**

**Filed with the Insurance Commissioner of the State of Washington by:**

Arcadian Health Plan, Inc.  
825 Washington Street, Suite 300  
Oakland. California 94607

**And**

Arcadian Management Services, Inc.  
825 Washington Street, Suite 300  
Oakland. California 94607

**Filed on Behalf of:**

Arcadian Health Plan, Inc.  
825 Washington Street, Suite 300  
Oakland. California 94607

**Contact:**

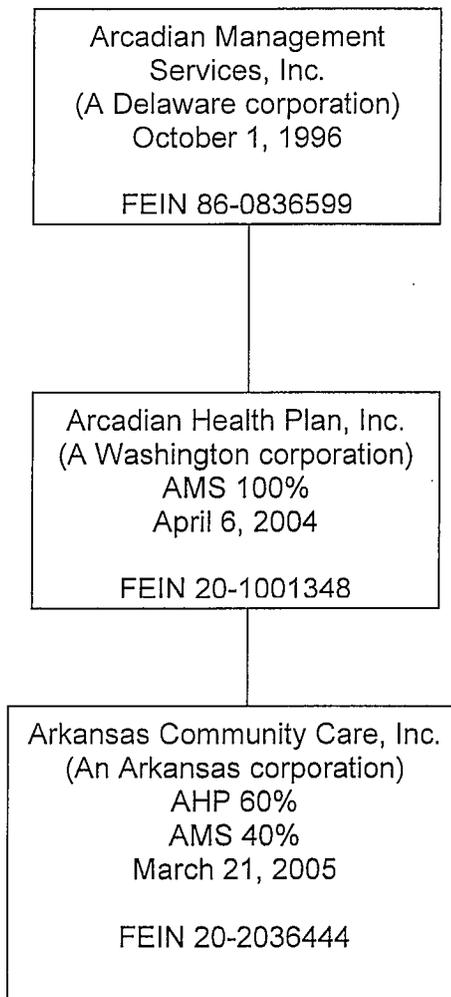
John H. Austin, M.D.  
Chief Executive Officer  
Arcadian Management Services, Inc.  
825 Washington Street, Suite 300  
Oakland. California 94607  
510 832-0311

**Item 1. IDENTITY AND CONTROL OF REGISTRANT**

Arcadian Health Plan, Inc. (AHP), the Registrant, is a wholly owned subsidiary of Arcadian Management Services, Inc. (AMS). AHP was incorporated in the State of Washington on August 6, 2004 and was licensed as a Health Care Service Contractor on July 21, 2004. The sole shareholder of AHP is AMS, which appoints the Board of Directors of AHP. AHP had no existence prior to its incorporation.

Arcadian Health Plan, Inc. has its home office and principal executive offices at:  
825 Washington Street, Suite 300  
Oakland. California 94607

## Item 2. ORGANIZATIONAL CHART



AMS is a Delaware Corporation with its primary offices in Oakland, California. No control is maintained other than by the voting securities held solely by AMS and the appointment of AHP board members by AMS Board of Directors.

Arkansas Community Care (ACC) is a subsidiary of Arcadian Health Plan, Inc and Arcadian Management Services. The Board of Directors of ACC is elected by Board of Directors of Arcadian Health Plan, Inc.

## Item 3. ULTIMATE CONTROLLING PERSON

(a) Arcadian Management Services, Inc. (AMS)

(Three persons who own, or manage and direct, more than 10% of the voting securities of AMS—Dr. John H. Austin, Three Arch Partners, LLC, and Morgan Stanley Venture Partners, LLC—have filed concurrently with

this Form B affidavits disclaiming control of AMS pursuant to Rev. Code Wash §48.31C.010(3)(a), because none of them in fact control AMS. These persons are seeking approval by the Commissioner of such disclaimer. With these three disclaimers, AMS meets the definition of "ultimate controlling person" of AHP under Wash. Admin. Code § 284-18A-340(3).)

- (b) and (c) Home and principal executive offices at:  
825 Washington Street, Suite 300  
Oakland. California 94607  
510 832-0311
- (d) Delaware corporation.
- (e) The principal business of AMS is health care management, primarily through administrative services provided on a contractual basis with various physician groups and hospitals.
- (f) Arcadian Management Services has two classes of securities at the moment – Common, and Preferred. There are four series of preferred being Series A, Series B, Series B-1, and Series C. The preferred shares are convertible into common on a 1 to 1 basis at any time. The preferred shares are voted as are common and each share has one vote. Preferred shares do not have any special voting rights other than the fact that the Preferred A shareholders as a series may elect one board member. The names of persons holding or owning more than 10% of any class of AMS voting securities are as follows:

Name	Preferred	Common	Total	% of Total
John Austin	493,182	1,094,500	1,587,682	23.8
Three Arch Partners	1,822,300		1,822,300	27.3
Morgan Stanley Venture Partners	1,117,943		1,117,943	16.7
All others	1,026,936	1,116,747	2,143,683	32.2
<b>Total</b>	<b>4,460,361</b>	<b>2,211,247</b>	<b>6,671,608</b>	<b>100.0</b>

John H. Austin, M.D.  
Chief Executive Officer  
Arcadian Management Services, Inc.  
825 Washington Street, Suite 300  
Oakland. California 94607

Three Arch Partners  
3200 Alpine Rd  
Portola Valley, CA 94028

Morgan Stanley Venture Partners  
3000 Sand Hill Road  
Menlo park, CA 94025

- (g) Not applicable as AHP is a for-profit.
- (h) There are no court proceeding pending involving liquidation or reorganization of AMS.

**Item 4. BIOGRAPHICAL INFORMATION**

See tab 3 for NAIC biographical affidavit forms for Directors and executive officers.

AMS Board of Directors

- John H. Austin, M.D.
- Wilf Jaeger
- Larry Kugelman
- Scott Halsted

AHP Board of Directors

- John H. Austin, M.D.
- Nancy E. Freeman
- Kenneth B. Zimmerman
- Cheryl Y. Perkins
- Chase S. Milbrandt

AHP Officers

- John H. Austin, M.D., Chief Executive Officer
- Nancy E. Freeman, President and Secretary
- Kenneth B. Zimmerman, Treasurer and Chief Financial Officer

ACC Board of Directors

- John H. Austin, M.D.
- Nancy E. Freeman
- Kenneth B. Zimmerman
- Cheryl Y. Perkins
- Chase S. Milbrandt

**Item 5: TRANSACTIONS AND AGREEMENTS**

(a). Investments

As of 12/31/05 AMS has invested a total of \$16,019,800 in AHP. This investment is represented by a total of \$36,570 in common stock and \$15,983,230

in additional paid in capital. As AMS is the sole shareholder such contributions will not involve the issuance of additional securities.

(b) Exchange of Assets

No assets have been transferred sold or exchanged between AMS and AHP, other than the investment described in Item 5 (a) and the purchase of services

(c) No transactions were not in the course of ordinary business.

(d) Guarantees

No guarantees or undertakings that result in a contingent exposure of assets have been made.

(e) Management agreements and service contracts.

As of December 31, 2005 Arcadian Health Plan had entered into one primary contract for services with its parent Arcadian Management Services, and a contract to provide administrative services for Arkansas Community Care, Inc. A brief description of each contract is as follows:

*Arcadian Management Services*

- AMS supplies certain services to AHP. Those services include claims processing, professional credentialing, information technology, treasury, financial and tax services. Compensation under this contract is \$16.20 pmpm for various information management services, \$40,000 per year for provider credentialing, \$115,000 for reinsurance services, and \$1,450 per employee for occupancy costs, offices supplies and shared administrative support. See tab 4 for the complete contract. On April 1, 2005 this Administrative Services Agreement was amended to include subsidiaries/affiliates.

*Arkansas Community Care, Inc. (ACC)*

- Arcadian Health Plan has entered into a contract with its subsidiary ACC to provide access to certain administrative services which are to be provided by AMS. Compensation paid by ACC is outlined in the agreement under tab 5.

(f) Reinsurance Agreements

AHP has entered into a contract with a third party, ACE American Insurance Company, to provide specific stop loss insurance.

(g) Dividends and Other Distributions to Shareholders.

There have been none as of 12/31/05.

(h) Consolidated Tax Allocation Agreements

As of 12/31/05 there is not a consolidated tax agreement by AHP.

(i) Pledge of Stock

None as of 12/31/05.

**Item 6. LITIGATION OR ADMINISTRATIVE PROCEEDINGS**

As of 12/31/05 there are no past or pending administrative actions or litigation proceedings of the nature described.

**Item 7. STATEMENT REGARDING PLAN OR SERIES OF TRANSACTIONS**

As of 12/31/05 AHP has not entered into separate transactions with persons within the health carrier's holding company system which in the aggregate amount exceed the statutory threshold amounts which would have required the commissioner's prior approval or reporting to the commissioner.

**Item 8. FINANCIAL STATEMENTS AND EXHIBITS**

(a) Audited AMS financial statements for the fiscal year ending December 31, 2004 are attached. See tab 10.

(b) Audited AMS financial statements for the fiscal year ending December 31, 2005 are not available as of this filing. AMS' audited annual financial statements for the year ending 12/31/05, as audited by Pricewaterhouse, are expected to be available 6/30/06. *Arcadian Health Plan, on behalf of AMS is requesting from the Washington OIC a filing extension of 7/7/06 for the AMS 12/31/05 audited financial statements.*

Audited financial statements for Arcadian Health Plan for the year ending 12/31/05 are due to the Washington OIC on or before June 1 of 2006. Arcadian Health Plan expects to meet this deadline.

(c) No annual reports or proxy statements are prepared by AMS

**Item 9. FORM C REQUIRED**

See attached form C dated May 12, 2006 under tab 2.

**Item 10. SIGNATURE AND CERTIFICATION**

Signature

Pursuant to the requirements of RCW 48.31C.040, the registrant has caused this amended annual registration statement to be duly signed on its behalf I the City of Oakland and the State of California on the 12<sup>th</sup> day of May, 2006.

(SEAL) \_\_\_\_\_  
BY Arcadian Health Plan, Inc.  
Bradley Luke, Controller

Attest:

\_\_\_\_\_  
Ken Zimmerman  
Chief Financial Officer

**CERTIFICATION**

The undersigned deposes and says that she has duly executed the attached amended annual registration dated May 12, 2006, for and on behalf of Arcadian Health Plan, Inc.; that she is the Chief Executive Officer of such company and that she is authorized to execute and file such instrument. Deponent further says that she is familiar with such instrument and the contents, and that the facts therein set forth are true to the best of his knowledge, information and belief.

\_\_\_\_\_  
John H. Austin, M.D.



for use in conducting the business of AMS and its subsidiaries on behalf of the Morgan Stanley Funds. The Morgan Stanley Funds collectively own 16.8% of such voting stock, consisting of zero shares of common stock and 1,117,943 shares of preferred stock. Morgan Stanley has no direct or indirect right to acquire additional shares of AMS stock or to acquire the stock of AMS' wholly owned subsidiary, AHP. None of the Morgan Stanley Funds, or any other persons in any way affiliated with Morgan Stanley, has any other ownership interest in AMS or AHP, except as described in this subparagraph.

c. **Material relationships between Morgan Stanley and AMS.** In addition to the ownership interest in AMS described in subparagraph 4.b, above, Morgan Stanley has one representative on the four-person AMS Board of Directors. Morgan Stanley does not have a representative on the Board of Directors of AHP. Neither Morgan Stanley nor any affiliates of Morgan Stanley have any other affiliations with AMS or AHP, except as described herein.

d. **Explanation for disclaimer of control.**

(1) As explained above in subparagraph 4.b, the Morgan Stanley Funds, which are venture capital funds managed and invested by Morgan Stanley, collectively own 16.8% of the voting stock of AMS. In addition to Morgan Stanley, two other persons, Dr. John Austin and Three Arch Partners, LLC, own or direct and manage more than 10% of the voting shares of AMS.

(2) Morgan Stanley does not control the voting securities owned or directed and managed by these other persons, nor does it control any other voting security in the company except those described above in subparagraph 4.b. Morgan Stanley also is not the dominant stockholder among many small holders.

(3) The business and affairs of AMS are managed by or under the direction of its Board of Directors, in accordance with Section 141 of the Delaware General Corporation Law. As stated above in subparagraph 4.c, Morgan Stanley has one representative on AMS' Board of Directors, which consists of a total of four directors. These directors also include Dr. John Austin, a representative of Three Arch Partners, L.L.C., and another investor in AMS who holds less than 10% of the voting shares of AMS. AMS intends to amend its by laws in 2006 to add a fifth director to the AMS Board. Morgan Stanley does not in any way control the votes of the other three directors and will not control the vote of the fifth director, when voted on to the Board. Therefore, while it may be said that all directors together have the power to direct or cause the direction of AMS's management and policies, no individual director has that power.

(4) Morgan Stanley also does not have any management contract with AMS, provide non-management services to AMS, possess a debt obligation of AMS which is convertible into a right to acquire voting securities or possess any other means to direct or cause the direction of the management and policies of AMS, nor does any affiliate of Morgan Stanley have such powers.

(5) Morgan Stanley, therefore, does not in fact control AMS or AHP.

5. Based on the facts set forth above, Morgan Stanley hereby requests that the Commissioner allow this disclaimer of control in accordance with Rev. Code Wash. 48.31C.010(3)(a).

MORGAN STANLEY, L.L.C.

By: [Signature]  
(name)

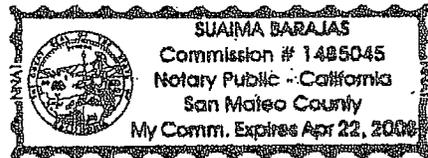
Title: Managing Member

Subscribed and sworn before me, a Notary Public, this 11 day of May, 2006.

[Signature]  
Notary Public

(SEAL)

My commission expires: April 22, 2008



MIKE KREIDLER  
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

Phone (360)

EXHIBIT  
3

Please reply to:

PO Box 40259  
Olympia, WA 98504-0259  
FAX: (360) 586-2022

**FAXED and US MAIL  
(510) 817-1039**

July 19, 2006

BRADLEY LUKE, CONTROLLER  
ARCADIAN HEALTH PLAN  
825 WASHINGTON STREET, SUITE 300  
OAKLAND, CA 94607

MR. WILFRED JAEGER, MANAGING MEMBER  
THREE ARCH PARTNERS  
C/O ARCADIAN HEALTH PLAN

MR. SCOTT HALSTED, MANAGING MEMBER  
MORGAN STANLEY VENTURE PARTNERS, LLC  
C/O ARCADIAN HEALTH PLAN

DR. JOHN AUSTIN, M.D.  
C/O ARCADIAN HEALTH PLAN

Re: Ultimate Controlling Person Disclaimers

Dear Sirs:

We reviewed the three Affidavits Disclaiming control of the Arcadian Health Plan, Inc. ("AHP") and its direct parent, Arcadian Management Services, Inc. ("AMS") filed with this office by Mr. Luke on behalf of Mr. Jaeger and Three Arch Partners, Mr. Halsted and Morgan Stanley Venture Partners LLC, and Dr. Austin.

From these affidavits, the information reflects: 1) Three Arch Partners now holds 27.3% of AMS voting securities, 2) Morgan Stanley Venture Partners now holds 16.8% of such securities, and 3) Dr. Austin now holds 23.8% of such securities. Previously from AHP's admission filing, Dr. Austin held 43.11% AMS ownership interest and Three Arch Partners held 11.62% such interest. No Morgan Stanley Venture Partner interest was reported in the admission filing. The affidavits also reflect Three Arch Partners, Morgan Stanley Venture Partners, and Dr. Austin hold three of the four director positions on the AMS board.

According to RCW 48.31C.010(3), control means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person whether through the ownership of voting securities, voting rights..., unless the power is the result of an official position with or corporate office held by the person. According to RCW 48.31.C010(3)(a), for a for-profit person, control is presumed to exist if a person,

Mailing Address: P.O. Box 40255 • Olympia, WA 98504-0255  
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501



July 19, 2006

Page 2

directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent or more of the voting securities of any other person."

The mere fact Three Arch Partners, Morgan Stanley Venture Partners, and Dr. Austin individually hold less than 50% of the outstanding voting securities of AMS stock in our view is insufficient to rebut the statutory presumption of control through ownership interests that exceed ten percent. In retrospect, the filings indicate Three Arch Partners replaced Dr. Austin as the largest shareholder of AMS, Morgan Stanley Venture Partners acquired a significant AMS ownership interest, and AMS now has three controlling shareholders rather than two through the issuance of new voting securities.

Therefore, it appears a change in the control within the holding company structure occurred. We also believe that a Form "A" filing should have been completed pursuant to RCW 48.31C.030 before these changes in control were made.

For these reasons, our present intention is to disallow the disclaimers of control you filed with this office. According to RCW 48.31C.010(3)(a), the commissioner will make a determination after notifying all interested persons, providing the interested parties an opportunity to be heard, and then making specific findings of fact. If you wish to be heard on this issue, please advise us immediately so we may schedule a formal adjudicative proceeding before making this final determination.

Alternatively, you may wish to withdraw the previously filed disclaimers and submit a Form "A" filing and request a solicitation permit. You will need to expedite these filings with this office no later than July 31, 2006.

In either event, please advise me of your intentions no later than July 21, 2006.

Also, AMS and AHP were required to obtain a solicitation permit according to RCW 48.06.180 before the issuance of any new securities. We did not receive such request. This division will be referring Arcadian's failure to obtain a solicitation permit for enforcement action.

If you have any questions, please call me at 360-725-7211.

Sincerely,



RONALD J. PASTUCH, CPA  
Holding Company Manager  
Company Supervision Division  
E-Mail: RonP@oic.wa.gov

cc: James T. Odiorne, CPA, JD, Deputy Insurance Commissioner

RJP/r

**Chuck Cliett**

---

**From:** RonP@OIC.WA.GOV  
**Sent:** Monday, July 31, 2006 3:53 PM  
**To:** Chuck Cliett  
**Cc:** JimO@OIC.WA.GOV; CharlesB@OIC.WA.GOV  
**Subject:** RE: Arcadian Health Plan: Ultimate Controlling Person Disclaimers

Mr. Cliett.

Your request for a filing extension is approved. Please feel free to contact me if you have any questions.

Ron Pastuch  
Holding Company Manager  
WA Office of Insurance Commissioner

-----Original Message-----

**From:** Chuck Cliett [mailto:CCLIETT@mwsgw.com]  
**Sent:** Monday, July 31, 2006 10:45 AM  
**To:** Ron Pastuch  
**Cc:** Meg Johnston; Brad Luke  
**Subject:** RE: Arcadian Health Plan: Ultimate Controlling Person Disclaimers

Ron,

I can confirm that consistent with filing of the Form A statements seeking approval of the acquisition of control, as described in my e-mail below, the disclaimers of control are withdrawn. I am sorry I did not clarify this in my e-mail on Friday. Thank you.

Chuck Cliett  
MITCHELL WILLIAMS SELIG GATES & WOODYARD  
425 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3525  
ccliETT@mwsgw.com  
<http://www.mitchellwilliamsllaw.com>

(501)688-8819 (direct dial)  
(501)688-8807 (fax)

-----Original Message-----

**From:** RonP@OIC.WA.GOV [mailto:RonP@OIC.WA.GOV]  
**Sent:** Monday, July 31, 2006 9:25 AM  
**To:** Chuck Cliett  
**Subject:** RE: Arcadian Health Plan: Ultimate Controlling Person Disclaimers

Mr. Cliett.

Would you please confirm that the filed disclaimers of control are withdrawn by all parties?

Thank you,  
Ron Pastuch  
Holding Company Manager

WA Office of Insurance Commissioner

-----Original Message-----

**From:** Chuck Cliett [mailto:Ccliett@mws gw.com]  
**Sent:** Friday, July 28, 2006 12:49 PM  
**To:** Ron Pastuch  
**Cc:** Charles Brown; Ark Monroe; Brad Luke; Meg Johnston  
**Subject:** RE: Arcadian Health Plan: Ultimate Controlling Person Disclaimers

Ron,

Per our conversation of a few minutes ago, Arcadian Health Plan, Inc. and its parent company, Arcadian Management Services (AMS) will agree to issue the stock solicitation permits and ensure that the two entities that acquired more than 10% of AMS, Morgan Stanley Venture Partners, LLC and TA Venture Capital Co., LLC (Three Arch Partners) file form A statements regarding a change in control of AMS. In order to facilitate a complete filing that provides the Department all necessary information, we request an additional month, until September 1, 2006 to make the above filings with the Washington Department. People tend to be out of pocket in late July and August for family vacations, and I'd like to ensure we have sufficient time to obtain necessary biographical affidavits and other information.

We appreciate your consideration of this request.

Chuck Cliett  
MITCHELL WILLIAMS SELIG GATES & WOODYARD  
425 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3525  
ccliett@mws gw.com  
<http://www.mitchellwilliams law.com>

(501)688-8819 (direct dial)

(501)952-2430 (mobile)

(501)688-8807 (fax)

-----Original Message-----

**From:** RonP@OIC.WA.GOV [mailto:RonP@OIC.WA.GOV]  
**Sent:** Friday, July 28, 2006 12:00 PM  
**To:** Chuck Cliett  
**Cc:** CharlesB@OIC.WA.GOV  
**Subject:** RE: Arcadian Health Plan: Ultimate Controlling Person Disclaimers

Good afternoon, Mr. Cliett.

Please update us on how the individuals and Company will proceed following our conference call last Monday.

Thank you,  
Ron Pastuch  
Holding Company Manager  
WA Office of Insurance Commissioner  
Phone: (360) 725-7211

---

NOTICE: ANY FEDERAL TAX ADVICE CONTAINED IN THIS COMMUNICATION, INCLUDING ATTACHMENTS AND ENCLOSURES, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER THE INTERNAL REVENUE CODE OR PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY TAX-RELATED MATTERS ADDRESSED HEREIN.

---

This electronic mail transmission and any attachment may constitute an attorney-client communication that is privileged at law. It is not intended for transmission to, or receipt by, any unauthorized persons. If you have received this electronic mail transmission in error, please delete it from your system without copying it, and notify the sender by reply e-mail or by calling (501) 688-8800, so that our address record can be corrected.

---