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2 ALSO ADMITTED IN COLORADO
3 ALSO ADMITTED IN THE U.S. PATENT AND TRADEMARK OFFICE
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WRITER'S DIRECT DIAL
501-688-8819

August 31, 2006

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INSURANCE COMMISSIONER
COMPANY SUPERVISION

VIA FEDERAL EXPRESS

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

RE: Form A Statement for Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC regarding acquisition of voting securities of Arcadian Management Services, Inc.

Dear Commissioner Kreidler:

In accordance with Rev. Code of Washington §48.31C.030, please find enclosed an original and one copy of the Form A Statement filed on behalf of the above-referenced entities (collectively, the "Applicant"). The Statement relates to the acquisition by the Applicant of more than ten percent of the voting securities of Arcadian Management Services, Inc. ("AMS"), the parent company of Arcadian Health Plan, Inc. ("AHP"), a Washington-domiciled health care services corporation. Please note the following:

- This submission contains a scanned copy of the Form A statement. The original Form A statement will be submitted under separate cover directly from the Applicant. You also should receive the original Form A Statement tomorrow.

- Five limited partnership funds controlled by Applicant own voting securities of AMS. Two of those funds, however, own a very small percentage of voting stock (< 1%). Per my previous conversation with Mr. Ron Pastuch, financial statements for these

PLEASE RESPOND TO:
425 WEST CAPITOL AVENUE, SUITE 1800 • LITTLE ROCK, ARKANSAS 72201-3525
TELEPHONE 501-688-8800 • FAX 501-688-8807
5414 PINNACLE POINT DRIVE, SUITE 500 • ROGERS, ARKANSAS 72758-8131
TELEPHONE 479-464-5650 • FAX 479-464-5680

funds with very small holdings have not been included as part of the financial statements in Exhibit F to the Form A Statement. Please note that the Applicant has marked the submitted financial statements as confidential, because the statements contain private, and proprietary, information that would put Applicant at a competitive disadvantage if disclosed.

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

Sincerely,

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

By Charles B. Cliett, Jr.

cc: Mr. Steve Bonelli, Three Arch Partners

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): Three Arch Management II, LLC
TAC Management, LLC
Three Arch Management IV, LLC

FILED WITH THE INSURANCE COMMISSIONER OF THE STATE OF WASHINGTON

Dated: September 1, 2006

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

. Stephen J. Bonelli
Chief Financial Officer
Three Arch Partners
3200 Alpine Road
Portola Valley, CA 94028
(650) 529- 8000

ITEM 1. HEALTH CARRIER AND METHOD OF ACQUISITION

This application relates to Arcadian Health Plan, Inc. ("AHP"), a health care services corporation domiciled in Washington.

AHP's corporate headquarters:	825 Washington Street, Suite 300 Oakland. California 94607
AHP's Washington home office:	1330 N. Washington St, No.3500 Spokane, WA 99201

Brief description of acquisition of control: The following acquisitions of Arcadian Management Services, Inc. ("AMS") voting stock occurred on August 17, 2005:

- A limited partnership fund, Three Arch Partners II, LP, controlled by a general partner, Three Arch Management II, LLC ("TAM II"), purchased 558,971 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, Three Arch Capital, LP and TAC Associates, LP, controlled by a common general partner, TAC Management, LLC ("TAC"), collectively purchased 544,998 shares of Series C Preferred Stock of AMS, which constituted 7.12% of AMS' voting securities on a fully diluted basis.

- Two limited partnership funds, Three Arch Partners IV, LP, and Three Arch Associates IV, LP, controlled by a common general partner, Three Arch Management IV, LLC ("TAM IV"), collectively purchased 363,332 shares of Series C Preferred Stock of AMS, which constituted 4.75% of AMS's voting securities on a fully diluted basis.

TAM II, TAC and TAM IV (collectively referred to as "Three Arch Partners" in this Form A Statement) are affiliated companies, which act in concert with each other in regards to the management and control of AMS voting securities. The same two individuals, Wilfred Jaeger and Mark Wan, act as managing members performing functions equivalent to those of "executive officers," as defined by Washington regulation. *See* Washington Administrative Code ("WAC") §284-18A-340(2).

Prior to the August 17, 2005 purchase of AMS stock, funds controlled by Three Arch Partners owned 355,000 shares of Series A Preferred Stock of AMS, constituting 7.16% of AMS's voting securities on a fully diluted basis. Accordingly, subsequent to the acquisition of Series C Preferred Stock on August 17, 2005, Three Arch Partners controlled 23.82% of the voting stock of AMS on a fully diluted basis. 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 since August 17, 2005 due to the exercise

of stock options and the company's repurchase of certain shares of stock. Currently, Three Arch Partners controls 25.76% of the voting stock of AMS on a fully diluted basis.

AMS owns 100% of AHP. By acquiring greater than 10% of the voting securities of AMS on a fully diluted basis, Three Arch Partners is presumed to "control" AMS under Washington law. Accordingly, such acquisition triggers a change of control of AHP.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) State the name and address of the applicant seeking to acquire control over the health carrier.

Three Arch Partners
3200 Alpine Road
Portola Valley, CA 94028

(b) If the applicant is not an individual, state the nature of its business operations for the past five years or for such lesser period as such person and any predecessors have been in existence.

Three Arch Partners focuses on identifying and supporting new healthcare companies in markets with significant unmet clinical or infrastructure needs. It invests only in healthcare companies, including those providing healthcare services, such as AMS, as well as those specializing in medical devices, diagnostics and sometimes biotechnology. The primary focus of Three Arch Partners is early stage investments, where its expertise in developing an approach and a team can generate the best returns. The company also makes investments in later stage healthcare companies which show strong potential for significant financial returns.

The roles of Three Arch Partners may include securing capital, assembling management, technical, and regulatory teams, and providing operational support. It manages over $1 billion in total capital.

Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

Applicants are providing venture capital financing for AHP and other health plan affiliates of AMS to perform Medicare Advantage business in the State of Washington and several other states. AHP is currently providing Medicare Advantage services in Washington, Texas and Arizona and beginning in 2007 will also do business in South Carolina. Its affiliate Arkansas Community Care, Inc. ("ACC") provides Medicare Advantage services in Arkansas and is expanding operations in 2007 into several counties

in Oklahoma and northeast Texas. Another affiliate, Arcadian Health Plan of Georgia ("AHP-GA") will begin operations in Georgia in 2007.

In response to the trend in recent years of health plans withdrawing from the Medicare Advantage program (formerly Medicare+Choice), AMS is seeking to extend its managed health care and administrative expertise to the Medicare eligible population. It has formed AHP, ACC and AHP-GA for the purpose of providing Medicare Advantage products. .

The business strategy of AMS, as implemented by its subsidiary health plans, focuses on establishing Medicare Advantage plans in smaller urban and non-urban markets to serve and support smaller communities where Medicare-eligible individuals are currently underserved by affordable health plan options that extend beyond standard Medicare benefits. For example, AHP provides Medicare Advantage services in and around Spokane, Washington and El Paso, Texas, among several other areas. ACC currently provides services in counties surrounding Little Rock and in the Fayetteville/Rogers area. AHP-GA will provide services in the Savannah, Georgia area beginning in January 2007.

(c) Chart identifying and showing relationships between AMS, funds that own AMS shares and Three Arch Partner entities controlling funds:

A chart containing the information described above for Three Arch Partners is attached as **Exhibit B** to this Form A Statement.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

The two managing members of TAM II, TAC and TAM IV who fill "executive officer" roles with the company are Mark Wan and Wilfred Jaeger. Messrs. Wan and Jaeger also each own more than 10% interest in each of these three General Partners. Their biographical affidavits are attached as part of **Exhibit C** to this Form A Statement. TAM IV also has three additional members who own controlling interests in the partnership — William Harrington, Michael Kaplan and Richard Lin. Their biographical affidavits also are attached as part of **Exhibit C**. There is one additional former member of TAM II, Tom Fogarty, with more than a 10% interest in the LLC. Mr. Fogarty no longer takes an active role in the partnership, however, and is affiliated with a competing business. Per discussions with the Washington Office of Insurance Commissioner, his biographical affidavit is not being submitted because it is not reasonably available.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration

borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

In the August 17, 2005 stock transaction, Three Arch Partners collectively purchased 1,467,301 shares of Series C Preferred Stock in exchange for $7.156 per share, totaling $10,500,005.96. Three Arch Partners also is reserved one spot on the five-person AMS Board of Directors, in accordance with section 5(a)(ii) of the Second Amended and Restated Investor Rights Agreement, dated August 17, 2005 ("Investor Rights Agreement"), which is attached to this Form A Statement as **Exhibit D.**

Three Arch Partners did not borrow funds to make this investment.

(b) Explain the criteria used in determining the nature and amount of such consideration.

The stock price for Series C Preferred stock was set based on arms-length negotiations between AMS officers, Three Arch Partners and Morgan Stanley after Three Arch Partners and Morgan Stanley had an opportunity to review the financial records of AMS and ask questions of AMS officers.

(c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, he or she must specifically request that the identity be kept confidential.

Not applicable.

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.

Three Arch Partners invested in AMS to support initial operations of AHP and its affiliates until operations become profitable. As stated above, Three Arch 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 Three Arch Partners, nor, to its knowledge, AMS, has plans to declare an extraordinary dividend, 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.

ITEM 6. NONPROFIT HEALTH CARRIERS.

Not applicable.

ITEM 7. FOR-PROFIT HEALTH CARRIERS

If the health carrier being acquired is a for-profit person:

(a) State the number of shares of the health carrier's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was determined.

Applicant did not acquire any stock of the health carrier. They did acquire an indirect ownership interest in AHP, wholly-owned subsidiary of AMS, by acquiring 1,467,301 shares of Series C Preferred Stock of AMS. The Series C Preferred Stock has a par value of $.001 per share and was purchased by applicant at a price of $7.156 per share. This price was the result of arms-length negotiations between AMS and Three Arch Partners, after Three Arch Partners had an opportunity to question AMS officers and review its financial records. Additionally, the Series C Preferred Stock ranks pari passu with the Company's Series A Preferred Stock, Series B Preferred Stock and Series B-1 Preferred Stock with respect to the rights to receive dividends and proceeds of liquidation (including sales proceeds) and conversion rights, and ranks pari passu with the Series B Preferred Stock and Series B-1 Preferred Stock with respect to redemption rights. All of the foregoing establishes the fairness of the stock purchase.

(b) State the amount of each class of any voting security of the health carrier which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Three Arch Partners owns no voting security of AHP. In addition to the Schedule C preferred stock that is the subject of this Form A Statement, Three Arch Partners owns 355,000 shares of Series A Preferred Stock of AMS. Neither applicant nor its affiliates have a right to acquire any additional shares in AMS, other than the right to purchase shares sold by other shareholders and preemptive rights as set forth in the Investor Rights Agreement attached as **Exhibit D** to this Form A Statement.

(c) Give a full description of any contracts, arrangements or understandings with respect to any voting security of the health carrier in which the applicant, its affiliates or any person listed in Item 3 is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division

of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom such contracts, arrangements or understandings have been entered into.

The Investor Rights Agreement is an agreement entered into by all shareholders of AMS which provides for certain restrictions relating to the transfer of any AMS stock owned by such shareholders and sets forth certain rights and responsibilities of each shareholder.

The Registration Rights Agreement dated August 18, 2005 (the "Registration Agreement") and entered into by all shareholders of AMS is a companion agreement to the Investor Rights Agreement and grants the shareholders certain rights of registration with respect to the stock each shareholder owns. A copy of the Registration Agreement is attached to this Form A Statement as **Exhibit E**.

(d) Describe any purchases of any voting securities of the health carrier by the applicant, its affiliates or any person listed in Item 3 during the twelve calendar months preceding the filing of this statement. Include in such description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

Three Arch Partners did not purchase any voting securities in AMS or AHP in the 12 months preceding the August 17, 2005 stock purchase that is the subject of this Form A Statement.

(e) Describe any recommendations to purchase any voting security of the health carrier made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the twelve calendar months preceding the filing of this statement.

There were no such recommendations made during the 12 months preceding the August 17, 2005 stock purchase that is the subject of this Form A Statement.

(f) Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the health carrier for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

There were no such agreements, contracts or understanding with brokers regarding the August 17, 2005 stock purchase that is the subject of this Form A Statement.

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.

Per discussions with the Washington Office of Insurance Commissioner, Three Arch Partners provides the following audited financial statements of its limited partner funds holding AMS voting securities in **Exhibit F** to this Form A Statement. Funds with less than 1% of voting securities have been omitted, per discussions with the Office of Insurance Commissioner regarding the applicant omitting statements for funds with very minimal holdings of AMS voting stock.

Confidentiality of Financial Statements

The contents of Exhibit F contain private proprietary and trade secret information exempt which should be maintained in a confidential manner by the Washington Office of Insurance Commissioner and not disclosed to the public under Washington public records laws. *See* Revised Code of Washington (RCW) 42.56.400(10)(exempting "confidential proprietary and trade secret information provided to the commissioner" under RCW 48.31C.030; Washington Administrative Code (WAC) 284-18A-440 (allowing applicant to mark confidential proprietary and trade secret information as confidential, providing a basis for the claim of confidentiality). Three Arch Partners provides additional explanation for why the financial statements constitute proprietary and trade secret information at the beginning of **Exhibit F** to this Form A Statement.

Notice of Public Records Request

Per discussions between counsel for Three Arch Partners and the Office of Insurance Commissioner, we understand that the Washington Department will agree to notify Three Arch Partners if the Office receives a public records request for such financial statements. Please provide such notice to the following person:

Chief Financial Officer
ATTN: Stephen J. Bonelli
Three Arch Partners
3200 Alpine Road
Portola Valley, CA 94028
(650) 529- 8000

List of attached audited financial statements:

- Three Arch Partners II, LP audited financial statements for calendar years ending 2005, 2004, 2003, 2002 and 2001;
- Three Arch Capital, LP audited financial statements for calendar years ending 2005, 2004, 2003, 2002 and 2001;

- Three Arch Partners IV, LP audited financial statements for calendar year 2005 and for period from October 23, 2003 (inception) to December 31, 2004.

(b) The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors have been in existence), and similar information covering the period from the end of such person's last fiscal year, if such information is available. Such statements may be prepared on either an individual basis, or, unless the commissioner otherwise requires, on a consolidated basis if such consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. If the applicant is a health carrier or an insurer, the annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with statutory accounting principles as set forth in Titles 48 RCW and 284 WAC.

See Item 8(a).

(c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the health carrier and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the health carrier, annual reports to the stockholders of the health carrier and the applicant for the last two fiscal years, and any additional documents or papers required by Form A or WAC 284-18A-300 in or 284-18A-320.

As explained in item 3, Mr. Tom Fogarty's biographical affidavit is not reasonably available and, accordingly, is not being provided, per discussions with the Washington Office of Insurance Commissioner and consistent with WAC §284-18A-320.

ITEM 9. SIGNATURE AND CERTIFICATION

Required signature and certification follow on next page.

SIGNATURE

Pursuant to the requirements of RCW 48.31C.030, Three Arch Partners has caused this application to be duly signed on its behalf in the City of Portola Valley and State of California on the day of 31st day of August, 2006.

(SEAL)

Three Arch Management II, LLC
TAC Management, LLC
Three Arch Management IV, LLC

BY _____

Mark Wan
(Print Name)

Managing Member
(Title)

Attest: Barclay Nicholson
(Signature of Officer)

Managing Member
(Title)

Certification

The undersigned deposes and says that (s)he has duly executed the attached application dated , for and on behalf of Three Arch Management II, LLC, TAC Management, LLC and Three Arch Management IV, LLC; that (s)he is a Managing Member of such partnerships 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: Mark Wan