

STATE OF WASHINGTON

Phone: (360) 725-7000

MIKE KREIDLER  
STATE INSURANCE COMMISSIONER  
**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 7th day of March 2007 at Tumwater, Washington.



OFFICE OF  
INSURANCE COMMISSIONER

HEARINGS UNIT

Fax: (360) 664-2782

FILED

2007 MAR -7 P 3:10

Signed: Wendy Galloway

Patricia D. Petersen  
Chief Hearing Officer  
(360) 725-7105

Hearings Unit, DIC  
Patricia D. Petersen  
Chief Hearing Officer  
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Paralegal  
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BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Acquisition of: )  
 ) G2007-13  
NORTHWEST DENTISTS INSURANCE )  
COMPANY, a Washington Domiciled )  
Property & Casualty Insurer ) ORDER APPROVING  
By HEALTH SERVICES GROUP, INC., ) ACQUISITION OF CONTROL  
& WASHINGTON STATE DENTAL )  
ASSOCIATION. )  
\_\_\_\_\_ )

TO: Health Services Group Inc.  
The ODS Companies  
601 S.W. Second Avenue, 24<sup>th</sup> Floor  
Portland, Oregon 97204-3156  
ATTN: Robert G. Gootee  
President and Chief Executive Officer

Washington State Dental Association  
1001 Fourth Avenue, Suite 3800  
Seattle, Washington 98154  
ATTN: Stephen A. Hardymon  
Executive Director

Physician Insurance  
1730 Minor Avenue, Suite 1800  
Seattle, Washington 98101  
ATTN: Gary Morse, Esq.  
Sr. Vice President, General Counsel and Corporate Secretary

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James M. Kennedy, Esq.  
Kennedy & Kennedy LLP  
601 SW Second Avenue, Suite 2050  
Portland, Oregon 97204

Alan Wicks, Esq.  
Kirkpatrick & Lockhart Preston Gates Ellis LLP  
925 Fourth Avenue, Suite 2900  
Seattle, Washington 98104-1158

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

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31B.015, and Chapter 284-18 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 commencing at 9:00 a.m. on February 28, 2007, in the Office of the Insurance Commissioner, 5000 Capitol Blvd., Tumwater, WA 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, Health Services Group, Inc. and the Washington State Dental Association, were represented, respectively, by James M. Kennedy, Esq. of Kennedy & Kennedy LLP in Portland, Oregon and Alan Wicks, Esq. of Kirkpatrick & Lockhart Preston Gates Ellis LLP in Seattle, Washington. The Seller, Physicians Insurance A Mutual Company, was represented by Gary L. Morse, its Senior Vice President, General Counsel and Corporate Secretary. The Washington State Insurance Commissioner ("Commissioner") was represented by Thomas P. Rowland, Esq., Staff Attorney in his Legal Affairs Division.

On October 31, 2006, the Applicants, by and through their counsel, filed a preacquisition notification with the Commissioner ("Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer"), requesting approval for the proposed acquisition of Northwest Dentists Insurance Company, through the purchase by Health Services Group, Inc. and the Washington State Dental Association of all of the issued and outstanding shares of the common stock of Northwest Dentists Insurance Company from the proposed Seller, Physicians Insurance A Mutual Company. On December 28, 2006, the Applicants filed an Amended and Restated Form A dated December 22, 2006, which by its terms superseded the Form A filed on October 31, 2006. On January 19, 2007, the Applicants filed Amendment No. 2 to Form A.

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RCW 48.31B.015, part of the Washington Insurer Holding Company Act, requires that the Commissioner hold a hearing to examine the evidence and determine whether the proposed acquisition of control of this Washington domestic property and casualty insurance company satisfies the applicable statutory criteria and should be approved. In the Amended and Restated Form A, the requested effective date of the proposed acquisition of control was stated to be February 28, 2007. In view of the date of the hearing, the parties have mutually decided to close the proposed acquisition as soon as practicable after receiving regulatory approval.

**FINDINGS OF FACT**

Having considered the written and oral evidence presented at the hearing, and the documents on file herein, including the Form A and exhibits thereto, the undersigned finds as follows:

1. 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. The Oregon Dental Association is an Oregon non-profit corporation which is the state association for Oregon dentists. The Oregon Dental Association is the ultimate controlling person of Oregon Dental Service (ODS) under WAC 284-18-340(4). Specifically, the Oregon Dental Association, with its executive offices in Portland, Oregon, controls ODS in that, acting by and through its Board of Trustees, the Oregon Dental Association has the right to appoint and remove all directors of ODS other than the President. [Form A, Ex. 1; Testimony of Robert G. Gootee.] ODS is an Oregon non-profit corporation licensed as a health care service contractor in Oregon, NAIC No. 54941, is the largest Oregon dental benefits carrier in Oregon with over 30% of the market share, and has its executive offices in Portland, Oregon. [Testimony of Robert G. Gootee.] ODS wholly owns Health Services Group, Inc. (HSG). HSG, one of the two Applicants herein, is an Oregon business corporation with its executive offices in Portland, Oregon. In turn, HSG wholly owns several corporations including ODS Health Plan, Inc., an Oregon licensed health care service contractor which is the fourth largest carrier of medical benefits coverage in Oregon. ODS Health Plan, Inc. wholly owns, among other corporations, Dentists Benefits Insurance Company (DBIC), an Oregon insurance corporation which is the major dental liability carrier in Oregon, covering approximately 86% of Oregon Dental Association member dentists. (Additionally, HSG wholly owns, among other corporations in addition to ODS Health Plan, Inc., Dentists Benefits Corporation (DBC), an insurance producer licensed by the state of Oregon to offer insurance and business services directly to dentists and which is the exclusive agency to sell the products of DBIC as well as other products). [Form A, Ex. 1; Testimony of Robert G. Gootee.]
3. Northwest Dentists Insurance Company (NORDIC) is a Washington domiciled stock insurance corporation, NAIC No. 32417, with its executive offices in Seattle, Washington. While NORDIC is authorized by the Commissioner under Certificate of Authority No. 1783 to transact general casualty, property, marine &

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transportation, vehicle and surety insurance in the state of Washington, it currently limits itself primarily to the sale of liability insurance to dentists. It is also authorized to transact its insurance business in Oregon, Idaho and Montana. [Form A, Ex. 1.] All issued and outstanding common stock of NORDIC is owned by Physicians Insurance A Mutual Company, a Washington domiciled mutual insurance corporation, NAIC No. 40738, with its executive offices in Seattle, Washington. [Form A, Ex. 1.]

4. The Washington State Dental Association (WSDA) is a voluntary membership association of dentists licensed in Washington, and presently has approximately 4,025 members compared to the total number of Washington dental licenses held by Washington residents which is approximately 4,473 licenses. The WSDA endorses NORDIC insurance products and has benefited through its generation of an endorsement fee which is non-dues revenue. Washington Dentists Insurance Agency, Inc. ("WDIA"), formed in 1990, is a wholly owned subsidiary of WSDA and is licensed in Washington to sell life, disability, property and casualty insurance and, as is relevant herein, sells the Northwest Dentists Insurance Corporation (NORDIC) insurance products to Washington dentists. If this proposed acquisition is approved, WDIA will be the exclusive agency to sell the NORDIC liability insurance contracts to Washington dentists. [Form A, Ex. 1; Testimony of Stephen A. Hardymon.]
5. Under the terms of the proposed acquisition, Physicians Insurance will sell all of the issued and outstanding shares of NORDIC to HSG and WSDA. NORDIC has outstanding 15 shares, \$100,000 par value, of common stock, of which 11.25 shares (75%) will be purchased by HSG and 3.75 shares (25%) will be purchased by WSDA. The purchase price will be equal to the sum of (i) NORDIC's statutory capital and surplus as of February 28, 2007, plus (ii) \$1,000,000. The purchase price will be allocated \$500,000 to a three-year noncompetition covenant of Physicians Insurance and the balance to the purchase of shares by HSG and WSDA, respectively. Under the terms of the proposed acquisition, NORDIC will continue to exist as a domestic stock insurance corporation under the laws of the state of Washington. [Form A, Ex. 1; Testimony of Thomas J. Bikales.]
6. HSG and WSDA have entered into a Shareholder Agreement regarding the corporate governance and business operations of NORDIC. The Shareholder Agreement provides for NORDIC to be managed by DBC under a Management Agreement to be entered into on the closing of the proposed acquisition. The Shareholder Agreement provides for WDIA to be the exclusive agent of NORDIC under an Agency Agreement to be entered into on the closing of the proposed acquisition. [Form A, Ex. 1; Testimony of Thomas J. Bikales; Testimony of Jonathan L. Jurevic.]
7. The Applicants have properly filed the Form A herein. The Subject Form A contains all the information required by applicable statute and as further required by the Insurance Commissioner. [Form A, Ex. 1; Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13.]

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8. After the proposed acquisition of control, NORDIC will continue to be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed. [Form A, Ex. 1; Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of Thomas J. Bikales; Testimony of Gary L. Morse.]
9. The effect of this proposed acquisition of control would not be substantially to lessen competition in insurance in this state or to create a monopoly therein. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of Cary J. Ecker; Testimony of Christopher F. Verbiest; Testimony of William S. Ten Pas, DDS.]
10. The financial condition of the Applicants is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of NORDIC, or prejudice the interest of NORDIC's policyholders. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of Jonathan L. Jurevic; Testimony of Thomas J. Bikales; Testimony of Stephen A. Hardymon.]
11. After completion of this proposed acquisition, there are no plans to liquidate NORDIC, sell its assets, consolidate or merge it with any person. There are plans to change the management of NORDIC, but the plans are not unfair or unreasonable to NORDIC's policyholders and not against the public interest. Further, there are no other planned material changes to NORDIC's business or corporate structure or management which are unfair or unreasonable to NORDIC's policyholders or not in the public interest. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of Jonathan L. Jurevic; Testimony of Christopher F. Verbiest.]
12. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of NORDIC after the proposed acquisition are such that it would not be in the interest of NORDIC's policyholders or of the public to permit this proposed acquisition of control. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of Robert G. Gootee; Testimony of Christopher F. Verbiest; Testimony of Gary L. Morse; Testimony of Stephen A. Hardymon.]
13. It is not likely that this proposed acquisition is hazardous or prejudicial to the insurance-buying public. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13; Testimony of William S. Ten Pas, DDS; Testimony of Gary M. Christman, DDS; Testimony of Spencer S. Jilek, DDS; Testimony of Stephen A. Hardymon; Testimony of Robert G. Gootee; Testimony of Cary J. Ecker.] After completion of this proposed acquisition, all rights and privileges of NORDIC's policyholders will remain the same as they are at this time. [Testimony of Thomas J. Bikales.]
14. The Amended Notice of Hearing on Proposed Acquisition herein [Ex. 1], which contains information concerning this proposed acquisition and the hearing thereon, was published in its entirety on the Washington State Insurance

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Commissioner's website commencing on February 14, 2007 and continuously since that date. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 13.] It is here found that this notice constitutes reasonable and adequate notice to interested parties, both in its content and period of time over which it was published.

15. As indicated in the subject Amended Notice of Hearing [Ex. 1, Notice of Hearing, pages 4 and 5], all interested parties were given the opportunity to submit any comments on, or objections to, this proposed acquisition up until February 28, 2007 at 9:00 a.m. to the undersigned by fax, U.S. mail or personal delivery or email. 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 by the undersigned. Further, no communications of any kind were received from outside parties by the Applicants, Physicians Insurance or NORDIC [Testimony of Gary L. Morse; Testimony of Thomas J. Bikales; Testimony of Stephen A. Hardymon.] Further, no communications of any kind were received by the Commissioner. [Testimony of Ronald J. Pastuch; Declaration of Ronald J. Pastuch, Ex. 14.] Based upon this evidence, it is here found that no reasonable objection to this proposed acquisition exists.
16. Based upon the above Findings of Facts, it is here found that this proposed acquisition is reasonable and should be approved.
17. The sole witness for the Commissioner was Ronald J. Pastuch, Holding Company Manager in the Company Supervision Division of the Office of the Insurance Commissioner. Mr. Pastuch presented his testimony in a detailed and credible manner and exhibited no biases.
18. Gary L. Morse, Esq., Senior Vice President, General Counsel and Secretary of Physicians Insurance, testified on behalf of Physicians Insurance. Mr. Morse presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Morse presenting oral testimony, Physicians Insurance requested, and was granted, the opportunity to submit the written declaration of Mr. Morse and to have it included into the record as if it had been presented orally. [Declaration of Gary Morse admitted as Ex. 2.]
19. Cary J. Ecker, General Manager of NORDIC, testified on behalf of Physicians Insurance. Mr. Ecker presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Ecker presenting oral testimony, Physicians Insurance requested, and was granted, the opportunity to submit the written declaration of Mr. Ecker and to have it included into the record as if it had been presented orally. [Declaration of Cary Ecker admitted as Ex. 3.]
20. William S. Ten Pas, DMD, Senior Vice President of HSG, testified by telephone on behalf of HSG. Dr. Ten Pas presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Dr. Ten Pas presenting

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oral testimony, HSG requested, and was granted, the opportunity to submit the written declaration of Dr. Ten Pas and to have it included into the record as if it had been presented orally. [Declaration of William S. Ten Pas, DMD, admitted as Ex. 4.]

21. Thomas J. Bikales, Esq., Director of Legal and Regulatory Affairs of HSG, and its Assistant Secretary, testified on behalf of HSG. Mr. Bikales presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Bikales presenting oral testimony, HSG requested, and was granted, the opportunity to submit the written declaration of Mr. Bikales and to have it included into the record as if it had been presented orally. [Declaration of Thomas J. Bikales admitted as Ex. 5.]
22. Robert G. Gootee, MBA, President, Chief Executive Officer and Director of both HSG and ODS, testified on behalf of HSG. Mr. Gootee presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Gootee presenting oral testimony, HSG requested, and was granted, the opportunity to submit the written declaration of Mr. Gootee and to have it included into the record as if it had been presented orally. [Declaration of Robert G. Gootee admitted as Ex. 6.]
23. Jonathan L. Jurevic, MBA, Senior Vice President, Chief Financial Officer and Treasurer of HSG and ODS, testified on behalf of HSG. Mr. Jurevic presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Jurevic presenting oral testimony, HSG requested, and was granted, the opportunity to submit the written declaration of Mr. Jurevic and to have it included into the record as if it had been presented orally. [Declaration of Jonathan L. Jurevic admitted as Ex. 7.]
24. Gary M. Christman, DDS, a practicing Washington dentist, testified on behalf of WSDA. Dr. Christman presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Dr. Christman presenting oral testimony, WSDA requested, and was granted, the opportunity to submit the written declaration of Dr. Christman and to have it included into the record as if it had been presented orally. [Declaration of Gary M. Christman, DDS, admitted as Ex. 8.]
25. Christopher F. Verbiest, Vice President and General Manager of DBIC and DBC, testified on behalf of HSG. Mr. Verbiest presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Verbiest presenting oral testimony, HSG requested, and was granted, the opportunity to submit the written declaration of Mr. Verbiest and to have it included into the record as if it had been presented orally. [Declaration of Christopher F. Verbiest admitted as Ex. 9.]
26. Stephen A. Hardymon, Executive Director of WSDA, testified on behalf of WSDA. Mr. Hardymon presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Mr. Hardymon presenting oral

testimony, WSDA requested, and was granted, the opportunity to submit the written declaration of Mr. Hardymon and to have it included into the record as if it had been presented orally. [Declaration of Stephen A. Hardymon admitted as Ex. 10.]

27. Dr. Spencer S. Jilek, DDS, a practicing Washington dentist and formerly a director of NORDIC, testified on behalf of WSDA. Dr. Jilek presented his testimony in a detailed and credible manner and exhibited no biases. Further, in addition to Dr. Jilek presenting oral testimony, WSDA requested, and was granted, the opportunity to submit the written declaration of Dr. Jilek and to have it included into the record as if it had been presented orally. [Declaration Spencer S. Jilek, DDS, admitted as Ex. 11.]
28. The Applicants requested, and were granted, the opportunity to submit the Opening Statement and Closing Statement in written form and to have them included into the record as if they had been presented orally. [Opening Statement of Alan Wicks, Esq. admitted as Ex. 12; Closing Statement of James M. Kennedy admitted as Ex. 15.]
29. Based upon the above Findings of Facts, it is reasonable that the application of Health Services Group, Inc and Washington State Dental Association for approval of their proposed acquisition of control of Northwest Dentists Insurance Company should be approved.

#### CONCLUSIONS OF LAW

1. Pursuant to Title 48 RCW and specifically RCW 48.31B, the Washington State Insurance Commissioner has jurisdiction over the plan of acquisition and change of control of Northwest Dentists Insurance Company.
2. Based upon Finding of Fact No. 7 above, the Applicants properly filed the preacquisition notification, Form A, before the requested effective date of this proposed acquisition, as required by RCW 48.31B.015(1) and such preacquisition notification, Form A, contains the information required by RCW 48.31B.015(2).
3. Based upon Finding of Fact No. 8 above, after the change of control Northwest Dentists Insurance Company will continue to satisfy the requirements for a certificate of authority to conduct a property, casualty, vehicle, surety and marine and transportation insurance business in this state, as contemplated by RCW 48.31B.015(4)(a)(i).
4. Based upon Finding of Fact No. 9 above, the change of control of Northwest Dentists Insurance Company will not substantially lessen competition in insurance in this state or tend to create a monopoly in this state, as contemplated by RCW 48.31B.015(4)(a)(ii).

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5. Based upon Finding of Fact No. 10 above, the financial condition of Health Services Group, Inc. and Washington State Dental Association is such that the financial stability of Northwest Dentists Insurance Company will not be jeopardized by the proposed acquisition, and the interest of the policyholders of Northwest Dentists Insurance Company will not be prejudiced, as contemplated by RCW 48.31B.015(4)(a)(iii).
6. Based upon Finding of Fact No. 11 above, there are no plans to liquidate Northwest Dentists Insurance Company, sell its assets, consolidate or merge it with any person. There are plans to change the management of Northwest Dentists Insurance Company, but the plans are not unfair or unreasonable to the policyholders of Northwest Dentists Insurance Company and such proposed change is not against the public interest, as contemplated by RCW 48.31B.015(4)(a)(iv).
7. Based upon Finding of Fact No. 12 above, the competence, experience, and integrity of those persons who will control the operation of Northwest Dentists Insurance Company are such that, should this proposed acquisition be permitted, it would not be against the interest of the policyholders of Northwest Dentists Insurance Company or of the public, as contemplated by RCW 48.31B.015(4)(a)(v).
8. Based upon Finding of Fact No. 13 above, the acquisition of Northwest Dentists Insurance Company by Health Services Group, Inc. and Washington State Dental Association is not likely to be hazardous or prejudicial to the insurance-buying public, as contemplated by RCW 48.31B.015(a)(vi).
9. Based upon Finding of Fact Nos. 14 and 15, reasonable notice to interested parties has been given, and no objections exist.
10. The provisions of the Insurance Code of the State of Washington, Chapter 48.31B RCW, and specifically RCW 48.31B.015 governing approval of acquisitions, have been met. Pursuant to Chapter 48.31B RCW, and specifically RCW 48.31B.015, the Applicants' request for approval of this proposed acquisition is granted.

**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 proposed acquisition have been met, and to the effect that approval of this proposed acquisition should be granted,

**IT IS HEREBY ORDERED** that the application of Health Services Group, Inc. and Washington State Dental Association for the Washington State Insurance Commissioner's approval of their proposed acquisition of Northwest Dentists Insurance Company from Physicians Insurance A Mutual Company, upon the terms included into evidence in this proceeding is GRANTED effective at close of business on February 28, 2007. Said grant of approval effective at close of business on February 28, 2007 was

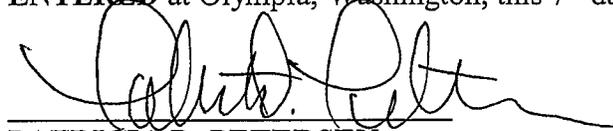
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orally ordered by the undersigned on February 28, 2007 at the close of the adjudicative proceeding herein, and this Order Approving Acquisition of Control confirms that grant of approval.

This Order is entered pursuant to Title 48 RCW, and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

**ENTERED** at Olympia, Washington, this 7<sup>th</sup> day of March, 2007.



**PATRICIA D. PETERSEN**

Chief Hearing Officer  
Presiding Officer