

FORM A  
STATEMENT REGARDING THE  
ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER

PACIFICSOURCE HEALTH PLANS  
AND  
PACIFICSOURCE COMMUNITY HEALTH PLANS

Name of Domestic Insurer

BY

LEGACY HEALTH  
by means of a transaction in conjunction with  
PACIFICSOURCE and PACIFIC HEALTH ASSOCIATES

Name of Acquiring Person (Applicant)

Filed with the Department of Consumer and Business Services of the State of Oregon

Dated: December 23, 2015.

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

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## ITEM 1. METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Domestic insurers:	PacificSource Health Plans	PacificSource Community Health Plans
	110 International Way	2965 NE Conners Avenue
	Springfield, OR 97477	Bend, OR 97701
	P. O. Box 7068	P. O. Box 7068
	Springfield, OR 97475	Springfield, OR 97475

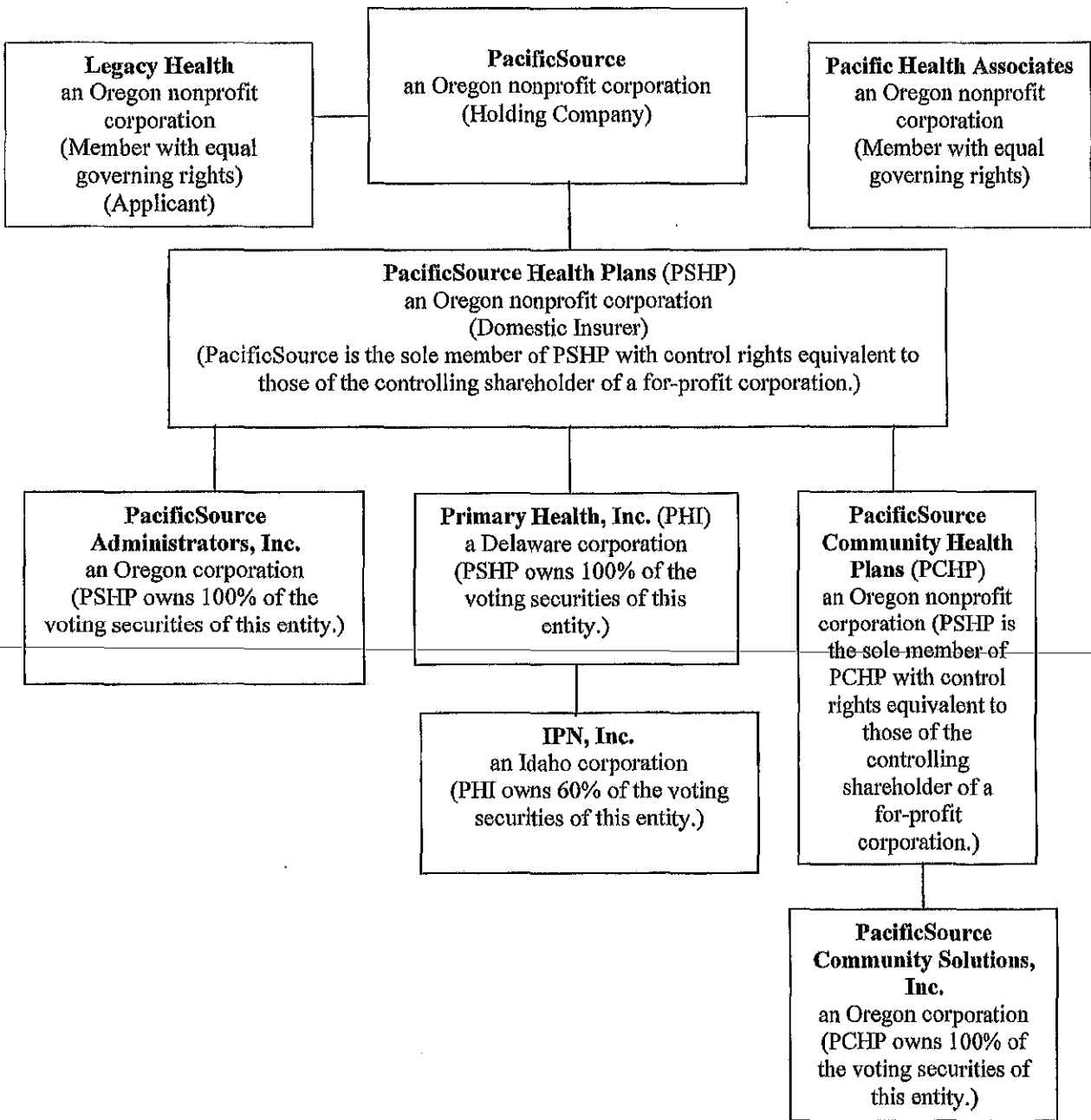
PacificSource Health Plans, an Oregon nonprofit public benefit corporation, ("PSHP") and PacificSource Community Health Plans, an Oregon nonprofit public benefit corporation, ("PCHP") are part of an Oregon insurance holding company system. PacificSource, an Oregon nonprofit public benefit corporation, ("Holding") is the sole member of PSHP, with control rights equivalent to those of the controlling shareholder of a for-profit corporation, and PSHP is the sole member of PCHP, with control rights equivalent to those of the controlling shareholder of a for-profit corporation.

Legacy Health, an Oregon nonprofit public benefit corporation, ("Legacy") expressed interest in entering into a joint venture relationship with Holding to help promote the complementary missions of the two organizations, and the parties developed a framework for this to occur. Under this framework, upon the Director's approval of the restructuring described in this application (the "Restructuring") and the expiration of the sixty day waiting period after such approval, Holding, which currently has no members, will reorganize into a nonprofit public benefit corporation with members. Legacy will then acquire a member interest in Holding (and therefore indirectly an interest in PSHP and PCHP) in exchange for capital contributions in an aggregate amount equal to the pre-closing value of Holding, as determined by the parties, such contributions to be made over a period of five years.

Holding has caused a new Oregon nonprofit public benefit corporation to be created, Pacific Health Associates (PHA), to be the second member of Holding, with the current members of Holding's Board of Directors also serving as the directors of PHA. PHA is to have a member interest in Holding representing the pre-closing value of Holding. Legacy and PHA will have (1) equal governing rights with respect to Holding upon the closing of the transaction, and (2) equal economic interests in Holding once Legacy has contributed to Holding the full amount of capital it has committed to contribute.

The parties' agreement has been memorialized in a Member Interest Acquisition Agreement, a copy of which is attached hereto as "Item 1 Exhibit" (the "Member Interest Acquisition Agreement"). (All attachments to the Member Interest Acquisition Agreement have been included in Item 1 Exhibit except the parties' disclosure schedules, which do not include any of the operative terms of the agreement.)

The organization chart set out below shows the structure of the PacificSource insurance company holding system after the Restructuring:



## ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

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

Legacy Health  
1919 NW Lovejoy Street  
Portland, OR 97209

(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 thereof have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

### Nature of Legacy's Business for the Past Five Years

Legacy is a health care system serving Oregon and Southwest Washington. Legacy's roots go back more than 100 years. Legacy's two largest hospitals were founded (Good Samaritan in 1875 and Emanuel in 1912) by faith-based groups seeking to care for the growing city. As the decades went on, those two hospitals grew into larger health organizations. In 1989, they merged to create Legacy Health System. What is now known as "Legacy Health" is one of the largest private-sector employers in the Portland metropolitan area.

Today, Legacy is the only health system covering the Portland metro area with multiple hospitals and a specialized children's hospital. Legacy's mission is to provide good health for its employees, patients, communities, and the world. Legacy seeks to become a fully integrated health care provider, a goal that is enhanced through affiliation with PacificSource.

### The Business Intended to be Done after the Restructuring

Legacy and Holding intend to (1) further their respective missions to achieve an alignment of payor and provider interests to better embrace population health, and (2) further effective care management and decrease costs for patients through greater efficiencies brought about through the parties' coordination of operations. Upon consummation of the Restructuring, the parties expect to:

(i) offer and provide commercial health plan products, self-insured plans, government health plans, direct arrangements with employers and other to-be-developed payor and/or administrative models that are based on an integrated payor/provider approach that includes, supports and drives population health management and new care models;

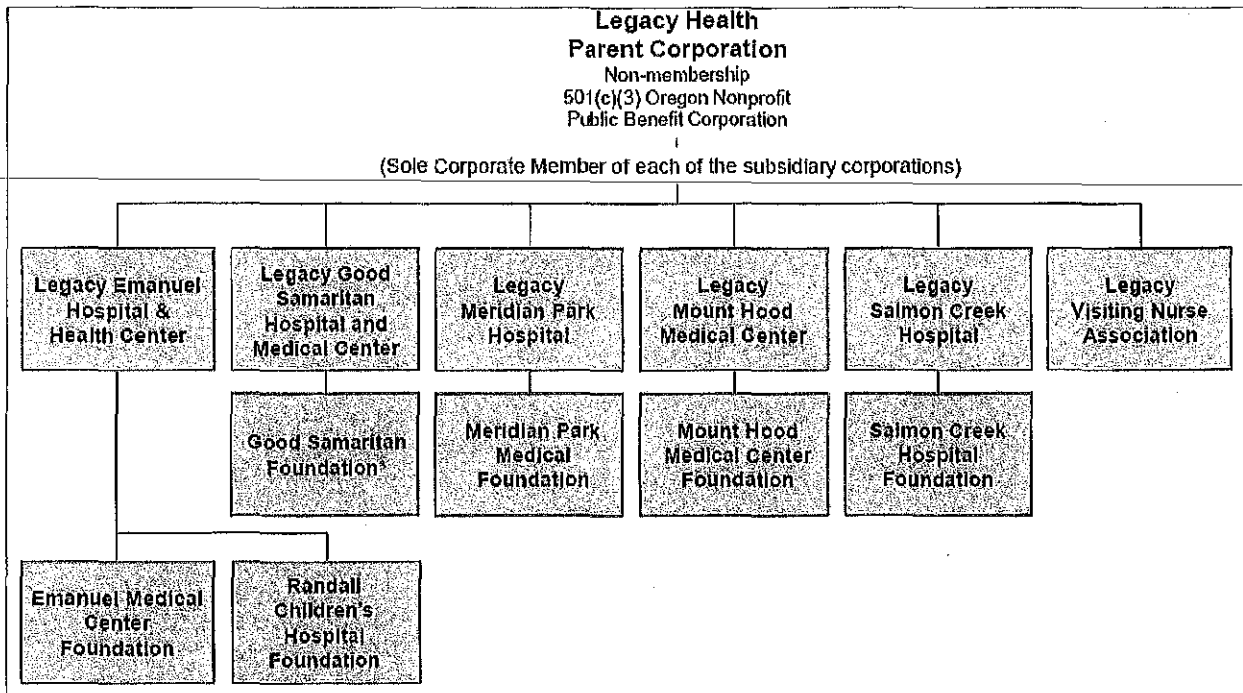
(ii) develop and implement strategies in Legacy service areas that support and strengthen both Legacy's and Holding's and Holding's

subsidiaries' and affiliates' (including PSHP and PCHP) strategies and market share in those areas and leverage Legacy's network and capabilities;

(iii) work in cooperation to identify mutual opportunities in areas outside of Legacy's current service areas; and

(iv) develop a highly effective shared governance and investment model that positions Holding and its subsidiaries and affiliates to be successful in all markets.

(c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.



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

On the biographical affidavit, include a third party background check, and state the following with respect to (1) the acquiring party if the applicant is an individual or (2) if the

applicant is not an individual, all persons who are directors, executive officers or owners of 10 percent or more of the voting securities of the applicant:

(a) Name and business address.

(b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on.

(c) Material occupations, positions, offices or employment during the last five years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

(d) Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

A list of the directors and executive officers of Legacy is attached hereto as "Item 3 Exhibit." As a non-profit public benefit corporation, Legacy does not have any stock -- voting or non-voting. Accordingly, Legacy does not have an equity ownership structure and does not have equity owners. The Item 3 Confidential Supplement attached hereto contains the biographical affidavits for each director and executive officer of Legacy.

#### **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.

Legacy has agreed to invest funds totaling \$247.5 million in Holding in exchange for the contemplated member interest in Holding (the "Consideration"). This investment is to be made through a series of capital contributions. Legacy is to contribute \$100 million to the capital of Holding as of the closing of the Restructuring and an additional \$29.5 million per year for five years after the closing. The source of funds to pay the Consideration will be cash from Legacy Health.

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

Pursuant to the parties' agreement, Legacy is to obtain a 50% economic interest as a member of Holding, with governing rights as a member equal to those of PHA. The parties agreed that in order to obtain such a member interest, Legacy should provide funds to Holding in the form of capital contributions, the aggregate amount of which would equal the current value of Holding and its subsidiaries and affiliates less the current value of certain real property to be distributed by Holding to PHA (the "Real Property," as such term is defined in the Member Interest Acquisition Agreement). A qualified appraiser of health insurance-related entities (the "Business Appraiser") was engaged to determine the fair market value of Holding and its subsidiaries and affiliates, which determination was to be expressed as a range of value within which the fair market value would fall. A qualified real estate appraiser (the "Real Estate Appraiser") was engaged to determine the fair market value of the Real Property.

Based on the range of value determined for Holding by the Business Appraiser, the parties agreed upon a current fair market value of \$290 million for Holding and its subsidiaries and affiliates. The fair market value determined for the Real Property by the Real Estate Appraiser was \$42.5 million. Subtracting the value of the Real Property from the agreed upon value for Holding yielded an agreed current fair market value for Holding and its subsidiaries and affiliates (exclusive of the Real Property) of \$247.5 million. Therefore, under the Member Interest Acquisition Agreement, \$247.5 million is the aggregate amount Legacy is to contribute to the capital of Holding.

(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, the applicant must specifically request that the identity be kept confidential.

NOT APPLICABLE

#### **ITEM 5. FUTURE PLANS OF INSURER**

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, 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.

The parties contemplate no material changes with respect to PSHP or PCHP after the Restructuring is consummated. The corporate structure of Holding will be changed as described below, but at the level of the subsidiaries and affiliates of Holding, there will be no material change to entity structure, management or operation. (The parties anticipate that there will be opportunities in the future to create a more efficient organizational structure for Holding's subsidiaries and affiliates (e.g., possibly making PCHP a

direct affiliate of Holding rather than being a direct affiliate of PSHP; convert PacificSource Community Solutions, Inc. from a for profit corporation to a non-profit corporation; etc.), but any such further restructuring would be the subject of a future filing.)

A portion of the capital invested by Legacy in Holding will be available for contribution to PSHP and/or PCHP as needed to support growth and other capital needs so as to maintain desired levels of risk based capital ("RBC"). In addition, the parties expect and intend that the collaboration between Legacy-related entities and PSHP and PCHP will lead to the offering by PSHP and PCHP of innovative products and services that will better serve the current and future health plan members of PSHP and PCHP and the users of the services provided by the Legacy-related entities.

The Restructuring will materially change the corporate structure of Holding, with Holding becoming a nonprofit public benefit corporation with members rather than without members. As indicated above, Holding will have two members, Legacy and PHA. PHA has been organized and its initial Board of Directors consists of the same members as the current Board of Directors of Holding. Prior to the closing of the transaction with Legacy, Holding will file restated Articles of Incorporation with the Oregon Secretary of State changing Holding to a nonprofit public benefit corporation with members and declaring PHA to be its sole member. Restated Bylaws will become effective for Holding that are consistent with this change (the "Interim Bylaws"). (A copy of the Interim Bylaws is attached as an exhibit to the Member Interest Acquisition Agreement submitted with this filing.) Thereafter, and still prior to the closing of the transaction with Legacy, Holding will transfer the Real Property to PHA.

Upon the closing of the transaction with Legacy, Legacy will make an initial \$100 million contribution to the capital of Holding and be committed to make five additional annual contributions to the capital of Holding of \$29.5 million each. In conjunction with Legacy's initial contribution to the capital of Holding, further restated Bylaws (the "Closing Bylaws") will become effective for Holding that contemplate both PHA and Legacy as members of Holding. (A copy of the Closing Bylaws is attached as an exhibit to the Member Interest Acquisition Agreement submitted with this filing.)

Under the Closing Bylaws, Legacy and PHA will have identical governing rights with respect to Holding. Legacy and PHA will each have the right to appoint six of Holding's 15 directors, and the Legacy and PHA appointees will in turn elect the three remaining members of Holding's Board of Directors. In addition, each member will have the right to approve certain matters described in the Closing Bylaws.

The Closing Bylaws provide for the members to receive distributions from Holding under specified circumstances. No distributions are to occur during



the first five years after the closing of the Restructuring. Thereafter, the parties have developed formulas for distributions based on certain levels of income and capital, but with distributions conditioned on there being minimum capital as specified. The specified minimum capital is set at a level to ensure that PSHP and PCHP will be well capitalized at any time a distribution is made to Holding's members. (The details of the distribution provisions summarized in this paragraph can be found in the Closing Bylaws.)

The parties have also agreed that under certain circumstances described in the Member Agreement to be executed by the parties (a copy of which is attached as an exhibit to the Member Interest Acquisition Agreement submitted with this filing), one member may become the majority member and the other member the minority member of Holding, with the majority member have more extensive governing rights and the right to appoint a greater number of directors than the minority member. Such rights are reflected in further restated Bylaws attached as an appendix to the Closing Bylaws.

#### **ITEM 6. VOTING SECURITIES TO BE ACQUIRED**

State the number of shares of the insurer'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 arrived at.

NOT APPLICABLE

#### **ITEM 7. OWNERSHIP OF VOTING SECURITIES**

State the amount of each class of any voting security of the insurer that 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.

NOT APPLICABLE

#### **ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER**

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer 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. The description shall identify the persons with whom the contracts, arrangements or understandings have been entered into.

NOT APPLICABLE

**ITEM 9. RECENT PURCHASES OF VOTING SECURITIES**

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the 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.

NOT APPLICABLE

**ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE**

Describe any recommendations to purchase any voting security of the insurer 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 12 calendar months preceding the filing of this statement.

NOT APPLICABLE

**ITEM 11. AGREEMENTS WITH BROKER-DEALERS**

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

NOT APPLICABLE

**ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS**

(a) Financial statements, exhibits, and three-year financial projections of the insurer shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

Attached hereto under "Item 12(a) Appendix" are copies of the following:

1. Unaudited consolidated GAAP financial statements for the PacificSource insurance holding company system for the first nine months of calendar year 2015.
2. Audited consolidated GAAP financial statements for the PacificSource insurance holding company system for calendar years 2010 through 2014 (reflecting the addition of Holding in 2013 as the new holding company for the insurance holding company system). (PSHP's and PCHP's audited statutory financial statements for calendar years 2010 through 2014 are already on file with the Insurance Division.)

3. Pro forma consolidated financial statements for the PacificSource insurance holding company system for calendar years 2016 through 2018, on a GAAP basis, projecting the financial performance of the insurance holding company system during such period.
4. Pro forma statutory RBC projections for PSHP and PCHP for calendar years 2016 through 2018.

(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 thereof shall 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. The statements may be prepared on either an individual basis, or, unless the Director 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 or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer that is actively engaged in the business of insurance, the financial statements need not be certified if they are based on the Annual Statement of the person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the domiciliary state.

Attached hereto under "Item 12(b) Appendix" are copies of the following:

1. Unaudited consolidated GAAP financial statements for Legacy for the first six months of fiscal year 2015.
2. Audited consolidated GAAP financial statements for Legacy for fiscal years 2010 through 2014.

(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 insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A or OAR 836-027-0030 or 836-027-0040.

NOT APPLICABLE

**ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT**

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within 15 days after the end of the month in which the acquisition of control occurs.

**ITEM 14. SIGNATURE AND CERTIFICATION**

Signature and certification required as follows:

**SIGNATURE**


Pursuant to the requirements of ORS 732.517 to 732.592, Legacy Health has caused this application to be duly signed on its behalf in the City of Portland and State of Oregon as of the 23<sup>rd</sup> day of December, 2015

LEGACY HEALTH

By:

  
George J. Brown, M.D., FACP  
President and Chief Executive Officer

ATTEST:

  
Print Name: Beverly J. Peacock  
Title: Assistant to CEO

CERTIFICATION

The undersigned deposes and says that the undersigned deponent has duly executed the attached application dated December 23, 2015, for and on behalf of Legacy Health; that the deponent is the President and Chief Executive Officer of such company and that the deponent is authorized to execute and file the instrument. Deponent further says that the deponent is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of the deponent's knowledge, information and belief.



George J. Brown, M.D., FACP