

for the Kansas Insurance Department is William Sneed, Polsinelli Shughart, P.C., and John W. Campbell, General Counsel.

This Order shall become effective as a Final Order, without further notice, upon the expiration of the fifteen (15) day period if no request for hearing is made, pursuant to K.S.A. 77-542.

Pursuant to the authority granted to the Commissioner pursuant to K.S.A. 40-3301 and 40-3304(d)(1) and in accordance with the Kansas Administrative Procedures Act, K.S.A. 77-501, *et seq.*, the Commissioner hereby asserts the following declarations of public interest and policy, findings of fact, conclusions of law and orders:

DECLARATION OF PUBLIC INTEREST AND POLICY

The Commissioner finds and declares that it is consistent with the public interest and the interest of policyholders to permit insurers to:

(a) Engage in activities which would enable them to make better use of management skills and facilities;

(b) diversify into new lines of business through acquisition or organization of subsidiaries;

(c) have free access to capital markets which could provide funds for insurers to use in diversification programs;

(d) implement sound tax planning conclusions; and

(e) serve the changing needs of the public and adapt to changing conditions of the social, economic and political environment, so that insurers are able to compete effectively and to meet the growing public demand for institutions capable of providing a comprehensive range of financial services.

The Commissioner further finds and declares that the policies and purposes in K.S.A. 40-3301, *et seq.*, promote the public interest by:

(a) Facilitating the achievement of the objectives enumerated in K.S.A. 40-3301 and set out above;

(b) requiring disclosure of pertinent information relating to changes in control of an insurer;

(c) requiring disclosure by an insurer of material transactions and relationships between the insurer and its affiliates, including certain dividends paid by the insurer; and

(d) providing standards governing material transactions between the insurer and its affiliates.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The findings of fact and conclusions stated herein are based upon the statements made by Applicant in the Form A Statements and accompanying documents made under oath and filed with KID by Applicant pursuant to K.S.A. 40-3304(b) and K.A.R. 40-1-28 and the public and formal hearings held on December 14, 2009 and December 18, 2009, respectively.

1. Significant documents have been reviewed by representatives of the Financial Surveillance and Legal Divisions of KID, and the Commissioner has had the benefit of their technical expertise and advice.

2. The purpose of the filing of the Form A Statements is to seek authority from KID for the proposed acquisition of control of PHSIC and PPK by the Applicant. The terms and conditions of the proposed acquisitions are more fully set forth in the Form A

Statements filed with the Commissioner pursuant to the Kansas Insurance Holding Companies Act, K.S.A. 40-3301, *et seq.*

3. The Form A Statements filed with the KID by Applicant include: (i) a Form A Statement Regarding the Acquisition of Control of a Domestic Insurer dated December 10, 2009 requesting approval of the acquisition of control of PHSIC (“**PHSIC Form A**”); and (ii) a Form A Statement Regarding the Acquisition of Control of a Domestic Insurer dated December 10, 2009 requesting approval of the acquisition of control of PPK (“**PPK Form A**”).

4. The following Exhibits were attached to both the PHSIC Form A and PPK Form A:

- Exhibit 1 Stock Purchase Agreement;
- Exhibit 2 Organizational Chart of the Applicant;
- Exhibit 3 Biographical Statements for the Applicant’s Board of Directors and Executive Officers;
- Exhibit 4 Annual Reports of the Applicant, which contain financial statements for the preceding five (5) years;
- Exhibit 5 Most recent Form 10Q filing for the Applicant filed with the Securities and Exchange Commission;
- Exhibit 6 SEC Form 10-K filing for years 2007 and 2008;
- Exhibit 7 Three (3) year financial projections for the Domestic Insurer;
- Exhibit 8 Letter to the Insurance Commissioner dated October 21, 2009 describing the pro-competitive effects of the proposed transition.

5. PHSIC and PPK’s statutory home offices are in Wichita, Kansas.

6. PHS is a Kansas corporation. PHS directly owns one hundred percent (100%) of the outstanding shares of PHSIC and PPK.

7. Via Christi is a Kansas corporation. Via Christi directly owns one hundred percent (100%) of the outstanding shares of PHS.

8. On October 2, 2009, the Applicant and Via Christi entered into a Purchase Agreement whereby Applicant would acquire one hundred percent (100%) of the issued and outstanding shares of PHS.

9. As a result of this transaction, the Applicant will become the ultimate parent company of PHSIC and PPK.

10. On November 23, 2009, KID issued a Notice of Public Hearing, ordering that a public hearing on the proposed acquisition be held on December 14, 2009, and a formal hearing on the same be held on December 18, 2009, at CAC Theatre, Wichita State University, 1845 N. Fairmount, Wichita, Kansas.

11. On December 14, 2009, KID convened a public hearing regarding the transaction. Appearing for KID were Commissioner Praeger, Linda Sheppard, Ken Abitz, Bill Sneed, John Campbell and Zachary Anshutz. Appearing for the Applicant were Jonathan Weinberg and Michael Murphy. Kevin Conlin appeared for Via Christi, and Brad Clothier appeared for PHS. In addition to sworn testimony, KID received comments from health care providers, brokers, and consumers.

12. On December 18, 2009, KID held a fact-finding hearing. Commissioner Praeger served as the Presiding Officer. Appearing for the Applicant were Jonathan Weinberg, Michael Murphy, and Michael Burgoyne. Linda Sheppard appeared on behalf of KID. Kevin Conlin appeared for Via Christi, and Brad Clothier appeared for PHS.

13. At the fact-finding hearing on December 18, 2009, both the PHSIC Form A and the PHS Form A were submitted into evidence. Written testimony was submitted by

certain parties, including, but not limited to, Michael Burgoyne, Michael Murphy, Kevin Conlin and Ken Abitz, Director, Financial Surveillance Division, Kansas Insurance Department.

14. The staff of the KID have inspected and reviewed the contents of the Form A Statements and Exhibits attached thereto, to the extent necessary, and found that the filing of the PHSIC Form A and PPK Form A are in compliance with the provisions of the Kansas Insurance Holding Company Act, K.S.A. 40-3301 et seq. and K.A.R. 40-1-28 and that the Form A Statements and Exhibits have provided the information required under Kansas statutes to enable the Commissioner to render a decision.

15. Evidence shows that after the change of control, PHSIC and PPK would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed.

16. Evidence shows that the financial condition of the Applicant does not jeopardize the financial stability of the PHSIC or PPK or prejudice the interest of their respective policyholders.

17. Evidence shows that the Applicant has no plans or proposals to liquidate PHSIC or PPK, sell their assets or consolidate or merge PHSIC or PPK with any person, or to make any other material change in PHSIC's or PPK's business or corporate structure or management.

18. Evidence shows that the competence, experience and integrity of those persons who would control the operation of the PHSIC and PPK are such that it would be in the interest of policyholders of the insurer and of the public to permit the acquisition of control.

19. Evidence shows that the acquisition is not likely to be hazardous or prejudicial to the insurance-buying public.

20. Evidence shows that the public interest and the interests of policyholders are not adversely affected because:

- (a) Coventry would not utilize control of PHSIC and PPK adversely to the interests of policyholders;
- (b) Coventry's acquisition of PHSIC and PPK would not substantially lessen competition or create a monopoly in the insurance business in Kansas, rather it is the opinion of the KID that the proposed transaction will strengthen competition in the Wichita service area as well as throughout the State of Kansas;
- (c) PHSIC and PPK would not be caused to enter into transactions or relationships with affiliated companies on terms which are not fair and reasonable; and
- (d) PHSIC and PPK would not pay dividends which jeopardize the financial condition of PHSIC and PPK respectively.

IT IS THEREFORE ORDERED BY THE COMMISSIONER OF INSURANCE THAT:

1. The Form A Statements filed by Applicant to acquire control of PHSIC and PPK in the manner set forth in the PHSIC Form A and the PPK Form A and Exhibits attached thereto are hereby APPROVED subject to the following conditions:

- A. That Coventry provide to the Commissioner, on a quarterly basis, for a period of no less than one year from the date of the closing of the acquisition of control of the Preferred Health companies, a report regarding the adequacy of its network of health care providers for the Preferred Health companies demonstrating that

- (1) such services can be provided in all of its current and future services areas by network providers with reasonable promptness with respect to geographic location, hours of operation and after-hour care and
 - (2) the number of network providers in its current and future service areas is sufficient with respect to current and future policyholders, to deliver all services that are subject to an in-network restriction provision or to make appropriate referrals.
- B. That Coventry provide to the Commissioner, on a quarterly basis, for a period of no less than one year from the date of the closing of the acquisition of control, a report of its progress in
- (1) improving the performance of its wholly owned subsidiary, MHNet, with regard to the timely and accurate administration and payment of claims and
 - (2) simplifying and streamlining the requirements placed on mental health providers with regard to the preparation of treatment plan statements and reports.
- C. That Coventry will refrain from transferring and/or assigning additional responsibility for the administration and payment of claims to MHNet until the Commissioner is satisfied that sufficient progress has been made with regard to MHNet's ability to perform timely and accurate administration and payment of claims or for a period of no less than one year from the date of the closing of the acquisition of control, whichever is later.
- D. That Coventry will make no changes in the plans, policies, certificates, benefits, rates, appeals procedures, and other policies and procedures filed with KID and currently in effect for policyholders of the Preferred Health companies for a period of no less than one year from the date of the closing of the acquisition of control. However, this condition would not be applicable to any changes which are filed with KID for review and/or approval in the normal course of business and in compliance with Kansas insurance law.
- E. That Coventry, and all of its current and future subsidiaries and affiliates operating in the state of Kansas, will, effective immediately, implement new processes and procedures that will ensure timely and accurate communication with the Commissioner and staff of the Kansas Insurance Department with regard to consumer complaints, the filing of policy forms, rates, and advertising materials, and any and all other requests for information. Such new processes and procedures shall include, but not be

limited to, those stated in documents, attached hereto as Exhibits 1 through 3.

- F. That Coventry, and all of its current and future subsidiaries and affiliates operating in the state of Kansas, will, effective immediately, implement new processes and procedures that will ensure that all forms, rates, advertising materials, data, and other documents and information required to be filed, submitted, and provided for review, approval and/or use by the Commissioner are filed in a timely manner and in compliance with Kansas insurance law. Such new processes and procedures shall include, but not be limited to, those stated in documents attached hereto as Exhibits 1 through 3.
- G. That Coventry maintain an office dedicated to providing services for the Preferred Health companies, their policyholders, and providers in Wichita, Sedgwick County, Kansas at least through December 31, 2011.

2. The acquisitions described herein, as further set forth in the PHSIC Form A and the PPK Form A and Exhibits attached thereto, and all conditions shall be consummated within ninety (90) days of the execution of this Order, or such Order shall be vacated.

3. The Commissioner retains jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such further order or orders as may be deemed proper.

NOTICE OF RIGHTS

Applicant is entitled to a hearing pursuant to K.S.A. 77-537, the Kansas Administrative Procedures Act. If the Applicant desires a hearing, it must file a written request for a hearing with:

John W. Campbell, General Counsel
Kansas Insurance Department
420 S.W. 9th Street
Topeka, Kansas 66612.


This request must be filed within fifteen (15) days from the date of service of this Order. If the applicant requests a hearing, the Kansas Insurance Department will notify them of the time and place of the hearing and information on the procedures, right of representation, and other rights of parties relating to the conduct of the hearing, before commencement of the same.

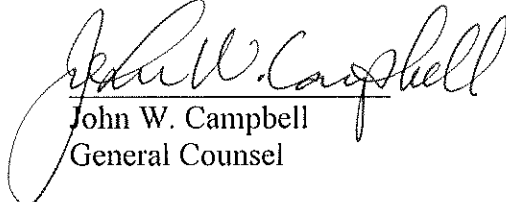
If a hearing is not requested in the time and manner stated above, this Order shall become effective as a Final Order upon the expiration of time for requesting a hearing, pursuant to K.S.A. 77-613. In the event the Applicant files a petition for judicial review, pursuant to K.S.A. 77-613(e), the agency officer to be served on behalf of the KID is:

John W. Campbell, General Counsel
Kansas Insurance Department
420 S.W. 9th Street
Topeka, Kansas 66612.


IT IS SO ORDERED THIS 24th DAY OF DECEMBER, 2009, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.




Sandy Praeger
Commissioner of Insurance


John W. Campbell
General Counsel

Approved and Submitted by:


Zachary J.C. Anshutz
Assistant General Counsel

Certificate of Service

I hereby certify that a true and correct copy of the foregoing Order was forwarded via first class mail, postage prepaid on the 24th day of December 2009 to:

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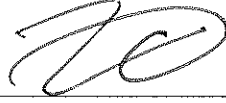
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