

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of HealthAmerica : Companies Act, Article XIV of the
Pennsylvania, Inc. in Support of the : Insurance Company Law of 1921,
Request for Approval to Acquire Control of : Act of May 17, 1921, P.L. 682,
all the Issued and Outstanding Capital : as amended, 40 P.S. §§991.1401,
Stock of NewAlliance Health Plan, Inc. : 991.1402, and 991.1403
: :
: Order No. ID-RC-02-11

DECISION AND ORDER

AND NOW, on this 25th day of April, 2002, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. NewAlliance Health Plan, Inc. (“NewAlliance”) is a for-profit health maintenance organization (“HMO”) organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Erie, Pennsylvania.
2. HealthAmerica Pennsylvania, Inc. (“HealthAmerica”) is a for-profit HMO organized under the laws of the Commonwealth of Pennsylvania, with its principal place of business to be located in Harrisburg, Pennsylvania.
3. Coventry Health Care, Inc. (“Coventry”) is an insurance holding company organized under the laws of the state of Delaware with its principal place of

business located in Bethesda, Maryland. Coventry directly controls 100% of the issued and outstanding capital stock of HealthAmerica.

Acquisition Filing

4. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving control of a domestic HMO must be filed with the Commissioner for approval or disapproval.
5. On April 1, 2002, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from HealthAmerica for approval to acquire sole control of NewAlliance.
6. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

7. On April 13, 2002, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by HealthAmerica and such notice invited interested persons to submit comments to the Department regarding the Application for a seven (7) day period, ending April 20, 2002.
8. The Department received no comments regarding the Application during the seven (7) day comment period.

Description of the Proposed Acquisition

9. As described in the Application, on March 29, 2002, HealthAmerica and the current owners of NewAlliance signed a Stock Acquisition Agreement relating to the capital stock of NewAlliance (“Agreement”).
10. As described in the Application and pursuant to the Agreement, HealthAmerica will pay a certain amount into an escrow agreement at the time of closing the acquisition. Going forward, the final price to be paid will be adjusted at regular intervals dependent on the experience of the NewAlliance book of business.
11. As described in the Application, HealthAmerica anticipates deriving the cash for consideration to be used in the transaction from its internal corporate funds.

Standards for Review

12. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic HMO.
13. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

14. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic HMO being acquired.
15. The minimum net worth required of an HMO is set out in Section 301.121 of Title 31 of the Pennsylvania Code (31 Pa. Code §301.121).
16. The minimum net worth required of an HMO offering a point-of-service product, as set out in Section 301.202 of Title 31 of the Pennsylvania Code, is \$1.5 million.
17. Since NewAlliance offers a point-of-service product, NewAlliance is required to maintain a minimum net worth of \$1.5 million.
18. Upon completion of the acquisition, NewAlliance will have a net worth in an amount that will satisfy the statutory minimum net worth requirement for a licensed HMO offering a point-of-service contract.

Competitive Impact

19. The acquisition of control of the NewAlliance is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
20. The acquisition of control of the NewAlliance will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of HealthAmerica, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of HealthAmerica

21. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial

condition of the acquiring persons.

22. HealthAmerica reported December 31, 2001, SAP account balances of:

Assets:	\$ 175,246,857
Liabilities:	\$ 125,598,598
Shareholder's Equity:	\$ 49,648,259

23. The financial condition of HealthAmerica would not pose any impediments to the change in control nor jeopardize the financial condition of the NewAlliance.

Plans for the Acquired Insurer

24. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the HMO.

25. As provided in the Application, HealthAmerica has disclosed that it intends to merge NewAlliance with and into HealthAmerica immediately subsequent to consummation of the proposed acquisition.

26. HealthAmerica is a properly licensed HMO authorized to transact business as a HMO in the Commonwealth of Pennsylvania.

27. The Department is satisfied that the merger of NewAlliance with and into HealthAmerica, after consummation of the instant acquisition, is neither unfair nor unreasonable to the policyholders of the HMOs and is not contrary to the public interest.

Management

28. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired HMOs.

29. Biographical affidavits for all directors and executive officers of HealthAmerica were provided as part of the Application and the Department reviewed all affidavits that were submitted.

30. The Department is satisfied that the persons who would control the operations of the NewAlliance have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

31. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of the NewAlliance.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The HMO will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the HMO or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the HMO, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the HMOs and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the HMO are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of NewAlliance.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The acquisition of control by HealthAmerica Pennsylvania, Inc. of all the issued and outstanding shares of common stock of NewAlliance Health Plan, Inc. is hereby approved, subject to this Order and the following condition:

HealthAmerica Pennsylvania, Inc. shall provide copies of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

M. DIANE KOKEN
Insurance Commissioner
Commonwealth of Pennsylvania