



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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 In the Matter of: :
 :
 PROPOSED ACQUISITION OF CONTROL OF: :
 :
 CONNECTICARE, INC., a Connecticut health care center :
 and :
 CONNECTICARE INSURANCE COMPANY, INC. :
 a Connecticut insurance company : Docket No.
 : EX 04-68
 by :
 :
 HEALTH INSURANCE PLAN OF GREATER NEW YORK, a :
 New York not for profit corporation; :
 HIP HOLDINGS, a Delaware corporation; and :
 HYDROGEN SUBSIDIARY, INC., a Connecticut corporation :
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ORDER

I, Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, having read the record of the above captioned matter, do hereby adopt the findings and recommendation of James J. Gorman, Hearing Officer, which are contained in the attached Proposed Final Decision, dated January 14, 2005; and issue the following orders, TO WIT:

1. The Form A Application of Health Insurance Plan of Greater New York, HIP Holdings, Inc., and Hydrogen Subsidiary (collectively "Applicants") in which they seek approval to acquire control of CONNECTICARE, INC., ("ConnectiCare, Inc.") a Connecticut health care center and CONNECTICARE INSURANCE COMPANY, INC.,

(“ConnectiCare Insurance Company”) a Connecticut insurance company (collectively “ConnectiCare” or “Domestic Insurers”) is hereby approved.

2. The Applicants and ConnectiCare shall comply with their commitments as set forth in the Proposed Final Decision and their letter dated January 6, 2005 to the Insurance Commissioner.

3. The Applicants shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.

4. For a period of three (3) years, the Domestic Insurers shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of the integration with the Applicants, changes to the business of the Domestic Insurers; employment levels; changes in officers of ConnectiCare; any changes in location of its operations in Connecticut; and charitable contributions; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and ConnectiCare.

5. The Applicants shall provide the Department with the names and titles of those individuals who will be responsible for filing transactions for prior approval pursuant to Conn. Gen. Stats. 38a-135 and 38a-136.

6. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, ConnectiCare shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the proposed transaction, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants, the Domestic Insurers, and ConnectiCare Holding.

8. The Domestic Insurers shall, at all times, maintain their books, records, and assets in Connecticut pursuant to Connecticut law, unless otherwise approved by the Commissioner.

9. The Applicants shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 19th day of January, 2005.


Susan F. Cogswell
Insurance Commissioner



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PROPOSED FINAL DECISION

I. INTRODUCTION

On July 2, 2004, Health Insurance Plan of Greater New York, a New York not-for-profit corporation (“HIP-NY”), HIP Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of HIP-NY (“HIP Holdings” and collectively with HIP-NY, “HIP”, the “Applicant” or “Applicants”), filed an Application on Form A with the Connecticut Insurance Department (the “Department”) pursuant to sections 38a-186, 38a-188 and 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut (the “Commissioner” or “Insurance Commissioner”) for the Proposed Acquisition of control or merger (the

“Proposed Acquisition” or “Merger”) of ConnectiCare, Inc., a health care center organized under the laws of Connecticut (“ConnectiCare, Inc.”), and ConnectiCare Insurance Company, Inc., a domestic insurer organized under the laws of Connecticut (“Connecticare Insurance Company” and together with ConnectiCare, Inc., the “Domestic Insurers”).

Each of the Domestic Insurers is a wholly-owned subsidiary of ConnectiCare Capital, LLC, a Connecticut limited liability company (“ConnectiCare Capital”). ConnectiCare Capital is a wholly-owned subsidiary of ConnectiCare Holding Company, Inc., a Connecticut corporation (“ConnectiCare Holding”). ConnectiCare Holding, ConnectiCare Capital, ConnectiCare Inc., ConnectiCare Insurance Company, ConnectiCare of Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of ConnectiCare Capital (“ConnectiCare of Massachusetts”), and ConnectiCare of New York, Inc., a New York corporation and a wholly-owned subsidiary of ConnectiCare Capital (“ConnectiCare of New York”), are sometimes collectively referred to herein as (“ConnectiCare”).

Supplemental information was subsequently requested by the Department and provided by the Applicants. An Amended Form A was filed with the Department on July 13, 2004 (“Form A Application”) to include Hydrogen Subsidiary, Inc., a newly formed corporation organized under the laws of Connecticut and a wholly-owned subsidiary of HIP Holdings (“Hydrogen” and collectively with HIP-NY and HIP Holdings, the “Applicant” or “Applicants”). Supplemental information was again requested by the Department and provided by the Applicants and an Amended Form A Application was

filed with the Department on September 13, 2004 with the final Amended Form A Application filed on December 17, 2004.

The Proposed Acquisition will be effected pursuant to an Agreement and Plan of Merger (“Agreement”), dated as of June 22, 2004, by and among ConnectiCare Holding Company, Inc., Health Insurance Plan of Greater New York, Hydrogen Subsidiary, Inc., and TC Group, L.L.C., a Delaware limited liability company, solely in its capacity as the initial representative of holders of common stock and options of ConnectiCare Holding Company, Inc. (the “Agreement”). ConnectiCare Holding Company, Inc., a Connecticut corporation, is the ultimate parent of ConnectiCare, Inc. and ConnectiCare Insurance Company.

On December 10, 2004, Insurance Commissioner Susan F. Cogswell (“Commissioner Cogswell”) issued a notice of hearing, in which she ordered that a public hearing concerning the application for approval of the Proposed Acquisition of Control of the Domestic Insurers be held on January 6, 2005. The hearing notice was subsequently published in The Hartford Courant, the New Haven Register and the Stamford Advocate each day from December 14, 2004 to January 4, 2005, inclusive. The notice of hearing was also filed by the Department with the Office of the Secretary of State on December 10, 2004 and was published on the Department’s Internet website. On December 10, 2004, Commissioner Cogswell appointed the undersigned to preside over the January 6, 2005 public hearing. Commissioner Cogswell was in attendance for substantially all of the January 6, 2005 public hearing. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the following were designated as parties to this proceeding: the Applicants and the Domestic Insurers.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicants and the Domestic Insurers:

Anthony Watson, Chairman, CEO;
Daniel McGowan, President, COO;
Michael Fullwood, Esq., Executive Vice President, Chief Financial Officer,
Secretary and General Counsel
Thomas McAteer, Senior Vice President, Brand Leadership;
John Steber, Executive Vice President, Operations and Chief Information
Officer;
Steve Zeng, Managing Director, Corporate Development;
Nicholas Kambolis, Esq., Associate General Counsel;
Dominic D'Adamo, Senior Vice President, Finance and Corporate Controller
Leslie Strassberg, Senior Vice President, Underwriting Actuarial Services,
Chief Actuary;
Robert Ronda, Managing Director, Actuarial Services;
Martha Stratis, Managing Director, Accounting;
Frank Hall, Director, Corporate Reporting;
Edward Lucy, Senior Vice President, Provider Relations;
Valerie Reardon, Senior Vice President, Compliance and Internal Audit
Marcel Gamache, President, CEO, ConnectiCare Holding Co, Inc.

Edward J. Samorajczyk, Jr., Esq, Matthew J. Guanci, Jr., Esq., Theodore J. Tucci, Esq., represented the Applicants. Thomas L. Fairfield, Esq., Kurt W. Hansson, Esq. of Paul, Hastings, Janofsky & Walker LLP represented the Domestic Insurers.

Charles DeWeese, of DeWeese Consulting, Inc., an actuarial consultant, testified at the public hearing at the request of the Connecticut Insurance Department.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on

January 4, 2005, by an Order dated December 10, 2004. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

II. FINDINGS OF FACT

After reviewing the exhibits entered into the record of this proceeding, and based on the testimony of the witnesses, the undersigned makes the following findings of fact:

1. HIP was organized in 1947 as a group practice health service corporation providing low cost medical care to New York City workers. HIP currently operates as a mixed model HMO that offers a full range of benefit plans.
2. HIP-NY is a non-stock, not-for-profit corporation organized under the laws of New York. HIP-NY is licensed as a not-for-profit health service corporation under Article 43 of the New York Insurance Law and holds a certificate of authority to operate as an HMO under Article 44 of the New York Public Health Law. HIP-NY is currently exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code of 1986, as amended ("Code"). HIP Foundation, Inc. ("HIP Foundation"), a New York not-for-profit charitable organization formed in 1995, is the sole member of HIP-NY. HIP Foundation is exempt from federal income tax under Section 501(c)(3) of the Code. HIP Foundation has no members, and its activities are managed by a self-perpetuating Board of Directors.
3. HIP-NY owns all of the membership interests or stock of three entities. HIP-NY owns all of the capital stock of HIP Holdings, a Delaware for-profit, non-insurer corporation. HIP-NY is also the sole member of Vytra Health Plans Long Island, Inc. ("Vytra Health Plans") and Centralized Laboratory Services, Inc. ("CLS"),

both New York not-for-profit corporations. Vytra Health Plans was organized in 1985 and holds a certificate of authority to operate an HMO under Article 44 of the New York Public Health Law. HIP-NY acquired control of Vytra Health Plans in 2001. Vytra Health Plans and its subsidiary Vytra Health Services, Inc. (“Vytra Health Services”), which are licensed as not-for-profit health service corporations under Article 43 of the New York Insurance Law, provide health coverage for enrollees located on Long Island. HIP-NY created CLS in 1965 to provide high quality, reliable clinical diagnostic laboratory services to its subscribers. The principal business address of HIP-NY is 55 Water Street, New York, NY 10041-8190.

4. HIP Holdings owns all of the capital stock of Hydrogen and four other for-profit corporations: (1) HIP Insurance Company of New York (“HIP Insurance Company”), a New York corporation licensed under Article 42 of the New York Insurance Law; (2) HIP Administrators of Florida, Inc. (“HIP Administrators”), a Florida corporation; (3) Vytra Health Plans Managed Systems, Inc. (“Vytra Managed Systems”), a New York corporation; and (4) HIP Network Services IPA, Inc. (“HIP IPA”), a New York corporation. HIP Insurance Company is engaged in the insurance business in New York. HIP Administrators provides administrative services to HIP. Vytra Managed Systems performs claim payment, network management and other administrative functions for third-party self-funded plans. HIP IPA provides medical services to the HIP’s enrollees in exchange for payment on a capitation basis. The principal business address of HIP Holdings is 55 Water Street, New York, NY 10041-8190.

5. Hydrogen is a newly formed corporation organized under the laws of Connecticut and is a wholly owned subsidiary of HIP Holdings. Hydrogen was organized solely for the purpose of facilitating the Merger and conducts no business. The principal business address of Hydrogen is 55 Water Street, New York, NY 10041-8190.
6. HIP serves over one million members in New York City and Rockland, Orange, Nassau, Suffolk and Westchester counties in New York. Its products include group and network-based managed care products such as HMO, point of service, PPOs and other hybrid plans, as well as administrative service only arrangements. HIP also offers several government assisted programs such as a Medicare Advantage plan and a Medicaid managed care plan; HIP also participates in the New York Child Health Plus, Family Health Plus and Healthy New York programs.
7. HIP-NY is the owner of 100% of the voting securities of HIP Holdings. HIP-NY is also the sole corporate member of Vytra Health Plans. Vytra Health Plans is the sole corporate member of Vytra Health Services. HIP Holdings is the owner of 100% of the voting securities of Hydrogen, HIP Insurance Company, HIP Administrators, Vytra Managed Systems and HIP IPA.
8. In accordance with the Agreement, all outstanding shares of capital stock of ConnectiCare Holding (other than dissenting shares) will be converted into the right to receive a relative portion of the Merger Consideration (“Merger Consideration”).

9. Following the Merger, ConnectiCare Holding will be a wholly owned subsidiary of HIP Holdings, ConnectiCare Capital will continue to be a wholly owned subsidiary of ConnectiCare Holding, and ConnectiCare, Inc. and ConnectiCare Insurance Company will continue to be wholly owned subsidiaries of ConnectiCare Capital.
10. The Merger Consideration consists of cash in the amount of \$350,000,000 subject to several adjustments set forth in the Agreement.
11. HIP does not intend to borrow any funds to pay the Merger Consideration. The Merger Consideration will be funded from available cash of HIP-NY. As indicated in the unaudited consolidated balance sheets of HIP-NY as of September 30, 2004, HIP-NY had cash and cash equivalents of approximately \$353.7 million and marketable securities of approximately \$742.3 million which will be used to fund the Merger Consideration.
12. HIP-NY intends to assign its rights and obligations under the Agreement to HIP Holdings prior to consummation of the Merger, and to transfer to HIP Holdings funds sufficient to pay the Merger Consideration. Upon such assignment, the HIP-NY Guaranty set forth in Section 13.13 of the Agreement will become effective.
13. The nature and amount of the consideration to be paid in connection with the proposed Merger was determined by arm's length negotiation between HIP and ConnectiCare.

14. HIP, with the assistance of its investment bankers, performed extensive due diligence and valuation analyses to determine and validate the nature and amount of consideration. HIP's Board of Directors received written opinions from its investment bankers that as of June 22, 2004, and based upon and subject to the factors and assumptions set forth in the respective opinions, the Merger Consideration was fair, from a financial point of view, to HIP.
15. The Agreement and the Plan of Merger, dated June 22, 2004, was approved by the Board of HIP NY on June 22, 2004, by the Board of Hydrogen on June 22, 2004, and by the Board of ConnectiCare Holding on June 22, 2004.
16. Although not a party to the Agreement, HIP Holdings approved the proposed transaction by Board action on June 21, 2004.
17. The shareholders of ConnectiCare Holding approved the Agreement and the proposed transaction by unanimous written consent effective as of July 9, 2004.
18. The holders of approximately 95% of the outstanding shares of Class B Common Stock of ConnectiCare Holding have executed a Voting Agreement requiring they vote their shares in favor of the Merger Agreement.
19. On the closing date, HIP will repay directly to the lenders all outstanding indebtedness of ConnectiCare Capital as of the closing date, which is estimated to be approximately \$90,000,000.
20. Except as provided in the Form A Application or the Form A Amendments, the Applicants have no plans or proposals to cause ConnectiCare to declare any

extraordinary dividends or make other distributions, liquidate ConnectiCare, sell its assets or merge it with any person or persons, or to make any other material change in ConnectiCare's business operations, corporate structure or management or to cause ConnectiCare to enter into material contracts, agreements, arrangements, understandings or transactions of any kind with any party.

21. The Applicants have no plans or proposals for ownership or control for any of the affiliates of the Applicants or ConnectiCare which may have a material effect on ConnectiCare.
22. Pursuant to the Merger, ConnectiCare, Inc. will continue to be a Connecticut domiciled health care center and ConnectiCare Insurance Company will continue to be a Connecticut domiciled insurer. Both will maintain their requisite books, records, and assets in Connecticut in accordance with Section 38a-57 of the Connecticut General Statutes.
23. ConnectiCare will continue to be managed from its current headquarters in Farmington, Connecticut following consummation of the transaction contemplated by the Merger Agreement.
24. Following the Merger, the following will be members of the board of directors of ConnectiCare Holding:

Gail Bogossian, Esq.

Michael D. Fullwood, Esq.

Marcel L. Gamache

Richard B. Hurley

Eileen S. Krauss

Daniel T. McGowan

Thomas Tran

Anthony L. Watson

25. After the Merger, the following will be officers of ConnectiCare Holding:

Anthony L. Watson, Chair

Marchel Gamache, President/CEO

Thomas Tran, Senior Vice President/CFO/Treasurer

Gail Bogossian, Esq., Vice President/Secretary

Scott Nai, Assistant Treasurer

26. After the Merger, the following will be members of the board of directors for ConnectiCare, Inc. and ConnectiCare Insurance Company, Inc.:

Gail Bogossian, Esq.

Michael D. Fullwood, Esq.

Marcel Gamache

Daniel T. McGowan

Thomas Tran

Anthony L. Watson

27. After the Merger, the following will be officers of ConnectiCare, Inc. and ConnectiCare Insurance Company, Inc.:

Marcel Gamache, President/CEO

Thomas Tran, Senior Vice President/CFO/Treasurer

Scott Nai, Assistant Treasurer

Gail Bogossian, Esq., Vice President/Secretary

Paul Bluestein, M.D., Senior Vice President/Chief Medical Officer

Ronald Blumenfeld, M.D., Vice President

William Carroll, Vice President, Network Operations

Mark Dixon, Vice President, CIO

Paul Philpott, Senior Vice President, Chief Marketing Officer

Richard Rogers, Vice President, Human Resources

Ida Schnipper, Senior Vice President, Operations

28. The biographical affidavits of the new members of the boards of directors and officers of the Domestic Insurers, which include each individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.
29. HIP anticipates that ConnectiCare will continue to operate as an autonomous business unit of HIP following the closing.
30. Three years of financial projections for ConnectiCare, Inc. and ConnectiCare Insurance Company are included in the records and files of the Insurance Department.
31. HIP does not presently intend to change any of the operations of ConnectiCare, and expects to make a determination as to whether any such changes will be made

within 12 months following the closing. During the evaluation period, HIP will consider, among other factors, how its information technology and processes may be applied to ConnectiCare's needs.

32. During the six month period following the closing, HIP intends to evaluate and design a plan to strengthen ConnectiCare's market position and may consider offering products and services not presently offered by ConnectiCare.
33. The plan may include targeting market segments in which ConnectiCare's presence is thin, such as labor union and municipal government benefit plans, where HIP has considerable experience. HIP will provide capital support to implement this plan out of its available cash, to the extent necessary and permitted under applicable law.
34. HIP is in the process of developing a plan for product enhancement and network expansion in western Massachusetts and certain parts of Connecticut. Such expansion will be accomplished through ConnectiCare and through HIP-NY or any current subsidiaries or affiliates.
35. HIP hopes to increase ConnectiCare's membership in Fairfield County following the consummation of the Proposed Acquisition. Funds needed to implement this plan have been accounted for in ConnectiCare's budget.
36. HIP intends to review ConnectiCare's strategy for entering the New York market alongside HIP's current strategy to determine the optimal approach to growing business in the New York market. As a result of the Proposed Acquisition, HIP

and ConnectiCare will target the large group market in New York with employees residing in Connecticut as an additional revenue source.

37. A proposed bill is pending before the New York State legislature which, if enacted, will permit certain not-for-profit health insurance companies, such as HIP-NY, to convert to for-profit status, subject to the approval of a plan of conversion by the New York Superintendent of Insurance. If such legislation is enacted, HIP-NY expects to consider whether to adopt a plan of conversion and seek approval of such plan.

38. Following announcement of the Proposed Acquisition, HIP was assigned the following ratings: BBB- for counterparty credit and financial strength (Standard & Poors or “S&P”), BB+ for long term issuer rating and BBB for insurer financial strength (Fitch, Inc. or “Fitch”), and B++ for financial strength (AM Best & Company or “Best”). Moody’s Investor Service (“Moody’s”) has placed HIP-NY’s Baa2 insurance financial strength rating under review for possible downgrade. S&P cited geographic diversification as a positive, but expressed concerns about the high level of goodwill and the integration risk resulting from the Proposed Acquisition. Fitch indicated it views the Proposed Acquisition favorably, noting that the transaction provides HIP-NY immediate access to the Connecticut and Western Massachusetts market; Best expressed similar views, but expressed concern about the size of the acquisition and the effect the purchase will have on HIP-NY’s balance sheet. Moody’s indicated that although it believes the acquisition could enable HIP-NY to benefit from an expanded provider network outside its current network in the New York metropolitan area, the

decrease in risk based capital and possible integration risks are the main reasons for its rating action. S&P revised its outlook on HIP-NY to negative following announcement of the Proposed Acquisition; it also affirmed its counterparty credit and financial strength ratings on HIP-NY.

39. Following the announcement of the Proposed Acquisition, ConnectiCare was assigned the following ratings: B+ counterparty credit and financial strength ratings on watch with positive implications (S&P), BBB for financial strength (Fitch), B for financial strength (Best) B1 rating assigned to its senior bank debt under review for possible upgrade (Moody's). S&P indicated that ConnectiCare's ratings are expected to benefit from the stronger ratings of HIP-NY and the strengthened business position the combined companies would have in the New York metropolitan health insurance market.
40. ConnectiCare Insurance Company has not been separately rated by any of the rating agencies.
41. Neither the Applicants nor any person controlled by the Applicants holds of record or beneficially owns or has a right to acquire of record or beneficially, directly or indirectly, any equity securities of ConnectiCare Holding, ConnectiCare, Inc., or ConnectiCare Insurance Company, Inc., including any security convertible into a right to acquire a voting security whether or not such right or conversion or acquisition is exercisable immediately or at some future time.

42. During the 12 calendar months preceding the filing of the application, neither the Applicants, nor any person controlling, controlled by or under common control with, the Applicants nor any of the executive officers or directors of the Applicants has effected transactions in any voting securities of ConnectiCare Holding, ConnectiCare, Inc., or ConnectiCare Insurance Company, Inc.
43. Neither the Applicants, nor its affiliates, nor any person listed as a director or executive officer of the Applicants, nor anyone based upon interviews or at the suggestion of such acquiring party made any recommendations to purchase any voting securities of ConnectiCare Holding, ConnectiCare, Inc., or ConnectiCare Insurance Company, Inc., during the 12 calendar months preceding the filing of the application.
44. Other than the Merger Agreement, there are no contracts, arrangements, understandings or agreements with broker-dealers as to the solicitation to any voting security of the ConnectiCare Holding, ConnectiCare, Inc., or ConnectiCare Insurance Company, Inc., in which the Applicants, any affiliates of the Applicants, or any person listed as a director or executive officer of the Applicants is involved.
45. As of December 31, 2003 and September 30, 2004, ConnectiCare, Inc. reported the following statutory balance sheet and income statement accounts (millions):

	December 31, 2003	September 30, 2004
Assets	\$138.9	\$163.8
Liabilities	78.0	94.1
Surplus	60.9	69.7
Net income (loss)	12.9	17.0
Premium income	493.0	501.8

46. As of December 31, 2003, ConnectiCare, Inc. maintained a risk-based capital ratio of 315.3%.
47. As of December 31, 2003 and September 30, 2004, Connecticare Insurance Company, Inc. reported the following statutory balance sheet and income statement accounts (millions):

	December 31, 2003	September 30, 2004
Assets	\$6.1	\$8.2
Liabilities	2.1	2.9
Surplus	4.0	5.3
Net income (loss)	1.2	1.2
Premium income	.2	.9

48. As of December 31, 2003 and September 30, 2004, HIP-NY reported the following statutory balance sheet and income statement accounts (millions):

	December 31, 2003	September 30, 2004
Assets	\$1,239.0	\$1,247.9
Liabilities	588.2	482.1
Surplus	650.8	765.8
Net income (loss)	222.4	153.9
Premium income	2,124.4	2,316.3

49. As a newly formed limited liability company formed solely to effectuate the acquisition, Hydrogen does not have audited or unaudited financial statements.
50. The waiting period required by the Hart-Scott Rodino Anti-Trust Improvement Act of 1976 in connection with the Proposed Acquisition received early termination effective July 30, 2004.
51. The Applicant believes the Proposed Acquisition will further competition in Connecticut and have a positive impact on those buying health insurance in Connecticut. HIP does not presently offer products or services in Connecticut and offers products and services not currently offered by ConnectiCare.

52. The Applicant believes that its experience in serving ethnically diverse markets may enhance ConnectiCare's ability to provide its services to a broader and more ethnically diverse population in Connecticut.
53. HIP has identified in its application the benefits Connecticut consumers will experience as a result of the Merger. HIP has stated that following the Merger, ConnectiCare will have the ability to leverage HIP's expertise and investment in technology to improve delivery of health care services to ConnectiCare's members. The combined company will be able to achieve economies of scale, realize cost savings through potential operational synergies and leverage the experienced management teams and best practices from both organizations to provide more cost-effective, high quality products and services to consumers.
54. HIP expects that synergies allowing for approximately \$7,000,000 in cost savings may be realized by the end of fiscal year 2007 as a result of: 1) eliminating certain contracts that ConnectiCare currently outsources for functions that HIP can perform internally; 2) renegotiating certain vendor contracts to achieve lower rates based on increased membership volumes; 3) eliminating outside management consulting fees; 4) improving operating efficiencies and data management through the use of technology.
55. On January 6, 2005, Anthony L. Watson, CEO and Chairman of HIP-NY filed a letter with the Insurance Commissioner ("the Commitment Letter") which acknowledged that, in reviewing the Form A Application, the Insurance Commissioner has an obligation to ensure that the Proposed Acquisition is in the

public interest, namely the interest of the citizens of the State of Connecticut. The purpose of the Commitment Letter was to provide the Insurance Commissioner with the Applicants' formal commitments to the State of Connecticut and the people of the State of Connecticut after the acquisition of the Domestic Insurers.

56. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the combined businesses will feature a continued significant presence in the State of Connecticut. The Domestic Insurers lease space in two buildings in Farmington, Connecticut, one of which serves as its principal corporate offices and the other of which serves as an operations center. Domestic Insurers also lease and occupy space in one building in Norwalk, Connecticut. Following the closing, the Domestic Insurers will continue to occupy and lease space in these Connecticut locations.
57. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the lease for the corporate offices in Farmington expires in 2009. HIP is committed to retaining and occupying this space at least to the end of the lease term and HIP currently intends to renew that lease. The lease for the operations center in Farmington expires in 2018; and the lease for the Norwalk office expires in 2006. HIP currently intends to renew the Norwalk office lease; it has not yet considered whether or not to renew the operations center lease because of the extended time period involved with that property.

58. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the continued presence of the combined Applicant and the Domestic Insurers healthcare businesses in Connecticut should allow for a continuation of comparable levels of corporate and property tax revenues related to the combined businesses as are projected in the absence of the Proposed Acquisition for the foreseeable future.
59. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the principal offices of the Domestic Insurers will remain in Farmington, Connecticut, where there will continue to be a meaningful executive presence and where significant operational activities will remain.
60. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, for at least the first six months after consummation, the Domestic Insurers will continue to be led by Marcel Gamache, the current Chief Executive Officer, who will continue as the Domestic Insurers Chief Executive Officer per an amended employment agreement.
61. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, HIP desires that the Domestic Insurers' existing management team will remain in place following consummation of the Proposed Transaction and each member of the Domestic Insurers' senior management has entered into an amended employment agreement with ConnectiCare Holding pursuant to which they have agreed to remain with the Domestic Insurers for up to specified periods following the Merger closing.

62. If any of these senior executive positions become vacant, it would be the Applicant's preference, to the extent practicable, to fill these positions in the Domestic Insurers' principal office in Connecticut, recognizing the need to fill the vacancy with the best qualified executive under the circumstances.
63. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Domestic Insurers currently have approximately 530 employees in the State of Connecticut. The Domestic Insurers' annual salary expense relating to these employees is approximately \$33.9 million. The Applicant views the combined operations resulting from the Proposed Acquisition as a growing business, and expects continued growth, profitability and employment opportunities from this business.
64. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, solely for the purpose of providing assurances as to the minimum level of employment that the Domestic Insurers would retain in the State of Connecticut, the Applicants intend to maintain at least 477 employees of the Domestic Insurers in the State of Connecticut for the two year period following the effective date of the Proposed Acquisition. The Domestic Insurers' Connecticut-based jobs following the consummation of the Proposed Acquisition will continue to represent a cross-section of executive, professional, middle management and other positions.
65. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the fact that the Applicant is committing to a minimum level of employment by the Domestic Insurers in the State of Connecticut for the next two years should not be

construed as evidencing an intention by the Applicant to reduce the aggregate level of the Domestic Insurers' employees to a minimum level. The Applicant has not developed a formal plan to integrate the Domestic Insurers because the Applicant intends that the Domestic Insurers will continue to operate as an autonomous business unit of HIP for the foreseeable future.

66. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, HIP has no current plans to make any material changes to either executive or non executive level employees of the Domestic Insurers. The Applicant does, however, desire to provide the Domestic Insurers' management with the flexibility to determine what areas of redundancies may exist post-acquisition.
67. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, any employees terminated as a result of redundancies would be entitled to receive benefits under the Domestic Insurers' severance policy which provides for the continuation of the employee's compensation and medical and dental coverage through a severance period, the term of which depends on the employee's salary and length of service. Such severance is contingent upon the employee executing the Domestic Insurers' standard form of release.
68. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, any employees terminated as a result of redundancies would be eligible to apply for other open positions at the Domestic Insurers or HIP.
69. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, in addition to the specific severance-related benefits described above, after the

consummation of the Proposed Acquisition, HIP will provide to employees of the Domestic Insurers transferred to HIP and its affiliates the opportunity to participate in appropriate employee benefit plans and programs with benefits at least equal to those of HIP's on the same basis as similarly situated employees of HIP and its affiliates. Further, HIP will credit service with the Domestic Insurers for purposes of eligibility and vesting under any employee benefit plans, programs or arrangements maintained by HIP or its affiliates, unless this would result in duplication of benefits.

70. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the current benefits provided to existing retirees of the Domestic Insurers will not be affected in any way by the Proposed Acquisition.
71. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, these commitments are subject to the Domestic Insurers meeting their business plan objectives, the impact of industry-wide factors and the Applicant's final post acquisition business planning, which due to legal constraints cannot be completed until after the consummation of the Proposed Acquisition.
72. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Applicants intend to explore ways to build upon the existing aggregate employment level for the combined business in the State of Connecticut.
73. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Domestic Insurers work extensively with agents, brokers and other distribution channels in Connecticut. One of the primary objectives for the Proposed

Acquisition is the opportunity for the growth of the combined businesses. Such business growth should lead to increased opportunities for the Domestic Insurers and HIP to work with brokers, agents and other distribution channels in Connecticut.

74. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, HIP expects to continue to maintain their charitable giving and philanthropic and community endeavors in Connecticut. The Applicant actively encourages employees to contribute both time and financial resources to charitable and civic organizations through a wide variety of supportive efforts. These initiatives will continue to be available to employees of the Domestic Insurers when they become members of the Applicant's family. With HIP's encouragement and support, HIP's employees in Connecticut will be able to actively volunteer in the communities in which they work and live.

75. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Domestic Insurers and its affiliates have contributed approximately \$160,000 annually over the three-year period of 2001-2004 to Connecticut-based charitable organizations. Following the closing of the Proposed Acquisition, Applicant will increase the aggregate level of charitable giving to Connecticut-based non-profits by the Domestic Insurers, and their respective affiliates up to at least \$200,000 annually for the four year period beginning in 2005 and ending in 2008. These charitable contributions will be made by HIP or the HIP Foundation in a manner determined by the senior management of Applicant, taking into consideration, among other things, (i) the recommendations of the Domestic Insurers' local

management, and (ii) the perceived need for the charitable organizations' activities in the state.

76. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Applicant wishes to underscore its commitment to compliance with law and it undertakes on behalf of itself and the Domestic Insurers to adhere in good faith to all statutory requirements and regulations.

77. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Applicant also believes that the interests of all concerned are best served by good communication and open discussion between plans and regulators and it pledges to be readily available and accessible whenever Connecticut regulators wish to meet with HIP officers and employees; it further pledges to ensure that the Domestic Insurers, as subsidiaries of HIP's, will meet the same standard.

78. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Applicant and the Domestic Insurers pledged to adhere in good faith to all statutory requirements and regulations.

79. Pursuant to the Commitment Letter and the testimony of Mr. Fullwood, the Applicant and the Domestic Insurers will keep Connecticut regulators fully informed of all matters regulators might consider of relevance and interest.

III. DISCUSSION

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurers unless it is determined that:

- (A) After the change of control, the Domestic Insurers would not be able to satisfy the requirements for the issuance of licenses to write the lines of business for which they are presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;
- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interests of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurers, sell their assets or consolidate or merge them with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest;
- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurers are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; or
- (F) The acquisition of control of the Domestic Insurers is likely to be hazardous or prejudicial to those buying insurance.

A. The ability of the the Domestic Insurers to satisfy the requirements for the issuance of licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control.

ConnectiCare, Inc. is a domestic health care center currently licensed pursuant to Conn. Gen. Stat. §38a-175 et seq. to operate as a health care center. Section 38a-193(a)(2) of the Conn. Gen. Stat. requires that no health care center remain licensed in Connecticut unless (A) its net worth bears a reasonable relationship to its liabilities based upon the type, volume and nature of the business transacted, and (B) its risk-based capital related to its total adjusted capital is adequate for the type of business transacted.

As of December 31, 2003, ConnectiCare, Inc. met both the minimum capital and surplus and risk-based capital requirements necessary for the maintenance of a license to operate a health care center. ConnectiCare Insurance Company Inc., is a domestic insurance company currently licensed pursuant to section 38a-41 of the Connecticut General Statutes for accident and health. Section 38a-72 of the Connecticut General Statutes require that a domestic stock health insurance company must have a minimum of \$500,000 in capital and \$500,000 in paid-in surplus in the aggregate.

The Domestic Insurers currently satisfy the requirements for the issuance of licenses to write the lines of business for which they are licensed.

As noted in the findings of fact, following consummation of the Merger, the Applicant has no plans or proposals to liquidate the Domestic Insurers, to sell their assets, merge, or consolidate the Domestic Insurers with any other person or entity. There are no plans for the Domestic Insurers to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity. Mr. Fullwood testified that after the change of control, the Domestic Insurers will be able to satisfy the

requirements for the issuance of licenses under the applicable provisions of the Connecticut General Statutes and regulations. Mr. Fullwood also confirmed that risk-based capital will remain adequate for the types of business transacted by the Domestic Insurers.

In addition to the criteria set forth in sections 38a-193 and 38a-72 of the Connecticut General Statutes, the Department considers the location of the company's books, records and assets, and the management of the company when evaluating a health care center's or insurer's ability to operate a health care center pursuant to section 38a-175 and an insurer's license pursuant to 38a-41 of the Connecticut General Statutes.

Mr. Fullwood testified that the Domestic Insurers have no plans to change the location of the books, records or assets from Connecticut following consummation of the Merger.

Mr. Fullwood also testified that the information contained in the biographical affidavits for the directors and officers of Applicant and proposed for ConnectiCare attest to the competence, experience and integrity of the individuals who will be responsible for the governance and operation of the Domestic Insurers, and should insure the safe and expert operation of the Domestic Insurers following the merger.

Accordingly, it is the conclusion of the Insurance Department that the evidence contained in the record supports a finding that the Applicant will be able to satisfy the requirements for the issuance of the necessary licenses to operate a health care center and an insurer for which they are presently licensed following the proposed acquisition of control of the Domestic Insurers.

B. Whether the effect of the merger would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.

On July 6, 2004, Applicants filed an application with the Federal Trade Commission (“FTC”) and the Antitrust Division of the Department of Justice (“DOJ”), as required by the Hart-Scott-Rodino Antitrust Improvement Act (“Act”), 15 U.S.C. §18. Under the Act and implementing regulations, 16 C.F. R. Part 801 et seq., proposed acquisitions of stock or assets having a market value in excess of \$15 million by a company having annual net sales or total assets of \$100 million or more must, with certain exceptions, be reported to the DOJ and the FTC. Accordingly, the proposed acquisition of Domestic Insurers by the Applicants may not be consummated unless the waiting periods prescribed by the Act have either been shortened by the enforcement agencies or expired without government action. The FTC granted early termination of the waiting period effective July 30, 2004. Based on the early termination action of the FTC, an inference is drawn that there was no finding that the proposed acquisition by Applicants of Insurer would substantially lessen competition or create a monopoly.

The Applicant does not presently offer products or services in Connecticut. The Applicant believes the Proposed Acquisition will be advantageous to the citizens of the State of Connecticut because the combined businesses will provide the basis for significantly advancing the breadth and quality of healthcare services available to people in the New York-Connecticut region, while working more effectively and efficiently with key physicians and health care providers within this large and diverse community.

Based on the Insurance Department’s review of the Applicant’s analysis and their testimony at the hearing, it is hereby concluded that the effect of the acquisition of

control by the Applicant will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of their policyholders.

At the public hearing, Mr. Fullwood testified that following confirmation of the Proposed Acquisition, risk-based capital relating to total adjusted capital will remain adequate for the types of businesses transacted by the Domestic Insurers. Mr. Fullwood also confirmed that following consummation of the Proposed Acquisition, the Domestic Insurers' surplus funds will bear a reasonable relationship to their liabilities based upon the type, volume and nature of the insurance business transacted.

Substantial evidence contained in the Form A application and the supplemental information submitted to the Department indicates that the financial condition of the Applicant will not jeopardize the financial condition of the Domestic Insurers following the Merger. In particular, the independent actuarial analysis conducted for the Department by Charles DeWeese attest to its financial strength and stability. Based on the testimony at the hearing and the evidence contained in the record, there is no evidence that would indicate the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurers, or prejudice the interest of the policyholders.

D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurers, sell their assets or consolidate or merge them with any person, or to make any other material change in their business or corporate

structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest.

The record reveals that the Applicant has no current plans or proposals to liquidate the Domestic Insurers, to sell their assets, or consolidate or merge them with any other entity. Messrs. Fullwood and McGowan testified that the Domestic Insurers will retain principal offices in Farmington where there will be a meaningful executive presence and where significant operational activities will continue to be maintained. Messrs. Watson and McGowan further testified there are no present plans or intentions to change the executive or operational presence in Farmington for the foreseeable future.

Existing Administrative Service Agreements, Investment Management Agreements and Tax Sharing Agreements will remain in place. Those will be evaluated following the Merger, and the Applicant will file for approval with the Insurance Department should any changes be required.

HIP anticipates that ConnectiCare will continue to operate as an autonomous business unit of HIP following the closing. HIP does not presently intend to change any of the operations of the Domestic Insurers, and expects to make a determination as to whether any such changes will be made within 12 months following the closing. During the evaluation period, HIP will consider, among other factors, how its information technology and processes may be applied to the Domestic Insurers needs. HIP also intends to evaluate and design a plan to strengthen the Domestic Insurers' market position and may consider offering products and services not presently offered by the Domestic Insurers. The plan may include targeting market segments such as labor union and municipal government benefit plans, where HIP has considerable experience. HIP

will provide capital support to implement this plan out of its available cash, to the extent necessary and permitted under applicable law.

HIP is in the process of developing a plan for product enhancement and network expansion in western Massachusetts and certain parts of Connecticut. Such expansion will be accomplished through ConnectiCare and through HIP-NY or any current subsidiaries or affiliates and HIP hopes to increase ConnectiCare's membership in Fairfield County following the consummation of the Proposed Acquisition. Funds needed to implement this plan have been accounted for in ConnectiCare's budget.

HIP intends to review ConnectiCare's strategy for entering the New York market alongside HIP's current strategy to determine the optimal approach to growing business in the New York market. As a result of the Proposed Acquisition, HIP and ConnectiCare will target the large group market in New York with employees residing in Connecticut as an additional revenue source.

At the public hearing, Messrs. Watson, McGowan, and Fullwood testified the Applicants have no current plans to reduce the Domestic Insurers' employment levels. The Applicants intend to explore ways to build upon the existing aggregate employment level for the combined business in the State of Connecticut. The Applicants intend to maintain at least 477 employees of the Domestic Insurers in the State of Connecticut for the two year period following the effective date of the Proposed Acquisition.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurers that are unfair and unreasonable to policyholders of the Domestic Insurers or not in the public interest.

E. Whether the competence, experience and integrity of those persons who would control the operations of ConnectiCare are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control.

The record includes the biographical affidavits of those individuals who will serve as members of the board and as officers of the Applicants and ConnectiCare following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicants and ConnectiCare have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicants have been the subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has been subject to such proceeding.

Furthermore, no proposed director or officer of the Applicants or ConnectiCare has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the Domestic Insurers

after the Merger is such that it would be in the interest of policyholders of the Domestic Insurers, and in the public interest to permit the Merger.

F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.

Based on the financial strength of the Applicant, the affirmation that the current plans for the Domestic Insurers will not disrupt either the Applicant's or the Domestic Insurers' current membership, the potential for growth opportunities and operating efficiencies planned by the Applicant, as well as the provision of a strong and stable financial environment for the Domestic Insurers, it is hereby concluded that the proposed acquisition of control of the the Domestic Insurers is not likely to be hazardous to those buying insurance.

Accordingly, assuming compliance with all of Connecticut's insurance statutes and regulations, it is reasonable to conclude that the proposed acquisition of control of the Domestic Insurers is not likely to be hazardous to those buying insurance.

IV. RECOMMENDATION

Accordingly, based on the foregoing findings of fact and discussion, the record of the January 6, 2005 public hearing, and the recommendation of the Insurance Department staff, the undersigned concludes that the Applicants have satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned recommends that the Insurance Commissioner find, pursuant to section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Domestic Insurers will be able to satisfy the requirements for the issuance of licenses; (b) the effect of the acquisition of control will not be to substantially lessen

competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicants is not such as might jeopardize the financial stability of the Domestic Insurers, or prejudice the interest of their policyholders; (d) the plans or proposals for the Domestic Insurers are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicants is such that it would be in the interest of policyholders of the Domestic Insurers, and of the public to permit the proposed acquisition of control; and (f) the acquisition of control of the Domestic Insurers is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends the following orders:

1. The Form A Application of the Applicants in which they seek approval to acquire control of the Domestic Insurers is hereby approved.
2. The Applicants and ConnectiCare shall comply with their commitments as set forth in the Proposed Final Decision and their letter dated January 6, 2005 to the Insurance Commissioner.
3. The Applicants shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
4. For a period of three (3) years, the Domestic Insurers shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of the integration with the Applicants, changes to the business of the Domestic Insurers; employment levels; changes in officers of ConnectiCare; any

changes in location of its operations in Connecticut; and charitable contributions; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and ConnectiCare.

5. The Applicants shall provide the Department with the names and titles of those individuals who will be responsible for filing transactions for prior approval pursuant to Conn. Gen. Stats. 38a-135 and 38a-136.

6. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, ConnectiCare shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the proposed transaction, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants, the Domestic Insurers, and ConnectiCare Holding.

8. The Domestic Insurers shall, at all times, maintain their books, records, and assets in Connecticut pursuant to Connecticut law, unless otherwise approved by the Commissioner.

9. The Applicants shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 14th day of January, 2005


James V. Gorman, Hearing Officer