

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**FORM "A" FILING AS TO THE PROPOSED
ACQUISITION OF CONTROL OR MERGER
WITH A DOMESTIC INSURER, CARE IMPROVEMENT
PLUS SOUTH CENTRAL, NAIC # 12567, A WHOLLY-
OWNED SUBSIDIARY OF XLHEALTH CORP., BY
MATLINPATTERSON GLOBAL OPPORTUNITIES
PARTNERS III L.P. AND MATLINPATTERSON GLOBAL
OPPORTUNITIES PARTNERS (CAYMAN) III L.P., UNDER
ARK. CODE ANN. §§ 23-63-506, *ET SEQ.* AND DEPARTMENT RULE 15**

A.I.D. NO. 2007-063

ORDER

A Public Hearing was held on October 24, 2007 at 1:00 p.m. in the Hearing Room of the Arkansas Insurance Department ("Department") pursuant to a Form A Statement filed by MatlinPatterson Global Opportunities Partners III L.P. and MatlinPatterson Global Opportunities Partners (Cayman) III L.P. (collectively "Applicants"). The Hearing was conducted in accordance with the provisions of Ark. Code Ann. §§ 23-63-506 through 23-63-510 and other pertinent provisions of the Arkansas Insurance Code. Applicants seek approval of their proposed acquisition of control of XLHealth Corporation ("XLHealth"), the parent company of Care Improvement Plus South Central ("Company"), an Arkansas domestic insurer, NAIC No. 12567.

The Hearing was held before the Chief Deputy Insurance Commissioner, Lenita Blasingame ("Hearing Officer"), designated by the Insurance Commissioner for the State of Arkansas ("Commissioner") to act as the Hearing Officer in this matter. Pursuant to Ark. Code Ann. § 23-61-103(e), the Insurance Commissioner delegated to the Hearing Officer all powers, duties, and functions necessary to make a determination with regard to the subject matter of this Order.

The Department was represented by Amanda Capps Rose, Associate Counsel, and Mel Anderson, Deputy Commissioner for Financial Regulation/Audit. Applicants were represented

by Michael P. Whalen of WHALEN LLP. XLHealth and the Company were represented by J. Michael Pickens, Ragenea K. Thompson, and Laura I. Asbury of Friday, Eldredge & Clark LLP.

FINDINGS OF FACT

From the Form A Statement, the testimony of witnesses, evidence and exhibits introduced at the Hearing, reports and statements on file with the Department, and representations of counsel, the Hearing Officer finds as follows:

1. The Company is an Arkansas domestic insurer authorized to transact accident and health insurance in this State. XLHealth, a Maryland corporation, is the parent company of the Company. XLHealth's principal executive offices are located in Baltimore, Maryland.

2. Applicants are controlled by MatlinPatterson LLC, a Delaware limited liability company and a global distressed private equity firm. Its principal executive offices are in New York, New York. MatlinPatterson is owned by Mark Patterson and David Matlin.

3. Applicant MatlinPatterson Global Opportunities Partners III L.P. is a Delaware limited partnership formed on March 12, 2007, and Applicant MatlinPatterson Global Opportunities Partners (Cayman) III L.P. is a limited partnership formed under the laws of the Cayman Islands on March 14, 2007. MatlinPatterson Global Partners III LLC, a Delaware limited liability company, is the General Partner for the Applicants and is indirectly a wholly-owned subsidiary of MatlinPatterson LLC.

4. The investment manager for the Applicants is MatlinPatterson Global Advisors LLC, which is indirectly a wholly-owned subsidiary of MatlinPatterson LLC.

5. Applicants filed an executed Form A Statement on September 18, 2007, together with exhibits. On October 19, 2007, the Applicants filed Amendment No. 1 to the Form A Statement, and Amendment No. 2 to the Form A Statement was filed on October 23, 2007.

Amendment No. 2 to the Form A Statement is in compliance with and satisfies the requirements of Ark. Code Ann. § 23-63-506 and Department Rule 15.

6. Pursuant to Ark. Code Ann. § 23-63-510, and upon agreement of all of parties, a Hearing was conducted on October 24, 2007 to consider the Applicants' proposed acquisition of XLHealth.

7. All persons attending the Hearing were provided the opportunity to present evidence, examine witnesses, and offer argument. The Applicants presented evidence and argument through counsel and through the testimony of Frank Plimpton, an investment officer of MatlinPatterson Global Advisors LLC. Mr. Plimpton was authorized to offer testimony on behalf of the Applicants. Also present at the Hearing were Nicholas Amigone, Analyst for MatlinPatterson Global Advisors LLC, Paul Serini, Esq., Executive Vice President of XLHealth, and Robert Cinquegrana, Chief Financial Officer of XLHealth and the Company. Mr. Serini presented testimony on behalf of XLHealth and the Company.

8. The proposed transaction that is the subject of the Form A Statement is a new investment in XLHealth by the Applicants. The Applicants are prepared to make an investment in XLHealth and the Company, with the aggregate amount of all such investments totaling approximately two hundred ninety million dollars (\$290,000,000). One hundred percent (100%) of the acquisition funds to be used in this transaction flow from the investor partners of the Applicants.

9. On July 30, 2007, the Applicants entered into a Note and Stock Purchase Agreement with XLHealth whereby the Applicants would obtain ownership of approximately fifty-two percent (52%) of XLHealth on a fully-diluted basis. Under the Note and Stock Purchase Agreement, the Applicants will purchase thirty-three million, six hundred eighty-four

thousand, two hundred eleven (33,684,211) shares of Series A-4 Convertible Preferred Stock. This purchase will take place in two stages, the First Closing and the Second Closing. On July 31, 2007, XLHealth issued to the Applicants convertible promissory notes in the approximate amount of one hundred sixty-five million dollars (\$165,000,000), which are convertible into twenty-three million, one hundred fifty-seven thousand, eight hundred ninety-five (23,157,895) shares of Series A-4 Preferred Stock at a price of seven dollars and twelve and one half cents (\$7.125) per share (the “First Closing”). XLHealth amended its Charter to create a Series A-4 Convertible Preferred Stock with an issue price and conversion price of seven dollars and twelve and one half cents (\$7.125). The promissory notes will be converted into shares of Series A-4 Preferred Stock five (5) business days after all regulatory approvals are obtained and all regulatory requirements have been satisfied.

10. On September 28, 2007, the Applicants entered into an Amendment to the Note and Stock Purchase Agreement with XLHealth. Under the Amendment to the Note and Stock Purchase Agreement, the Applicants will purchase ten million, five hundred twenty-six thousand, three hundred sixteen (10,526,316) additional shares of Series A-4 Preferred Stock at a price of seven dollars and twelve and one half cents (\$7.125) per share. On September 28, 2007, XLHealth issued to the Applicants convertible promissory notes in the approximate amount of seventy-five million dollars (\$75,000,000), which are convertible into ten million, five hundred twenty-six thousand, three hundred sixteen (10,526,316) shares of Series A-4 Preferred Stock at a price of seven dollars and twelve and one half cents (\$7.125) per share (the “Second Closing”). The promissory notes will be converted into shares of Series A-4 Preferred Stock five (5) business days after all regulatory approvals are obtained and all regulatory requirements have

been satisfied. The funds received from the Second Closing will be used to fund the continuing financial needs of XLHealth and its subsidiaries, including the Company.

11. XLHealth has also entered into a Commitment Letter with the Applicants for a senior secured term loan facility (the "Facility") in an amount not to exceed fifty million dollars (\$50,000,000). In the event XL Health or the Applicants draw on the Facility, the proceeds of the Facility will be used for working capital and other general corporate purposes, to fund contributions to the Company and other XLHealth subsidiaries to satisfy risk based capital and statutory capital requirements, and to pay certain fees and expenses with respect to the Facility.

12. On September 18, 2007, the Applicants purchased from William J. Cirksena and Molly E. Cirksena an aggregate of one hundred sixty-three thousand (163,000) shares of common stock at a purchase price of ten dollars and sixty-eight cents (\$10.68) per share and warrants exercisable into 243,034 shares of common stock at a purchase price of ten dollars and sixty-eight cents (\$10.68) per share covered by the warrant, less the applicable per-share warrant exercise price, for an aggregate purchase price of approximately four million, three hundred thousand dollars (\$4,300,000).

13. Applicants also propose to enter into a Common Stock Purchase Agreement with the stockholders of XLHealth who desire to sell shares of common stock. The Applicants will purchase two million, three hundred nine thousand, three hundred twenty-two (2,309,322) shares of common stock (or such lesser amount as the stockholders choose) for a purchase price of approximately ten dollars and sixty-eight cents (\$10.68) per share, for an aggregate purchase price of approximately twenty-four million, seven hundred thousand dollars (\$24,700,000), if all shares are sold.

14. The nature and amount of the consideration to be paid by the Applicants was determined through arm's length negotiations between representatives of the Applicants and XLHealth and the Company.

15. In connection with the investments of the Applicants, XLHealth will amend its Amended and Restated Stockholders Agreement (the "Stockholders Agreement"). The Applicants will be parties to the Stockholders Agreement. The Stockholders Agreement will contain provisions related to the composition of the XLHealth Board of Directors and various transfer restrictions on the stockholders.

16. Based upon the testimony presented at the Hearing, the Applicants do not anticipate that, following the proposed acquisition, the business operations of XLHealth and the Company will change materially. Applicants will appoint five (5) directors to the XLHealth Board of Directors. The initial appointees will be Bob Weiss, Larry Teitelbaum, Nicholas Amigone, Frank Plimpton and Chris Pechock. Applicants otherwise intend that the existing management of XLHealth and the Company will continue to manage the day-to-day operations of XLHealth and the Company.

17. Applicants do not intend to change the business plans of XLHealth or of the Company. Following the proposed acquisition of control, the Company will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.

18. The proposed acquisition of control will not reduce the security of, or the service to be rendered to, any policyholders of the Company. The financial condition of the Applicants will not jeopardize the financial stability of the Company, prejudice the interests of any

policyholder, or prejudice the interests of any security holders. The terms of the proposed acquisition are fair and reasonable to the security holders of the Company.

19. The proposed acquisition of control of the Company by the Applicants will not substantially lessen competition in the insurance industry in this state or tend to create a monopoly therein.

20. There are no plans or proposals to liquidate the Company, move or re-domesticate the Company, sell its assets, or consolidate or merge it with any other person or entity, except as set forth in the Note and Stock Purchase Agreement. There are no plans or proposals to make any material changes in the Company's business or corporate structure that would be unreasonable or unfair to any policyholders of the Company or against the public interest.

21. The competence and experience of the persons who would control the operations of the Company are not such that the acquisition of control would be against the best interest of any policyholders of the Company or the public.

22. All filings, hearings and other procedural requirements mandated by the Arkansas Insurance Code and Department Rules have been completed by the Applicants and the Department.

CONCLUSIONS OF LAW

Based upon the above and foregoing Findings of Fact and other evidence before the Hearing Officer, the Hearing Officer finds and concludes as follows:

1. None of the conditions specified in Ark. Code Ann. § 23-63-510 as preclusions for the approval of the proposed acquisition of control exist. The Hearing Officer further finds and concludes that the proposed acquisition of control of the Company should be approved as

provided in the amended Note and Stock Purchase Agreement, the Form A Statement, and as described in this Order.

2. The approval of the proposed transaction is subject to the following terms and requirements:

- a. Applicants shall inform the Commissioner within thirty (30) days after the effective date of any change in the directors, officers, managers, or persons in similar capacities, of MatlinPatterson LLC or the Applicants. The NAIC Biographical Affidavits for any such new appointee shall be filed with the Department within forty-five (45) days of said change;
- b. Third party background checks of David Matlin, Mark Patterson, Bob Weiss, Larry Teitelbaum, Nicholas Amigone, Frank Plimpton and Chris Pechock were received by the Department on November 15, 2007. The Department may request additional information regarding these individuals subsequent to the execution of this Order. Additionally, should the Department determine that the competence, experience or integrity of one of these individuals is in question, the Department may place limitations on the individual's involvement with XLHealth and the Company's management, subject to the opportunity for a hearing; and
- c. Applicants and the Company understand that the Commissioner may request information and documentation, including but not limited to books, records, accounts, and any electronically stored information, regarding the Company's property, assets, liabilities, business affairs and operations. Applicants and the

Company agree to cooperate and timely respond to any request by the
Commissioner for such information or documentation.

IT IS THEREFORE ORDERED that the proposed acquisition of control of the
Company by the Applicants, pursuant and subject to the terms and conditions of the amended
Note and Stock Purchase Agreement, the Form A Statement, and all terms and conditions stated
in this Order, is hereby approved.

DATED this 30th day of November, 2007.


LENITA BLASINGAME
CHIEF DEPUTY INSURANCE COMMISSIONER
STATE OF ARKANSAS