

Report on Examination
of
WellCare Prescription Insurance, Inc.
Tampa, Florida
as of
December 31, 2006

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

April 7, 2008

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Gentlemen:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

WellCare Prescription Insurance, Inc.
8735 Henderson Road
Renaissance Two
Tampa, Florida 33634

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of May 20, 2005 through December 31, 2006. This was the first financial condition examination conducted by the Florida Office of Insurance Regulation (the "Office").

Planning for the current examination began on April 11, 2007. The fieldwork commenced on April 23, 2007 and concluded on February 14, 2008. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was an association zone statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System (IRIS) ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2006 annual statement. Transactions subsequent to December 31, 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Commitments and contingent liabilities
- General expenses due or accrued

HISTORY

GENERAL

The Company was incorporated in Florida on March 24, 2005 as WellCare Prescription Services, Inc., and on April 12, 2005, changed its name to WellCare Prescription Insurance, Inc. It was licensed by the Office on May 20, 2005, and commenced business on October 1, 2005.

The Company was formed for the purpose of contracting with the Centers for Medicare & Medicaid Services (CMS) to provide Medicare Part D prescription drug services to Medicare beneficiaries. As of the date of this examination, the Company was authorized to transact accident and health insurance coverage in Florida in accordance with Section 624.401, F.S., limited to the Medicare Part D prescription drug program.

The Company's articles of incorporation were amended on September 14, 2005 and September 15, 2006. On April 19, 2007, its articles of incorporation were again amended to correct an inaccuracy in the previous amendment.

CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

At December 31, 2006, the Company was wholly-owned and controlled by The WellCare Management Group, Inc., which in turn was wholly-owned by WCG Health Management, Inc., a wholly-owned subsidiary of publicly traded WellCare Health Plans, Inc. (WHP). An abbreviated organizational chart appears on page 8.

PROFITABILITY

The Company reported the following for years 2005 and 2006:

(In millions)	<u>2006</u>	<u>2005</u>
Net premiums	\$995.1	\$0.0
Total revenues	\$995.1	\$0.0
Net income	\$61.1	\$0.0
Total capital and surplus	\$101.0	\$5.0
Contributed capital received	\$35.0	\$2.5

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

Directors	
<u>Name and Location</u>	<u>Principal Occupation</u>
Paul L. Behrens Tampa, Florida	Chief Financial Officer & Sr. Vice President of WHP
Thaddeus M. Bereday Tampa, Florida	General Counsel & Sr. Vice President of WHP
Gary J. Clarke Tallahassee, Florida	Attorney - Sternstein, Rainer, & Clarke P.A.
Adam T. Miller Tampa, Florida	Chief Operating Officer of WHP
Karen W. Mulroe Tampa, Florida	Assistant General Counsel of WHP
John L. Sirera Odessa, Florida	Vice President of Pharmacy of WHP
David K. Smith Tampa, Florida	Vice President, Assistant Secretary, & Assistant Treasurer of WHP

The Company utilized the services of the WHP audit committee.

The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

<u>Name</u>	<u>Title</u>
Todd S. Farha	President & Chief Executive Officer
Paul L. Behrens	Chief Financial Officer & Treasurer
Thaddeus M. Bereday	Sr. Vice President & Secretary
David K. Smith	Vice President, Assistant Treasurer, & Assistant Secretary

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on January 10, 2007.

The following agreements were in force between the Company and its affiliates on December 31, 2006:

MANAGEMENT AGREEMENT

Substantially all of the Company's administrative services, including management of its operations, were provided by Comprehensive Health Management, Inc. pursuant to a 2005 agreement. Fees for the services were based on a percentage of total collected premiums and amounted to \$94.9 million in 2006.

TAX ALLOCATION AGREEMENT

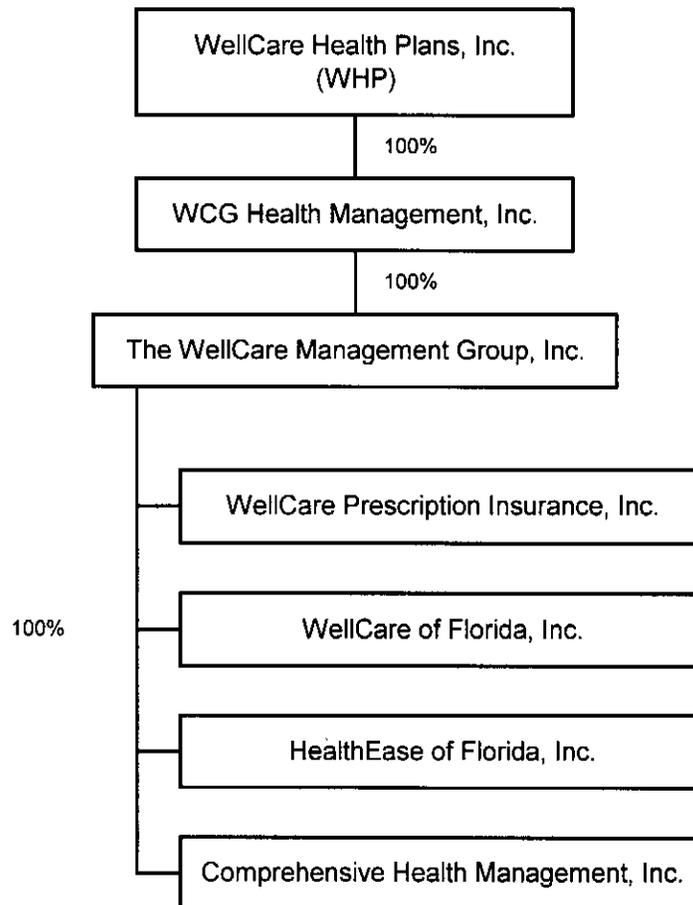
The results of the Company's operations were included in the consolidated federal income tax return of WHP pursuant to a tax-sharing agreement dated August 1, 2002 and amended August 21, 2006.

Allocations were based upon separate return calculations with current credit for net losses.

Intercompany tax balances were settled quarterly.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement provided the names of all related companies in the holding company group.

**WellCare Prescription Insurance, Inc.
Organizational Chart
December 31, 2006**



FIDELITY BOND AND OTHER INSURANCE

The Company increased its fidelity bond coverage from \$1 million to \$2.5 million with a deductible of \$100,000 effective May 21, 2007. The higher coverage adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees and, therefore, no employee benefit plans. Substantially all of its administrative services were provided by Comprehensive Health Management, Inc. pursuant to a management agreement.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par Value	Market Value
Florida	Cash	n/a	n/a	\$100,000	\$100,000
Florida	U.S. Treasury Note	5.00%	07/31/08	1,500,000	1,504,865
				<u>1,600,000</u>	<u>1,604,865</u>
Indiana	Prime Obligation Fund	4.90%	n/a	248	248
Indiana	U.S. Treasury Note	5.00%	07/31/08	100,000	99,916
Massachusetts	U.S. Treasury Note	3.50%	05/31/07	100,000	99,648
Nevada	Prime Obligation Fund	4.90%	n/a	413	413
Nevada	U.S. Treasury Note	5.00%	07/31/08	250,000	250,497
Oklahoma	U.S. Treasury Note	3.50%	05/31/07	300,000	299,435
S. Carolina	U.S. Treasury Note	4.63%	09/30/08	125,000	125,339
				<u>\$2,475,661</u>	<u>\$2,480,361</u>
Total deposits					

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

The Company contracted with CMS to provide Medicare Part D prescription drug services to Medicare beneficiaries. According to the Company, it is permitted by CMS rules to operate in states without a license until 2009, at which time it must be licensed in accordance with applicable state requirements, and it intends to seek licensure in all states. As of December 31, 2006, the Company was licensed in the District of Columbia and the following states:

Arizona	Maine	New York	South Dakota
Florida	Maryland	North Dakota	Texas
Hawaii	Massachusetts	Oklahoma	Utah
Idaho	Missouri	Pennsylvania	Vermont
Indiana	Nevada	South Carolina	

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The Company maintained a stop-loss reinsurance agreement dated March 3, 2006 with Munich Reinsurance America, Inc. (formerly, AmRe Reinsurance Company), an authorized Florida reinsurer. The agreement was reviewed and found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

ASSUMED

The Company did not assume risk.

CEDED

The Company ceded risk on an aggregate excess-of-loss basis to one authorized reinsurer. Based on the terms of the agreement, the Company qualified for and received a commission for 2006. The Company canceled the contract in early 2007.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for 2006, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

The following agreements were in effect between the Company and non-affiliates:

CUSTODIAL AGREEMENT

On August 17, 2006, the Company entered into a custodial agreement with JPMorganChase Bank, N.A., for the holding and safekeeping of securities. Fees related to this agreement were waived for the year 2006.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Deloitte & Touche to conduct annual audits of the Company's statutory-basis financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 20.

WellCare Prescription Insurance, Inc.
Assets
December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$50,249,748	\$1,981,278	\$52,231,026
Cash, cash equivalents, and short-term investments	263,182,769	(1,981,278)	261,201,491
	<u>313,432,517</u>	<u>0</u>	<u>313,432,517</u>
Investment income due and accrued	165,528	0	165,528
Uncollected premiums and agents' balances	4,492,126	0	4,492,126
Net deferred tax asset	342,747	0	342,747
Receivables from parent, subsidiaries and affiliates	7,486,559	0	7,486,559
Health care and other amounts receivable	51,339,084	0	51,339,084
Totals	<u>\$377,258,561</u>	<u>\$0</u>	<u>\$377,258,561</u>

WellCare Prescription Insurance, Inc.
Liabilities, Surplus and Other Funds
December 31, 2006

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$158,316,646	\$0	\$158,316,646
General expenses due or accrued	86,459,032	0	86,459,032
Current federal and foreign income tax payable	0	28,412,806	28,412,806
Net deferred tax liability	28,412,806	(28,412,806)	0
Amounts due to parent, subsidiaries and affiliates	649,438	0	649,438
Liability for amounts held under uninsured plans	2,379,916	0	2,379,916
Total liabilities	<u>276,217,838</u>	<u>0</u>	<u>276,217,838</u>
Capital and Surplus			
Common capital stock	2,500,000	0	2,500,000
Gross paid in and contributed surplus	37,500,000	0	37,500,000
Unassigned funds	61,040,723	0	61,040,723
Total capital and surplus	<u>101,040,723</u>	<u>0</u>	<u>101,040,723</u>
Totals	<u>\$377,258,561</u>	<u>\$0</u>	<u>\$377,258,561</u>

WellCare Prescription Insurance, Inc.
Summary of Operations
For The Year Ended December 31, 2006

Net premium income	\$995,085,801
Prescription drugs	801,127,169
Claims adjustment expenses	32,045,087
General administrative expenses	78,447,748
Total underwriting deductions	<u>911,620,004</u>
Net underwriting gain	83,465,797
Net investment income	<u>10,428,211</u>
Income before income taxes	93,894,008
Federal and foreign income taxes	<u>32,815,103</u>
Net income	<u><u>\$61,078,905</u></u>

WellCare Prescription Insurance, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2006

Capital and surplus - December 31, 2005		\$5,005,061
Net income	\$61,078,905	
Change in net unrealized capital gains	11,890	
Change in net deferred income tax	341,691	
Change in nonadmitted assets	(396,824)	
Paid in surplus	35,000,000	
Examination adjustments	<u>0</u>	<u>96,035,662</u>
Capital and surplus - December 31, 2006		<u><u>\$101,040,723</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds

\$52,231,026

The \$50,249,748 reported by the Company as bonds has been increased by \$1,981,278. In its 2006 annual statement, the Company reported "cash, cash equivalents, and short-term investments" in the total amount of \$263,182,769, which included U.S. Treasury notes that should have been classified as bonds in the total amount of \$1,981,278. Accordingly, an examination adjustment has been made to reclassify the investments.

Cash, Cash Equivalents, and Short-Term Investments

\$261,201,491

The \$263,182,769 reported by the Company as "cash, cash equivalents, and short-term investments" has been decreased by \$1,981,278 as a result of the reclassification described above.

Health Care and Other Amounts Receivable

\$51,339,084

In its 2006 annual statement, the Company reported "health care and other amounts receivable" in the total amount of \$51,339,084, which included pharmacy rebates receivable of \$49,370,404. The Company failed to disclose certain information pertaining to its pharmacy rebates receivable as required by Statement of Statutory Accounting Principles (SSAP) No. 84 which states in part, "The financial statements shall disclose the method used by the reporting entity to estimate pharmaceutical rebate receivables. Furthermore, for the most recent three years and for each quarter therein, the reporting entity shall also disclose the following:

- a. Estimated balance of pharmacy rebate receivable as reported on the financial statements;
- b. Pharmacy rebates as invoiced or confirmed in writing; and
- c. Pharmacy rebates collected."

Claims Unpaid**\$158,316,646**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

Current Federal and Foreign Income Tax Payable**\$28,412,806**

In its 2006 annual statement, the Company incorrectly reported income taxes currently payable as a "net deferred tax liability" in the amount of \$28,412,806. As a result, that amount has been reclassified from "net deferred tax liability" to "current federal and foreign income tax payable."

Net Deferred Tax Liability**\$0**

The amount incorrectly reported by the Company in its 2006 annual statement as "net deferred tax liability" has been reclassified as noted above.

WellCare Prescription Insurance, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2006

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2006 - per annual statement				\$101,040,723
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Surplus</u>	
Bonds	\$50,249,748	\$52,231,026	\$1,981,278	
Cash	\$263,182,769	\$261,201,491	(\$1,981,278)	
Current income tax payable	\$0	\$28,412,806	(\$28,412,806)	
Net deferred tax liability	\$28,412,806	\$0	<u>\$28,412,806</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$101,040,723</u></u>

SUBSEQUENT EVENTS

The Company's ultimate parent company WHP reported that, on October 24, 2007, certain federal and state agencies executed a search warrant at the Company's Tampa, Florida headquarters, and that WHP was working with the U.S. Department of Justice, the Federal Bureau of Investigation, the U.S. Department of Health and Human Services Office of Inspector General, and the Florida Attorney General's Medicaid Fraud Control Unit.

SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CLASSIFICATION ERRORS

As reported on pages 18 and 19, the Company incorrectly classified \$1,981,278 in investments in U.S. Treasury notes as “cash, cash equivalents, and short-term investments,” rather than as bonds, and incorrectly reported \$28,412,806 in “income taxes currently payable” as a “net deferred tax liability.”

We recommend that, on future statements filed with the Office, the Company accurately classify its assets and liabilities in accordance with the NAIC *Annual Statement Instructions*.

HEALTH CARE AND OTHER AMOUNTS RECEIVABLE

In its 2006 annual statement, the Company failed to disclose certain information pertaining to its pharmacy rebates receivable as required by SSAP No. 84, as reported on page 18. **We recommend that, on future statements filed with the Office, the Company comply with the disclosure requirements of SSAP No. 84.**

FEDERAL AND STATE INVESTIGATION

As reported on page 21, the Company's ultimate parent company WHP reported that, on October 24, 2007, certain federal and state agencies executed a search warrant at the Company's Tampa, Florida headquarters, and that WHP was working with the U.S. Department of Justice, the Federal Bureau of investigation, the U.S. Department of Health and Human Services Office of Inspector General, and the Florida Attorney General's Medicaid Fraud Control Unit. **We recommend that the Company keep the Office informed of the status of the investigation on a current basis, and promptly notify the Office of any formal allegations or material findings by any federal or state agency which may result from the investigation.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **WellCare Prescription Insurance, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$101,040,723, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2006 was \$16,069,656.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Examiner/Analyst; Wenzhang "Mike" Du, Actuarial Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; Darlene L. Lenhart-Schaeffer, Financial Examiner/Analyst; and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation