

Report on Examination
of
WELLCARE OF FLORIDA, INC.
(Formerly, Well Care HMO, Inc.)
Tampa, Florida
as of
December 31, 2003

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 4, 2005

Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, 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, 2003, of the financial condition and corporate affairs of:

WellCare of Florida, Inc.
(formerly, "Well Care HMO, Inc.")
8735 Henderson Rd., Renaissance 2
Tampa, Florida 33634

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of December 31, 1999. In lieu of conducting a statutory financial examination of the Company for the year 2000, the Office accepted the independent certified public accountant's ("CPA") audit report on the Company's statutory-basis financial statements for that year pursuant to Section 641.27(1), F.S.

Planning for the current examination began on May 10, 2004, and the fieldwork commenced on May 17, 2004. The examination was suspended on September 10, 2004 in order to conduct the actuarial review of the Company's liability for unpaid claims concurrently with the scheduled examination of HealthEase of Florida, Inc., an affiliated health maintenance organization ("HMO"). Examination fieldwork was subsequently completed on January 27, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial examination conducted in accordance with the Financial Examiners Handbook, NAIC Accounting Practices and Procedures Manual, and the NAIC annual statement instructions, 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 those balances affect the Company's financial solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, the A.M. Best Report, 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 amounts of the Company's assets and liabilities as reported by the Company in its 2003 annual statement. Transactions subsequent to December 31, 2003 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 contingent liabilities.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

SHAREHOLDER DISTRIBUTIONS

From 1996 through 1999, the Company paid dividends to its shareholders which were, in the aggregate, \$2,095,889 greater than the amount permitted by the Florida Insurance Code. The Company was directed to reverse the dividends, collect from its shareholders all amounts paid during 1996, 1998 and 1999 in excess of the amounts permitted by State law, and limit any future shareholder dividends to amounts permitted by Section 641.365, F.S. Resolution: The Company complied with the directive.

CLASSIFICATION ERRORS

In its 1998 and 1999 annual statements, the Company incorrectly reported its stockholder dividends as "aggregate write-ins for changes in retained earnings," rather than as "dividends to stockholders." In addition, the Company incorrectly reported a subordinated note as "aggregate write-ins for other surplus items" in its 1999 annual statement, rather than as subordinated debt. Resolution: During the current examination period, the Company properly classified its stockholder dividends and subordinated debt.

HISTORY

GENERAL

The Company was incorporated in Florida on May 17, 1985, and commenced business in March of 1986. On August 24, 2004, the Company changed its name from Well Care HMO, Inc. to WellCare of Florida, Inc.

As of December 31, 2003, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination, except to recognize the name change.

CAPITAL STOCK

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,275,313
Total common capital stock	\$52,753
Par value per share	\$0.01

At December 31, 2003, the Company was wholly-owned by The WellCare Management Group, Inc., which in turn was wholly-owned by WellCare Health Plans, Inc., which is wholly-owned by WellCare Holdings, LLC. A simplified organizational chart appears on page 9.

PROFITABILITY

The Company reported net premiums of \$613.6 million, \$566.4 million, and \$455.1 million in years 2003, 2002, and 2001, respectively; and net income of \$6.2 million, \$2.3 million, and \$2.5 million in those same years.

DIVIDENDS

The Company paid no dividends during 2003; however, during 2002 and 2001 it paid dividends in the amounts of \$2,520,980 and \$582,896, respectively.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2003 were:

Paul Behrens	Thaddeus Bereday	Gary Clarke
Todd S. Farha	Kiran Patel	David Smith

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Todd S. Farha	President
Rupesh Shah	Vice President
David Smith	Vice President & Secretary
Paul Behrens	Treasurer

The Company's board of directors established committees in accordance with Section 607.0825, F.S. The principal committee of the Board was the Audit Committee. At December 31, 2003, the members of the Audit Committee, consisting of outside directors of WellCare Health Plans, Inc., were:

Audit Committee

Regina Herzlinger, Phd.
Kevin Hickey
Christian Michalik

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, Board of Directors, and Audit Committee meetings 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 641.35(7), F.S.

There was no documentation in the minutes reviewed that the Company's directors reviewed the previous examination report.

ACQUISITIONS, MERGERS, ETC.

The WellCare Management Group, Inc. acquired 100% of the Company's common stock on July 31, 2002. The acquisition was approved by the Office in August of 2002.

SURPLUS NOTES

At December 31, 2003, the Company was obligated for surplus notes to Comprehensive Health Management of Florida, L.C., an affiliate, in the total amount of \$14,983,652. The notes bear interest at annual rates ranging from 6% to 8%. In accordance with Section 641.19(19), F.S., the surplus note debt is included in the Company's surplus. During 2003, with the permission of the Office, the Company repaid two surplus notes in the total amount of \$5,562,562 together with \$1,905,881 in accrued interest.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code ("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 September 3, 2002.

In July of 2004, WellCare Health Plans, Inc. raised approximately \$114.1 million through an initial public offering of its capital stock, which was not subsequently reported to the Office in an updated holding company registration statement as required by Rule 69O-143.046, F.A.C.

The following agreements were in force between the Company and its affiliates:

MANAGEMENT AGREEMENT

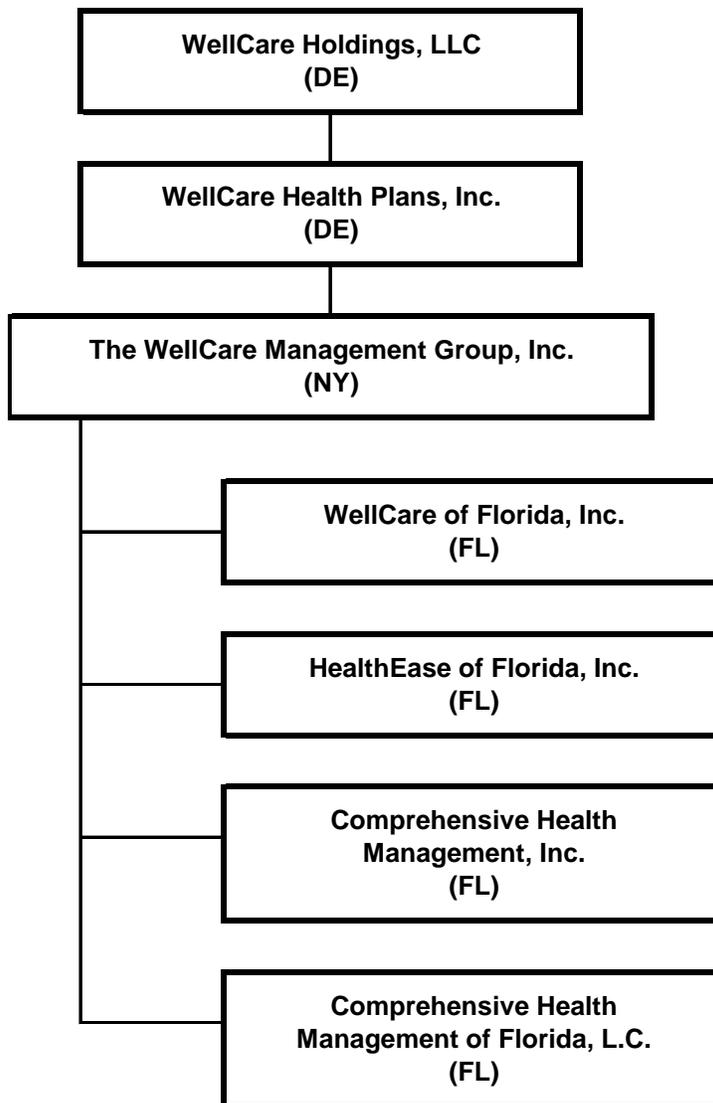
Substantially all of the Company's administrative services are provided by Comprehensive Health Management, Inc. ("Comprehensive"), an affiliated Florida third party administrator, pursuant to a management agreement dated September 9, 1999. Services provided by Comprehensive include accounting, claims, customer service, data processing and provider contracting services. Fees are based on the Company's total earned premiums, and amounted to \$58.5 million, \$52.3 million, and \$34.3 million in years 2003, 2002, and 2001, respectively.

TAX ALLOCATION AGREEMENT

Effective August 1, 2002, the results of the Company's operations are included in the consolidated Federal income tax return of WellCare Health Plans, Inc., pursuant to a consolidated Federal income tax agreement. Federal income taxes are allocated between WellCare Health Plans, Inc. and the Company based on separate company tax computations with current year credit given for losses and credits used in the consolidated returns.

A simplified organizational chart as of December 31, 2003 reflecting the holding company system is shown below. Schedule Y of the Company's 2003 annual statement provided the names of all related companies in the holding company group.

**WellCare of Florida, Inc.
Organizational Chart
December 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company requires its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C. The Company is a named insured on a general liability and fidelity bond insurance policy, as required by Section 641.22, F.S., and Rule 69O-191.069, F.A.C.

STATUTORY DEPOSITS

The Company deposited with the Office \$2,001,070 in accordance with Sections 641.227 and 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It holds a current health care provider certificate issued by the Florida Agency for Health Care Administration (“AHCA”) valid until June 27, 2006, pursuant to Part III of Chapter 641, F.S. The Company is licensed by AHCA to provide HMO services to Medicaid recipients, and by the Centers for Medicare and Medicaid Services as a Medicare provider. During 2003, 46% and 45% of its net premium income was derived from Medicare and Medicaid members, respectively.

The Company uses a network of general agents and brokers, and operates as an individual practice association (“IPA”) model. It provides health care services to Medicaid, Medicare, and a small number of commercial subscribers; however, at December 31, 2003 it was not enrolling new commercial subscribers. The Company’s total membership numbered 272,419 at December 31, 2003.

The Company operates in the following Florida counties:

Brevard	Hernando	Manatee	Palm Beach	Polk
Broward	Hillsborough	Orange	Pasco	Sarasota
Dade	Lee	Osceola	Pinellas	Seminole

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

CEDED

Pursuant to a reinsurance agreement and in return for monthly premiums, Allianz Life Insurance Company of North America has agreed to reimburse the Company for specified portions of eligible claims expenses exceeding designated amounts, up to an annual aggregate amount of \$1 million per covered member.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2003, 2002, and 2001, pursuant to Section 641.26(1)(c), F.S.

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 is located in Tampa Florida, where this examination was conducted.

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

PROVIDER AGREEMENTS

The Company contracted with various providers to provide health care services to its members.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Deloitte & Touche LLP to audit its financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain statements of the Company's financial position at December 31, 2003, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

WellCare of Florida, Inc.
Assets
December 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Cash	\$174,840,235	\$0	\$174,840,235
Uncollected premiums and agents' balances in the course of collection	283,509	0	283,509
Net deferred tax asset	7,028,442	0	7,028,442
Health care and other amounts receivable	579,461	0	579,461
Aggregate write-ins for other than invested assets	<u>1,944,389</u>	<u>0</u>	<u>1,944,389</u>
Totals	<u><u>\$184,676,036</u></u>	<u><u>\$0</u></u>	<u><u>\$184,676,036</u></u>

WellCare of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$89,955,784	\$0	\$89,955,784
Unpaid claims adjustment expenses	2,699,758	0	2,699,758
Premiums received in advance	49,984,923	0	49,984,923
General expenses due or accrued	9,418,057	0	9,418,057
Current federal and foreign income tax payable	82,313	0	82,313
Amounts due to parent, subsidiaries and affiliates	<u>8,204,648</u>	<u>0</u>	<u>8,204,648</u>
Total liabilities	160,345,483	0	160,345,483
Capital and Surplus			
Common capital stock	52,753	0	52,753
Gross paid in and contributed surplus	1,533,539	0	1,533,539
Surplus notes	14,983,652	0	14,983,652
Unassigned funds (surplus)	<u>7,760,609</u>	<u>0</u>	<u>7,760,609</u>
Total capital and surplus	<u>24,330,553</u>	<u>0</u>	<u>24,330,553</u>
Total liabilities, capital and surplus	<u><u>\$184,676,036</u></u>	<u><u>\$0</u></u>	<u><u>\$184,676,036</u></u>

WellCare of Florida, Inc.
Statement of Income
For Year Ended December 31, 2003

Net premium income		\$613,612,714
Hospital/medical benefits	\$386,473,122	
Other professional services	18,460,416	
Emergency room and out-of-area	38,643,497	
Prescription drugs	<u>72,479,762</u>	
	516,056,797	
Net reinsurance recoveries	<u>406,016</u>	
Total hospital and medical	515,650,781	
Claims adjustment expenses	21,587,148	
General administrative expenses	<u>66,896,678</u>	
Total underwriting deductions		<u>604,134,607</u>
Net underwriting gain or (loss)		9,478,107
Net investment income earned	1,286,741	
Net realized capital gains or (losses)	<u>21,118</u>	
Net investment gains or (losses)		<u>1,307,859</u>
Net income or (loss) before federal income taxes		10,785,966
Federal and foreign income taxes incurred		<u>4,574,910</u>
Net income (loss)		<u><u>\$6,211,056</u></u>
Capital and surplus, December 31, 2002		\$20,437,916
Net income or (loss)		6,211,056
Net unrealized capital gains and losses		1,961
Change in net deferred income tax		2,555,436
Change in nonadmitted assets		1,834,076
Change in surplus notes		(5,562,562)
Aggregate write-ins for gains or (losses) in surplus		<u>(1,147,330)</u>
		24,330,553
Examination adjustments		<u>0</u>
Capital and surplus, December 31, 2003		<u><u>\$24,330,553</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$92,655,542

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2003 reasonably provided for all of the Company's unpaid claims under the terms of its subscriber agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

WellCare of Florida, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2003

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

Capital & surplus, December 31, 2003 - per annual statement			\$24,330,553
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Assets	\$184,676,036	\$184,676,036	\$0
Liabilities	\$160,345,483	\$160,345,483	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital & surplus, December 31, 2003 - per examination			<u><u>\$24,330,553</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the December 31, 1999 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings from the examination as of December 31, 2003.

REVIEW OF PRIOR EXAMINATION REPORT

As discussed on page 7, there was no documentation in the minutes reviewed that the Company's directors reviewed the previous examination report. **We recommend that the Board of Directors document its review of all of the Company's regulatory examination reports.**

HOLDING COMPANY REGISTRATION STATEMENT

As discussed on page 8, WellCare Health Plans, Inc. raised approximately \$114.1 million in July of 2004 through an initial public offering of its capital stock, which was not subsequently reported to the Office in an updated holding company registration statement as required by Rule 69O-143.046, F.A.C. **We recommend that the Company file a current holding company registration statement.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **WellCare of Florida, Inc.** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$24,330,553, which was in compliance with Section 641.225, F.S.

In addition to the undersigned, Ruth L. Lieberman, Financial Specialist, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

Steven A. Steele
Financial Specialist
Florida Office of Insurance Regulation