

Report on Examination
of
Optimum HealthCare, Inc.
Tampa, Florida
as of
December 31, 2011



**FLORIDA OFFICE OF
INSURANCE REGULATION**

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

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Optimum HealthCare, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation
May 1, 2013

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of Optimum HealthCare, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2011 and took place primarily in the Company's Tampa, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMPANY HISTORY

The Company was incorporated in Florida on July 1, 2004 and licensed by the Office as an HMO on February 21, 2005. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company did not distribute dividends or receive capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Company's board of directors meetings. The Board's approval of Company transactions was recorded in the minutes of its meetings except that there was no record in the minutes of the authorization or ratification of the Company's investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

At December 31, 2011, the Company was owned by America's 1st Choice Holdings of Florida, LLC (Holdings) which acquired the Company in 2008 subject to the terms and conditions of Consent Order 94403-08-CO (the "Consent Order") filed by the Office on March 6, 2008. In its 2011 annual statement, the Company reported that Holdings was owned 55% by Liberty Acquisition Group, LLC, and that Liberty Acquisition Group, LLC was owned by Dr. Kiran C. Patel. However, the Company indicated during the examination that Liberty Acquisition Group, LLC actually owned 52.8% of Holdings. The Company was affiliated with various other entities through common ownership and control including Global TPA, LLC (Global), a Florida third party administrator, and Freedom Health, Inc., a Florida HMO.

The Company's senior officers and directors were:

Senior Officers

Name	Title
Rupesh R. Shah	Chief Executive Officer
Jigar J. Desai	Treasurer and Chief Financial Officer
Bijal Patel	Secretary
Ace M. Hodgin, M.D.	Chief Medical Officer

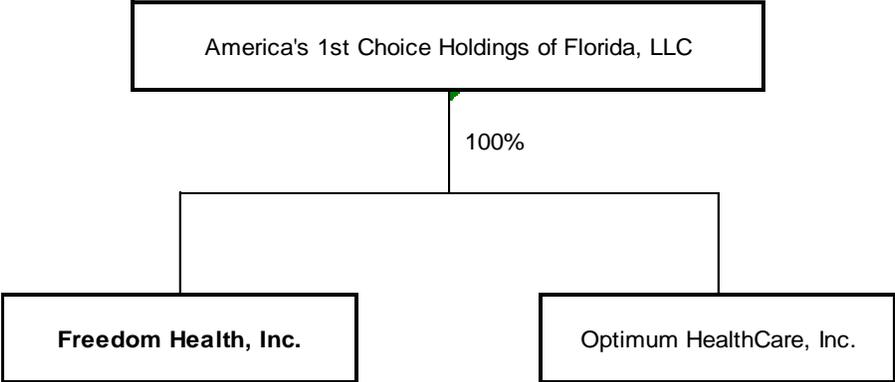
Board of Directors

Name	Location
Joseph Idicula, M.D.	Spring Hill, Florida
Devaiah Pagidipati, M.D.	Ocala, Florida
Hardev D. Patel	Tampa, Florida
Hitesh C. Patel, M.D.	Clearwater, Florida
Kiran C. Patel, M.D.	Tampa, Florida
Vijay Patel, M.D.	Munster, Indiana
Danny B. Polen	Trinity, Florida
Walter L. Presha, Sr.	Palmetto, Florida

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on April 1, 2013. The registration statement did not provide complete current information about in-force agreements with affiliates and transactions currently outstanding between the Company and certain of its affiliates as required by Rule 69O-143.046(2)(c), F.A.C.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Optimum HealthCare, Inc.
Abbreviated Organizational Chart
December 31, 2011**



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

Management Services and Marketing Agreements

Global provided services to the Company in accordance with management and marketing agreements effective January 1, 2008 and later amended. Services provided by Global under the agreements included general and administrative, marketing, management, claims management and administration, customer service, utilization management, grievance and appeals, enrollment, contract management, information systems, provider relations, network development, credentialing, and payroll and human resource services.

Group Participation Agreements

FIPA, LLC and Sunstate Managed Care Services, Inc. provided medical, hospital and other services to the Company's members pursuant to group participation agreements effective January 1, 2009 and January 24, 2008, respectively. The agreements did not contain provisions that they would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

Prescription Drug Benefit Administration Agreement

Spectral Solutions, LLC provided pharmacy benefits management services to the Company pursuant to a January 1, 2009 prescription drug benefit administration agreement. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. However, its general liability insurance policy did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as required by Rule 69O-191.069(2), F.A.C. The Company was a named insured on the crime policy of its parent in the amount of \$1,500,000 which adequately met the requirements of Section 641.22(7), F. S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Global performed functions on behalf of the Company. Global provided various benefits to eligible employees of the Company including health care, life insurance, and participation in a section 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company provided managed health care services to Medicare members. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until December 26, 2014. As of December 31, 2011, the Company had 13,958 members and was authorized to operate in the Florida counties of Brevard, Broward, Charlotte, Citrus, Clay, Collier, DeSoto, Duval, Escambia, Hernando, Hillsborough, Indian River, Lake, Lee, Leon, Manatee, Marion, Martin, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Saint Lucie, Sarasota, Seminole, Sumter, and Volusia.

COMPANY GROWTH

The Company reported the following for years 2008 through 2011:

(Dollars are in millions.)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Member months	40,474	53,803	139,562	164,042
Year-end enrollment	3,437	4,671	12,341	13,958
Premiums	\$ 30.1	\$ 42.0	\$ 111.9	\$ 134.5
Revenues	\$ 30.1	\$ 42.0	\$ 111.9	\$ 134.5
Underwriting deductions	\$ 29.9	\$ 40.1	\$ 108.5	\$ 127.6
Net income	\$ 0.3	\$ 1.6	\$ 2.5	\$ 4.8
Shareholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 8.7	\$ 15.4	\$ 25.5	\$ 32.3
Liabilities	\$ 6.5	\$ 11.5	\$ 19.0	\$ 21.1
Capital and surplus	\$ 2.2	\$ 3.9	\$ 6.5	\$ 11.1

REINSURANCE

The Company maintained reinsurance with an unaffiliated reinsurer. The reinsurance agreement provided for reimbursement to the Company of 90% of the cost of specified health care services, and 50% of the cost of certain unapproved transplants, in excess of \$500,000 and up to \$2,000,000 per member per year.

ACCOUNTS AND RECORDS

The Company was required by the Consent Order to appoint an independent director to its board of directors and audit committee. During the examination, we found that the Company had not done so.

The Company submitted to the Department of Financial Services, Division of Insurance Fraud (DIF) a description of the anti-fraud investigative unit (SIU) the Company maintained pursuant to Section 626.9891(1), F.S., and Rule 69D-2.003, F.A.C., stating that the SIU would report suspected insurance fraud to DIF. However, the Company did not report known instances of suspected insurance fraud to DIF during the period examined.

The Company was required by Rule 69O-191.030(3), F.A.C., to submit to the Office biographical statements and character reports on its corporate officers. However, it failed to submit the required documents on Bijal Patel, the Company's corporate secretary.

SURPLUS NOTES

At December 31, 2011, the Company was obligated for a 5% surplus note in the amount of \$700,000. The note was approved by the Office and complied with the requirements of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., and Statement of Statutory Accounting Principles (SSAP) No. 41, the debt was included in the Company's surplus.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$600,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

Optimum HealthCare, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2011

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ -	\$ 697,000	\$ 697,000
Cash, cash equivalents and short-term investments	29,931,765	(697,000)	29,234,765
	29,931,765	-	29,931,765
Investment income due and accrued	6,334	-	6,334
Accrued retrospective premiums	1,518,796	-	1,518,796
Amounts receivable relating to uninsured plans	165,605	-	165,605
Net deferred tax asset	400,574	-	400,574
Health care and other amounts receivable	253,564	-	253,564
Total admitted assets	\$ 32,276,638	\$ -	\$ 32,276,638

Liabilities			
Claims unpaid	\$ 9,458,790	\$ -	\$ 9,458,790
Accrued medical incentive pool and bonuses	9,682,275	-	9,682,275
Unpaid claims adjustment expenses	187,905	-	187,905
Premiums received in advance	484,175	-	484,175
General expenses due or accrued	242,624	-	242,624
Current federal and foreign income tax payable	812,961	-	812,961
Amounts due to parent, subsidiaries and affiliates	66,043	-	66,043
Liability for amounts held under uninsured plans	202,549	-	202,549
Total liabilities	21,137,322	-	21,137,322

Capital and Surplus			
Common capital stock	147,125	-	147,125
Gross paid in and contributed surplus	5,598,875	-	5,598,875
Surplus notes	700,000	-	700,000
Unassigned funds	4,693,316	-	4,693,316
Total capital and surplus	11,139,316	-	11,139,316
Total liabilities, capital and surplus	\$ 32,276,638	\$ -	\$ 32,276,638

Optimum HealthCare, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2011

Net premium income	\$ 134,507,834
Hospital and medical benefits	69,231,407
Other professional services	4,236,142
Emergency room and out-of-area	978,401
Prescription drugs	12,928,735
Incentive pool, withhold adjustments and bonuses	21,619,470
	<hr/> 108,994,155
Net reinsurance recoveries	20,943
Total hospital and medical	<hr/> 108,973,212
Claims adjustment expenses	1,172,035
General administrative expenses	17,443,171
Total underwriting deductions	<hr/> 127,588,418
Net underwriting gain	6,919,416
Net investment gains	53,733
Income before federal income tax	<hr/> 6,973,149
Federal income tax	2,158,730
Net income	<hr/> <hr/> \$ 4,814,419

Optimum HealthCare, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2011

Capital and surplus - December 31, 2007	\$ 1,017,047
Net income	345,977
Change in net deferred income tax	400,003
Change in nonadmitted assets	(304,450)
Change in surplus notes	700,000
<hr/>	
Capital and surplus - December 31, 2008	2,158,577
Net income	1,591,180
Change in net deferred income tax	(223,638)
Change in nonadmitted assets	367,870
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Capital and surplus - December 31, 2009	3,893,989
Net income	2,531,230
Change in net deferred income tax	(259,816)
Change in nonadmitted assets	373,628
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Capital and surplus - December 31, 2010	6,539,031
Net income	4,814,419
Change in net deferred income tax	(69,135)
Change in nonadmitted assets	(144,999)
<hr/>	
	11,139,316
Examination adjustments	-
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Capital and surplus - December 31, 2011	<u>\$ 11,139,316</u>

Optimum HealthCare, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2011

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

	<u>Per Company</u>	<u>Per Examination</u>	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2011 - per annual statement				\$ 11,139,316
Total admitted assets	\$ 32,276,638	\$ 32,276,638	\$ -	
Total liabilities	\$ 21,137,322	\$ 21,137,322	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2011 - per examination				<u>\$ 11,139,316</u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds and Cash, Cash Equivalents and Short-Term Investments

The \$29,931,765 reported by the Company in its 2011 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by \$697,000 to \$29,234,765. The \$29,931,765 reported amount included \$697,000 of bonds with maturity dates of more than one year from their acquisition dates. Upon examination, the investments were reclassified to bonds in accordance with the annual statement instructions and SSAP Nos. 2 and 26.

SUMMARY OF RECOMMENDATIONS

Authorization of Investments

As reported on page 2, there was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Company's investments. **We recommend that the Company's board of directors, or a committee, department or section of the Company charged with the duty of supervising investments, authorize or ratify the Company's investments as required by Section 641.35(7), F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

Company Ownership

In its 2011 annual statement, the Company incorrectly reported that Liberty Acquisition Group, LLC owned 55% of Holdings rather than 52.8%, as reported on page 2. **We recommend that, in future statements filed with the Office, the Company accurately report the ownership of the Company and its parent.**

Holding Company Registration Statement

The Company's registration statement did not provide complete current information about in-force agreements with affiliates and transactions currently outstanding between the Company and certain of its affiliates, as reported on page 3. **We recommend that, in future registration statements filed with the Office, the Company include all information required by Rule 690-143.046(2)(c), F.A.C.**

Agreements With Affiliates

As reported on page 5, certain of the Company's agreements with affiliates did not contain provisions that they would be canceled upon issuance of an order by the Office. **We recommend that the Company amend the agreements and add the provision required by Section 641.234(3), F.S.**

Liability Insurance Policy

The Company's general liability insurance policy did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as reported on page 6. **We recommend that the Company amend or replace its policy so that the Company complies with Rule 690-191.069(2), F.A.C.**

Compliance With Consent Order

As reported on page 8, the Company failed to appoint an independent director to its board of directors and audit committee. **We recommend that the Company appoint an independent director to its board and audit committee as required by the Consent Order.**

Reporting of Suspected Insurance Fraud

The Company failed to report known instances of suspected insurance fraud to DIF during the period examined, as reported on page 8. **We recommend that the Company report all known instances of suspected insurance fraud to DIF in accordance with its SIU description filed with DIF.**

Biographical Statements and Character Reports

As reported on page 8, the Company failed to submit to the Office biographical statements and character reports on Bijal Patel, the Company's corporate secretary. **We recommend that the Company submit the required documents to the Office as required by Rule 69O-191.030(3), F.A.C.**

Bonds and Short-Term Investments

As reported on page 13, the Company incorrectly reported certain long-term bonds as short-term investments. **We recommend that, in future statements filed with the Office, the Company correctly report its investments in accordance with SSAP Nos. 2 and 26.**

SUBSEQUENT EVENTS

In its annual statement, the Company reported total capital and surplus of \$14.6 million as of December 31, 2012, and net premium income and net income of \$244.4 million and \$5.7 million, respectively, for the year then ended.

CONCLUSION

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

At December 31, 2011, the Company's capital and surplus was \$11,139,316 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Walter F. Banas, CIE, Financial Specialist; Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst; Robert Y. Meszaros, AFE, Financial Specialist; Richard Tan, Actuary; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

Christine N. Afolabi, CPA
Financial Specialist
Florida Office of Insurance Regulation