Report on Examination

of

Preferred Care Partners, Inc.

Miami, Florida

as of

December 31, 2006

By The

State of Florida

Office of Insurance Regulation

Contents

Tallahassee, Florida

June 25, 2008

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
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, 2006, of the financial condition and corporate affairs of:

Preferred Care Partners, Inc.
9100 South Dadeland Blvd., Suite 1250
Miami, Florida

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2002.

Planning for the current examination began on July 16, 2007. The fieldwork commenced on July 23, 2007 and concluded on March 19, 2008. 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 condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual*, and *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 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, various ratio results, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (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:

- EDP equipment & software
- Goodwill
- Net deferred tax asset
- Income tax receivable

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, 2002, along with resulting action taken by the Company in connection therewith.

Cash and Short-Term Investments

The prior examination of the Company resulted in a finding that one cash account reported by the Company in the amount of $200,000 as of December 31, 2002 was in the name of an entity other than the Company and, therefore, did not qualify as an admitted asset pursuant to Section 641.35(1), F.S. Resolution: The current examination did not result in a similar finding.

Capital and Surplus

The prior examination of the Company resulted in a finding that at December 31, 2002, the Company's capital and surplus after examination adjustments was $854,177, which is $145,823 less than the $1 million minimum amount of capital and surplus required as of that date by Section 641.2261, F.S. Resolution: The Company's total capital and surplus as of December 31, 2006 was $16,451,771, which was in compliance with Section 641.225, F.S.

HISTORY

GENERAL

The Company was incorporated in Florida on October 9, 1998 and, in January of 1999, began to provide administrative services to health maintenance organizations (HMOs), self-funded groups, and managed care risk providers. On November 30, 2001, it received a certificate of authority from the Office for the limited purpose of providing Medicare+Choice health care program services. On May 27, 2005, the Office authorized the Company to transact business 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.

CAPITAL STOCK

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

	Class A Common	Class B Common	Preferred
Number of authorized shares	20,000	70,000	10,000
Number of shares issued and outstanding	360	0	0
Total capital stock	$0.36	$0.00	$0.00
Par value per share	$0.001	$0.001	$1.00

As of December 31, 2006, the Company was wholly-owned and controlled by Preferred Care Partners Holding Corp. (Holding). An abbreviated organizational chart appears on page 9.

PROFITABILITY

For the period of this examination, the Company reported the following:

(In millions)	2006	2005	2004
Net premiums	$272.2	$212.5	$66.8
Total revenues	$282.2	$220.2	$68.1
Net income (loss)	($1.9)	$4.7	$0.3
Total capital and surplus	$24.4	$18.0	$2.0

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

Name and Location	**Principal Occupation**
Carlos A. Ferrer Greenwich, Connecticut	Manager - Ferrer Freeman & Company, LLC
Keith Longson Pound Ridge, New York	Member - Ferrer Freeman & Company, LLC
Orlando Lopez-Fernandez, Jr., M.D. Miami, Florida	Chief Medical Officer - Preferred Care Partners, Inc.
Justo L. Pozo Pinecrest, Florida	President - Preferred Care Partners, Inc.
Arthur J. Shapiro, M.D. Miami Beach, Florida	Physician
Milton J. Wallace Coral Gables, Florida	Attorney - Legon, Ponce & Fodiman, P.A.
Theodore M. Wille Virginia Beach, Virginia	Retired

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

Name	Title
Justo L. Pozo	President & Treasurer
Eladio Gil	Chief Financial Officer
Annette C. Onorati	Chief Compliance Officer & Corporate Secretary
Orlando Lopez-Fernandez, Jr., M.D.	Chief Medical Officer
Roger Rodriquez	Chief Operating Officer
Doug Cormany	Chief Information Officer

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 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. The recorded minutes of the Board did not include evidence that it authorized the Company's investments, as required by Section 641.35(7), F.S.; however, in 2007, the Board retroactively approved the investments.

ACQUISITION

On May 31, 2005, Holding entered into an asset purchase agreement in connection with the acquisition and assumption of the Medicare line of business and certain associated provider agreements of Neighborhood Health Partnership, Inc. (Neighborhood). The agreement also provided for the transfer of Neighborhood's contract with Centers for Medicare & Medicaid Services (CMS) to the Company and contained a noncompete clause under which Neighborhood and its owners cannot compete with the Company for three years. Holding did not assume any liabilities for services provided to Neighborhood's members prior to the effective date of the agreement. With the approval of the Office, Holding contributed the acquired assets to the Company which recorded the contributed assets at their fair value on the date of transfer. As a condition of consent orders issued by the Office governing the purchase transaction and contribution of the acquired assets to the Company, Holding was required to infuse $8.6 million in additional capital to the Company during May of 2005.

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 September 4, 2007.

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

Network Risk Agreement

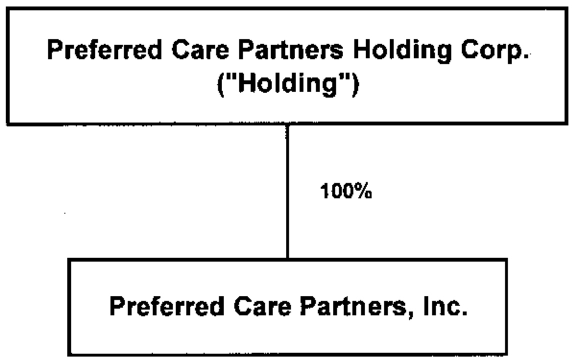
Holding functioned as a provider network which engaged physicians and ancillary providers of health care services to the Company, pursuant to a January 3, 2003 agreement with the Company. Fees under the agreement were $3.3 million, $8.2 million, and $11.9 million in years 2004, 2005, and 2006, respectively.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Holding pursuant to a tax allocation agreement dated May 1, 2005. The consolidated income tax liability was allocated to group members on a pro rata basis according to the separate return tax liabilities of the members. Settlement of tax liabilities of the members was required within 30 days of filing of the consolidated tax return.

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.

Preferred Care Partners, Inc.
Organizational Chart
December 31, 2006



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and had a blanket fidelity bond in the amount of $1 million as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offered to eligible employees participation in benefits which included health and dental insurance, education assistance, and paid leave.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of $1 million 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.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

At December 31, 2006, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. 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., which is valid until September 28, 2008.

The Company utilized a network of general agents and brokers, operated as an IPA model HMO, and provided health care services to Medicare members. Its total membership at December 31, 2006 was 26,739.

The Company operated in the Florida counties of Broward and Miami-Dade.

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

The Company maintained stop-loss reinsurance coverage with Zurich American Insurance Company. The reinsurance 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.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2004, 2005, and 2006 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 was located in Miami, Florida, where this examination was conducted.

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

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Ernst & Young LLP to conduct annual audits of the Company's statutory-basis financial statements.

CMS AGREEMENT

The Company contracted with CMS to operate as a Medicare Advantage organization though December 31, 2007. The contract originated on August 1, 2002 and has been renewed and augmented annually since then.

SERVICES AGREEMENTS

The Company contracted with health provider organizations to engage physicians and ancillary providers of health care services, pursuant to February 1, 2004 and October 1, 2002 agreements. Fees for the services amounted to $1.1 million, $1.2 million, and $4.3 million in years 2004, 2005, and 2006, respectively.

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.

Preferred Care Partners, Inc.
Assets
December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	$10,450,470	$0	$10,450,470
Cash, cash equivalents & short-term investments	23,308,910	0	23,308,910
	33,759,380	0	33,759,380
Investment income due and accrued	74,609	0	74,609
Uncollected premiums and agents' balances	17,550,126	0	17,550,126
Amounts recoverable from reinsurers	0	2,249,871	2,249,871
Net deferred tax asset	2,357,398	0	2,357,398
Electronic data processing equipment and software	788,004	(62,654)	725,350
Health care and other amounts receivable	8,072,692	0	8,072,692
Aggregate write-ins for other than invested assets	5,751,552	(2,249,871)	3,501,681
Totals	$68,353,761	($62,654)	$68,291,107

Preferred Care Partners, Inc.
Liabilities, Capital and Surplus
December 31, 2006

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	$28,262,997	$7,862,719	$36,125,716
Accrued medical incentive pool and bonuses	548,586	0	548,586
Unpaid claims adjustment expenses	508,011	0	508,011
Aggregate health policy reserves	28,976	0	28,976
General expenses due or accrued	14,628,047	0	14,628,047
Total liabilities	43,976,617	7,862,719	51,839,336
Capital and Surplus			
Common capital stock	1	0	1
Gross paid in and contributed surplus	46,519,150	0	46,519,150
Unassigned funds (deficit)	(22,142,007)	(7,925,373)	(30,067,380)
Total capital and surplus	24,377,144	(7,925,373)	16,451,771
Total liabilities, capital and surplus	$68,353,761	($62,654)	$68,291,107

Preferred Care Partners, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2006

Net premium income		$272,173,739
Aggregate write-ins for other non-health revenues		10,000,000
Total revenues		282,173,739
Hospital/medical benefits	$206,454,157	
Emergency room and out-of-area	4,669,837	
Prescription drugs	34,289,528	
Incentive pool, withhold adjustments and bonuses	1,991,561	
Total hospital and medical	247,405,083	
Claims adjustment expenses	1,862,117	
General administrative expenses	26,897,673	276,164,873
Net underwriting gain		6,008,866
Net investment income	1,041,397	
Net realized capital gains (losses)	(93,219)	948,178
Aggregate write-ins for other income (expenses)		(9,907,900)
Income (loss) before income taxes		(2,950,856)
Federal and foreign income taxes		(1,070,362)
Net income (loss)		($1,880,494)

Preferred Care Partners, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2006

Capital and surplus - December 31, 2005		$17,999,612
Net income (loss)	($1,880,494)	
Change in net unrealized capital gains (losses)	(64,311)	
Change in net deferred income tax	153,003	
Change in nonadmitted assets	8,169,334	
Examination adjustments	(7,925,373)	(1,547,841)
Capital and surplus - December 31, 2006		$16,451,771

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Amounts Recoverable From Reinsurers **$2,249,871**

The amount reported by the Company in its 2006 annual statement has been increased by $2,249,871. In its 2006 annual statement, the Company incorrectly reported amounts recoverable from reinsurers in the total amount of $2,249,871 as "Aggregate write-ins for other than invested assets." Upon examination, the item was reclassified.

Electronic Data Processing Equipment and Software **$725,350**

The $788,004 reported by the Company in its 2006 annual statement has been reduced by $62,654 to $725,350. The aggregate net depreciated amount of electronic data processing (EDP) equipment and operating system software that the Company could admit was limited by Statement of Statutory Accounting Principles (SSAP) No. 16 to 3% of capital and surplus as reported in its most recently filed statement, adjusted to exclude any EDP equipment and operating system software, net deferred tax assets, and net positive goodwill. Based on the Company's September 30, 2006 quarterly statement filed with the Office, the amount was limited to $725,350.

Aggregate Write-Ins For Other Than Invested Assets **$3,501,681**

The $5,751,552 reported by the Company in its 2006 annual statement has been reduced by $2,249,871 to $3,501,681. In its 2006 annual statement, the Company incorrectly reported amounts recoverable from reinsurers in the total amount of $2,249,871 as "Aggregate write-ins for other than invested assets." Upon examination, the item was reclassified.

LIABILITIES

Claims Unpaid **$36,125,716**

The $28,262,997 reported by the Company in its 2006 annual statement has been increased by $7,862,719 to $36,125,716. The Company's appointed actuary rendered an opinion that the amounts carried on 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. However, the Office actuary reviewed work papers provided by the Company and determined that the liability was understated by $7,862,719.

Preferred Care Partners, 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.

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2006 - per annual statement				$24,377,144
Assets:				
Amounts recoverable from reinsurers	$0	$2,249,871	$2,249,871	
EDP equipment and software	$788,004	$725,350	($62,654)	
Aggregate write-ins for other than invested assets	$5,751,552	$3,501,681	($2,249,871)	
Liabilities:				
Claims unpaid	$28,262,997	$36,125,716	($7,862,719)	
Net change in capital and surplus				(7,925,373)
Capital and surplus, December 31, 2006 - per examination				$16,451,771

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2002 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 of the examination as of December 31, 2006.

Asset Classification

As reported on page 18, the Company incorrectly reported in its 2006 annual statement amounts recoverable from reinsurers in the total amount of $2,249,871 as "Aggregate write-ins for other than invested assets." Upon examination, the item was reclassified. **We recommend that, in future statements filed with the Office, the Company correctly classify amounts recoverable from reinsurers, in accordance with the NAIC *Annual Statement Instructions*.**

EDP Equipment

As reported on page 18, in its 2006 annual statement, the Company reported its EDP equipment and operating system software at an amount in excess of the amount allowable by SSAP No. 16. **We recommend that the Company comply with SSAP No. 16.**

Claims Unpaid

As reported on page 19, the Company understated its liability for unpaid claims in its 2006 annual statement by $7,862,719, in violation of Section 641.35(3)(a), F.S., and the NAIC *Annual Statement Instructions*. **We recommend that, in future statements filed with the Office, the Company accurately report the amount of its unpaid claims in accordance with Section 641.35(3)(a), F.S., and the NAIC *Annual Statement Instructions*.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Preferred Care Partners, 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 $16,451,771, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2006 was $5,443,475.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Darlene L. Lenhart-Schaeffer, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

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