Amended to correct prior year data to conform with the 2010 amended Annual Statement of Arkansas Community Care, Inc.

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QUARTERLY STATEMENT

AS OF MARCH 31, 2011

OF THE CONDITION AND AFFAIRS OF THE

ARKANSAS COMMUNITY CARE, INC.

NAIC Group Code 3681 (Current Period), 3681 (Prior Period) NAIC Company Code 12282 Employer's ID Number 20-2036444

Organized under the Laws of Arkansas, State of Domicile or Port of Entry Arkansas

Country of Domicile United States

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Hospital, Medical & Dental Service or Indemnity [ ]
Dental Service Corporation [ ] Vision Service Corporation [ ] Health Maintenance Organization [X]
Other [ ] Is HMO, Federally Qualified? Yes [X] No [ ]

Incorporated/Organized 01/31/2005 Commenced Business 01/01/2006

Statutory Home Office 10025 W MARKHAM ST., SUITE 220 (Street and Number), LITTLE ROCK, AR 72205 (City or Town, State and Zip Code)

Main Administrative Office 500 12TH STREET, STE 350 (Street and Number) OAKLAND, CA 94607 (City or Town, State and Zip Code) 510-832-0311 (Area Code) (Telephone Number)

Mail Address 500 12TH STREET, STE 350 (Street and Number or P.O. Box), OAKLAND, CA 94607 (City or Town, State and Zip Code)

Primary Location of Books and Records 500 12TH STREET, STE 350 (Street and Number) OAKLAND, CA 94607 (City or Town, State and Zip Code) 510-832-0311 (Area Code) (Telephone Number)

Internet Web Site Address WWW.ARCADIANHEALTH.COM

Statutory Statement Contact STACY ELISE PARSONS (Name) 510-817-1815 (Area Code) (Telephone Number) (Extension)

SPARSONS@ARCADIANHEALTH.COM (E-mail Address) 510-817-1895 (FAX Number)

OFFICERS

Name	Title	Name	Title
ROBERT LAWRENCE FAHLMAN	CEO AND PRESIDENT	KENNETH BENJAMIN ZIMMERMAN	TREASURER
DAVID CARL BUHLER	CFO	JAMES FRANCIS NOVELLO	SECRETARY

OTHER OFFICERS

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DIRECTORS OR TRUSTEES

ROBERT LAWRENCE FAHLMAN CHASE SPENCER MILBRANDT JEFFREY CRAIG MCMANUS

State of California
County of Alameda
ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Robert Lawrence Fahlman CEO and President	Kenneth Benjamin Zimmerman Treasurer	David Carl Buhler CFO

Subscribed and sworn to before me this
day of ,

,

a. Is this an original filing? Yes [ ] No [X]

b. If no:
1. State the amendment number 1
2. Date filed 06/01/2011
3. Number of pages attached 7

ASSETS

	Current Statement Date 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
1. Bonds	13,860,956		13,860,956	14,041,581
2. Stocks:				
2.1 Preferred stocks			0	0
2.2 Common stocks			0	0
3. Mortgage loans on real estate:				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate:				
4.1 Properties occupied by the company (less $ encumbrances)			0	0
4.2 Properties held for the production of income (less $ encumbrances)			0	0
4.3 Properties held for sale (less $ encumbrances)			0	0
5. Cash ($ 2,595,783), cash equivalents ($ 0) and short-term investments ($ 9,172,064)	11,767,847		11,767,847	6,077,670
6. Contract loans (including $ premium notes)			0	0
7. Derivatives			0	0
8. Other invested assets	0		0	0
9. Receivables for securities			0	0
10. Securities lending reinvested collateral assets			0	0
11. Aggregate write-ins for invested assets	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	25,628,803	0	25,628,803	20,119,251
13. Title plants less $ charged off (for Title insurers only)			0	0
14. Investment income due and accrued	150,888		150,888	176,606
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	5,091,772	16,895	5,074,877	3,104,859
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premiums)			0	0
15.3 Accrued retrospective premiums			0	0
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	53,758		53,758	163,171
16.2 Funds held by or deposited with reinsured companies			0	0
16.3 Other amounts receivable under reinsurance contracts			0	0
17. Amounts receivable relating to uninsured plans	1,960,865		1,960,865	2,434,099
18.1 Current federal and foreign income tax recoverable and interest thereon			0	0
18.2 Net deferred tax asset	769,374	203,477	565,897	566,317
19. Guaranty funds receivable or on deposit			0	0
20. Electronic data processing equipment and software			0	0
21. Furniture and equipment, including health care delivery assets ($)	5,339	5,339	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
23. Receivables from parent, subsidiaries and affiliates	1,014,245		1,014,245	1,145,346
24. Health care ($ 1,007,715) and other amounts receivable	1,723,047	681,213	1,041,834	983,430
25. Aggregate write-ins for other than invested assets	9,692	9,692	0	0
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	36,407,783	916,616	35,491,167	28,693,079
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
28. Total (Lines 26 and 27)	36,407,783	916,616	35,491,167	28,693,079
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0	0
2501. PREPAID EXPENSES	9,538	9,538	0	0
2502. NON-STATUTORY DEPOSITS	154	154	0	0
2503.				
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	9,692	9,692	0	0

LIABILITIES, CAPITAL AND SURPLUS

	Current Period 1 Covered	2 Uncovered	3 Total	Prior Year 4 Total
1. Claims unpaid (less $ reinsurance ceded)	10,652,407	996,997	11,649,404	9,053,634
2. Accrued medical incentive pool and bonus amounts	233,824		233,824	294,515
3. Unpaid claims adjustment expenses	297,219		297,219	203,123
4. Aggregate health policy reserves			0	0
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserve			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance			0	0
9. General expenses due or accrued	333,676		333,676	313,653
10.1 Current federal and foreign income tax payable and interest thereon (including $ on realized gains (losses))			0	0
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others	28,240		28,240	20,372
13. Remittances and items not allocated			0	0
14. Borrowed money (including $ current) and interest thereon $ (including $ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	3,251,783		3,251,783	245,299
16. Derivatives			0	0
17. Payable for securities			0	0
18. Payable for securities lending			0	0
19. Funds held under reinsurance treaties (with $ authorized reinsurers and $ unauthorized reinsurers)			0	0
20. Reinsurance in unauthorized companies			0	0
21. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
22. Liability for amounts held under uninsured plans	175,970		175,970	0
23. Aggregate write-ins for other liabilities (including $ current)	3,500,000	0	3,500,000	0
24. Total liabilities (Lines 1 to 23)	18,473,119	996,997	19,470,116	10,130,596
25. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
26. Common capital stock	XXX	XXX		0
27. Preferred capital stock	XXX	XXX		0
28. Gross paid in and contributed surplus	XXX	XXX	13,469,452	13,469,452
29. Surplus notes	XXX	XXX		0
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
31. Unassigned funds (surplus)	XXX	XXX	2,551,599	5,093,031
32. Less treasury stock, at cost:				
32.1 shares common (value included in Line 26 $)	XXX	XXX		0
32.2 shares preferred (value included in Line 27 $)	XXX	XXX		0
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	16,021,051	18,562,483
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	35,491,167	28,693,079
DETAILS OF WRITE-INS				
2301. DIVIDEND PAYABLE	3,500,000		3,500,000	
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	3,500,000	0	3,500,000	0
2501.	XXX	XXX		
2502.	XXX	XXX		
2503.	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	XXX	XXX	0	0
3001.	XXX	XXX		0
3002.	XXX	XXX		
3003.	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0	0
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date 1 Uncovered	Current Year To Date 2 Total	Prior Year To Date 3 Total	Prior Year Ended December 31 4 Total
1. Member Months	XXX	37,971	33,485	138,918
2. Net premium income (including $ non-health premium income)	XXX	28,065,436	26,486,949	105,205,442
3. Change in unearned premium reserves and reserve for rate credits	XXX		0	0
4. Fee-for-service (net of $ medical expenses)	XXX		0	0
5. Risk revenue	XXX		0	0
6. Aggregate write-ins for other health care related revenues	XXX	0	0	0
7. Aggregate write-ins for other non-health revenues	XXX	0	0	0
8. Total revenues (Lines 2 to 7)	XXX	28,065,436	26,486,949	105,205,442
Hospital and Medical:				
9. Hospital/medical benefits		12,168,185	12,915,386	45,516,500
10. Other professional services		5,059,893	1,991,097	16,217,042
11. Outside referrals	1,438,727	1,438,727	1,313,028	5,350,630
12. Emergency room and out-of-area	276,727	1,197,870	841,661	3,363,259
13. Prescription drugs		2,790,346	3,217,814	10,932,554
14. Aggregate write-ins for other hospital and medical	0	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts		(28,851)	163,887	498,972
16. Subtotal (Lines 9 to 15)	1,715,454	22,626,170	20,442,873	81,878,957
Less:				
17. Net reinsurance recoveries		65,804	103,029	293,384
18. Total hospital and medical (Lines 16 minus 17)	1,715,454	22,560,366	20,339,844	81,585,573
19. Non-health claims (net)			0	0
20. Claims adjustment expenses, including $ cost containment expenses		895,030	748,056	3,146,120
21. General administrative expenses		4,173,401	4,153,761	13,188,685
22. Increase in reserves for life and accident and health contracts (including $ increase in reserves for life only)			0	0
23. Total underwriting deductions (Lines 18 through 22)	1,715,454	27,628,797	25,241,661	97,920,378
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	436,639	1,245,288	7,285,064
25. Net investment income earned		134,342	176,019	611,442
26. Net realized capital gains (losses) less capital gains tax of $			49	4,138
27. Net investment gains (losses) (Lines 25 plus 26)	0	134,342	176,068	615,580
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered $) (amount charged off $)]			0	0
29. Aggregate write-ins for other income or expenses	0	0	0	0
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	570,981	1,421,356	7,900,644
31. Federal and foreign income taxes incurred	XXX	226,127	515,622	2,632,135
32. Net income (loss) (Lines 30 minus 31)	XXX	344,854	905,734	5,268,509
DETAILS OF WRITE-INS				
0601.	XXX			
0602.	XXX			
0603.	XXX			
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	XXX	0	0	0
0701.	XXX			
0702.	XXX			
0703.	XXX			
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0	0
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above)	XXX	0	0	0
1401.				
1402.				
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	0	0	0	0
2901.				
2902.				
2903.				
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0	0	0

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
	CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	18,562,483	14,955,727	14,955,727
34.	Net income or (loss) from Line 32	344,854	905,734	5,268,509
35.	Change in valuation basis of aggregate policy and claim reserves		0	0
36.	Change in net unrealized capital gains (losses) less capital gains tax of $		15,251	21,224
37.	Change in net unrealized foreign exchange capital gain or (loss)		0	0
38.	Change in net deferred income tax		(23,083)	(91,395)
39.	Change in nonadmitted assets	613,714	683,392	105,646
40.	Change in unauthorized reinsurance	0	0	0
41.	Change in treasury stock		0	0
42.	Change in surplus notes	0	0	0
43.	Cumulative effect of changes in accounting principles		0	0
44.	Capital Changes:			
	44.1 Paid in		0	0
	44.2 Transferred from surplus (Stock Dividend)		0	0
	44.3 Transferred to surplus		0	0
45.	Surplus adjustments:			
	45.1 Paid in		0	0
	45.2 Transferred to capital (Stock Dividend)	0	0	0
	45.3 Transferred from capital		0	0
46.	Dividends to stockholders	(3,500,000)	(1,450,000)	(1,450,000)
47.	Aggregate write-ins for gains or (losses) in surplus	0	(247,228)	(247,228)
48.	Net change in capital and surplus (Lines 34 to 47)	(2,541,432)	(115,934)	3,606,756
49.	Capital and surplus end of reporting period (Line 33 plus 48)	16,021,051	14,839,793	18,562,483
	DETAILS OF WRITE-INS			
4701.	PRIOR YEAR AUDIT ADJUSTMENTS		(247,228)	(247,228)
4702.				
4703.				
4798.	Summary of remaining write-ins for Line 47 from overflow page	0	0	0
4799.	Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	0	(247,228)	(247,228)

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	26,093,452	25,406,172	104,062,598
2. Net investment income	178,146	174,969	680,215
3. Miscellaneous income	0	0	0
4. Total (Lines 1 to 3)	26,271,598	25,581,141	104,742,813
5. Benefit and loss related payments	20,045,851	16,079,966	81,776,343
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	4,305,108	5,258,179	17,692,711
8. Dividends paid to policyholders		0	0
9. Federal and foreign income taxes paid (recovered) net of $ ...... tax on capital gains (losses)	253,398	473,392	2,589,905
10. Total (Lines 5 through 9)	24,604,357	21,811,537	102,058,959
11. Net cash from operations (Line 4 minus Line 10)	1,667,241	3,769,604	2,683,854
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	363,383	882,847	5,945,601
12.2 Stocks	0	0	0
12.3 Mortgage loans	0	0	0
12.4 Real estate	0	0	0
12.5 Other invested assets	0	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0	0
12.7 Miscellaneous proceeds	0	0	4
12.8 Total investment proceeds (Lines 12.1 to 12.7)	363,383	882,847	5,945,605
13. Cost of investments acquired (long-term only):			
13.1 Bonds	200,844	46,230	4,720,868
13.2 Stocks	0	0	0
13.3 Mortgage loans	0	0	0
13.4 Real estate	0	0	0
13.5 Other invested assets	0	0	0
13.6 Miscellaneous applications	0	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	200,844	46,230	4,720,868
14. Net increase (or decrease) in contract loans and premium notes	0	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	162,539	836,617	1,224,737
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0	0
16.3 Borrowed funds	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0	0
16.5 Dividends to stockholders	0	1,450,000	1,450,000
16.6 Other cash provided (applied)	3,860,395	(258,109)	(4,515,333)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	3,860,395	(1,708,109)	(5,965,333)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	5,690,175	2,898,112	(2,056,742)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	6,077,672	8,134,414	8,134,414
19.2 End of period (Line 18 plus Line 19.1)	11,767,847	11,032,526	6,077,672

UNDERWRITING AND INVESTMENT EXHIBIT

ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

	Claims Paid Year to Date		Liability End of Current Quarter		5	6
	1	2	3	4		
Line of Business	On Claims Incurred Prior to January 1 of Current Year	On Claims Incurred During the Year	On Claims Unpaid Dec. 31 of Prior Year	On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability Dec. 31 of Prior Year
1. Comprehensive (hospital and medical)					0	0
2. Medicare Supplement					0	0
3. Dental Only					0	0
4. Vision Only					0	0
5. Federal Employees Health Benefits Plan					0	0
6. Title XVIII - Medicare	7,909,215	13,644,679	1,622,733	10,026,671	9,531,948	9,053,634
7. Title XIX - Medicaid					0	0
8. Other health					0	0
9. Health subtotal (Lines 1 to 8)	7,909,215	13,644,679	1,622,733	10,026,671	9,531,948	9,053,634
10. Health care receivables (a)	98,505	1,587,009			98,505	0
11. Other non-health					0	0
12. Medical incentive pools and bonus amounts	23,906	0	229,021	4,803	252,927	294,515
13. Totals (Lines 9-10+11+12)	7,834,616	12,057,670	1,851,754	10,031,474	9,686,370	9,348,149

(a) Excludes $ .... loans or advances to providers not yet expensed.

1. **<u>Summary of Significant Accounting Policies</u>**

A. Accounting Practices

For the purposes of this narrative the "end of the period" refers to March 31, 2011.

The accompanying financial statements of Arkansas Community Care, Inc. ("The Company") have been prepared in conformity with the Statutory Accounting Practices ("SAP") set forth in the National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual,* version effective March 2011.

The Arkansas Insurance Department ("ARDOI") requires that insurance companies domiciled in Arkansas prepare their statutory basis financial statements in accordance with NAIC SAP to the extent that the practices and procedures contained in the manual do not conflict with any other provisions of Arkansas Insurance Code. Title 23, subtitle of the Arkansas Insurance Code contains differences from NAIC SAP. These sections that supersede the NAIC SAP rules pertain primarily to limitations on investments, and reserve requirements. The differences between the ARDOI requirements and the NAIC requirements did not result in differences in financial results.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements as prescribed by SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. **Accounting Policy**

Investments

1. Short-term investments and U.S. Treasury Bills are carried at amortized cost, which approximates fair market value.

2. Investments are stated in accordance with methods and values adopted by the NAIC and, as such, bonds are generally stated at amortized cost. Premiums and discounts on fixed maturity investments are accreted to income using the scientific method over the anticipated life of the security. Market values are determined using market prices published by the NAIC Securities Valuation Office ("SVO"), IDC or Bloomberg.

3. The value of the Company's investment in Arkansas Community Care, Inc. (ACC) is carried at 60% of ACC's statutory net worth.

4. The Company does not have any investments in preferred stock.

5. The retrospective method is used to value mortgage-backed securities. Residential mortgage-backed securities with an NAIC rating below a 2 are carried at market value as of the statement date. The value of these securities are calculated in accordance with SSAP 43R.

6. The Company does not have any investments in loan-backed securities.

7. The Company does not have any investments in subsidiary, controlled or affiliated entities.

8. The Company does not have any investments in joint ventures, partnerships or limited liability companies.

9. The Company does not have any investments in derivatives.

10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54.

11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates, and for establishing the resulting liability, are continually reviewed and any adjustments are reflected in the period determined.

12. The Company has not modified its capitalization policy from the prior period.

13. The Company estimates pharmaceutical rebate receivables based on historical payment trends.

Cash and Short-Term Investments

Cash includes balances held in banks and certificates of deposit with maturities of less than one year. Investments which have a maturity of one year or less, at the date of purchase, including money market mutual funds, are considered short-term investments and are carried at cost or amortized cost.

Other Accounting Policies

Expenses incurred in connection with acquiring new insurance business, with the exception of broker commissions, are charged to operations as incurred. Broker commissions are carried as prepaid assets until the member's effective date, at which point it is expensed to operations.

2. **Accounting Changes and Correction of Errors**

There have been no changes since the 2010 annual filing.

3. **Business Combinations and Goodwill**

A, B, C & D. Not Applicable

4. **Discontinued Operations**

Not Applicable

5. **Investments**

A, B & C. Not Applicable

D. The Company currently has no other-than-temporarily impaired loan-backed securities. All lower rated mortgage securities have been tested and there is no case where the cash flows are less than the amortized cost. However, securities that meet these criteria would be handled as follows. Any loan-backed security rated NAIC6 would be considered impaired if the present value of discounted future cash flows were less than amortized cost. Bloomberg or Intex cash flows would be used and default rates and severities assumed as the actual values of the last six months. These assumptions are conservative due to the significant issues experienced with mortgage loans during this period.

E, F & G. Not Applicable

6. **Joint Ventures, Partnerships and Limited Liability Companies**

A & B. Not Applicable

7. **Investment Income**

A. The Company had no investment income due and accrued that was over 90 days past due.

B. The total amount excluded from surplus was $0.

8. **Derivative Instruments**

A – F. Not Applicable

9. **Income Taxes**

A.1 The company has deferred tax assets that consist of the following:

	2010	2009
Gross deferred tax assets	794,041	860,755
Statutory valuation allowance	-	-
Adjusted gross deferred tax assets	794,041	860,755
Gross deferred tax liability	(24,667)	-
Net DTA before admissibility test	769,374	860,755

A.2 SSAP No. 10R allows for the expansion of the limitations on admitting DTAs under paragraph 10(b) of SSAP No. 10, from one year to three years, and from 10 percent to 15 percent of surplus. If elected, DTAs admitted under the expanding admissibility tests would be disclosed in the table above. For 2009, the Plan did not elect to admit DTAs pursuant to Par. 10.e of SSAP No. 10R.

A.3 Not Applicable.

A.4 & 5 Admitted pursuant to SSAP No. 10R:

Admitted pursuant to SSAP No. 10R:	2010	2009
Par. 10.a. - Federal taxes paid in prior years that may be recovered by DTAs reversing in one year	566,317	601,346
Par. 10.b.i. - Gross DTAs after application of Par. 10.a. expected to be realized in one year	-	-
Par. 10.b.ii. - Adjusted statutory capital limitation	1,929,033	1,485,393
Admitted pursuant to par. 10.b. (lesser of 10.b.i. or 10.b.ii.)	-	-
Admitted pursuant to 10.c. - Gross DTAs after application of 10.a. and 10.b that may offset DTLs	24,667	-
Additional admitted pursuant to par. 10.e. (1)	-	-
Admitted deferred tax assets	590,984	601,346
Deferred tax liability	(24,667)	-
Net admitted deferred tax assets	566,317	601,346
Total Nonadmitted deferred tax assets	203,057	259,409

B. Not Applicable.

B. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets were as follows:

Deferred tax asset	2010	2009	Change
Depreciation and amortization	252,766	277,850	(25,084)
Unpaid losses and LAE	59,312	59,386	(74)
Accruals and reserves	10,943	35,191	(24,248)
Net operating loss carry forwards	-	-	-
Prepaids and Receivables	452,816	474,139	(21,323)
Other	18,204	14,189	4,015
Total deferred tax assets	794,041	860,755	(66,714)
Statutory valuation allowance	-	-	-
Net deferred tax assets	794,041	860,755	(66,714)
Non-admitted deferred tax assets	(203,477)	(259,409)	55,932
Deferred Tax Liabilities			
Accrued Market discount	(24,247)	-	(24,247)
Unearned premiums	-	-	-
Total Net deferred tax assets	566,317	601,346	(35,029)

The character of each temporary difference is ordinary.

C. The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before federal income taxes. The significant items causing this difference are as follows:

	2010	%	2009	%
Income (Loss) before taxes	7,900,642		8,710,870	
US Tax at statutory rate	2,686,218	34.00%	2,961,696	34.00%
Permanent differences	14,216	0.18%	(311,252)	-3.57%
Deferred tax	(12,367)	-0.16%	(206,792)	-2.37%
Change in valuation allowance		0.00%		0.00%
Change in non-admitted deferred tax	(55,932)	-0.71%	(232,488)	-2.67%
Current Tax expense (benefit)	2,632,135	33.32%	2,211,164	25.38%

E.1 At the end of the period the Company did not have any operating loss or tax credit carry-forwards.

E.2 Federal income taxes incurred that will be available for recoupment in the event of future net losses totaled $2.6 million for 2010 and $2.2 million for 2009.

F. The Company's federal income tax return is consolidated with Arcadian Management Services, Inc. ("AMS"), Arcadian Health Plan, Inc. ("AHP"), Arcadian Health Plan of Georgia, Inc. ("AHPGA"), Arcadian Health Plan of Louisiana, Inc. ("AHPLA") Arcadian Health Plan of North Carolina, Inc. ("AHPNC") and Arcadian Health Plan of New York, Inc. ("AHPNY"). The agreement established among the companies is to use a pure separate company approach with no current credit for any net operating losses or other items utilized in the consolidated tax return. This arrangement is discussed further in Note 10.F.

10. **<u>Information Concerning Parent, Subsidiaries and Affiliates</u>**

A. The Company is owned 60% by AHP and 40% by AMS. The Company was granted a Certificate of Authority by the Arkansas Insurance Commissioner on March 21, 2005.

B & C. The Company paid common stock dividends as discussed in Note 13.4.

D. At the end of the period, the Company had the following receivables and payables, net from its parent and affiliated companies:

	Recievable	Payable
AMS	1,009,445	
AHP		3,251,783
AHPGA	4,800	
Total Receivable/Payable	**1,014,245**	**3,251,783**

Included in the amount due to AMS are management fees and general and administrative expenses (see note 10.F, paragraph 2).

The terms of all intercompany agreements amongst the affiliates require that these balances be settled within 30 days.

E. Not Applicable

F. AMS provides certain services to the Company under an Administrative Services Agreement. Those services include enrollment processing, claims processing, professional credentialing, information technology, treasury, financial and tax services. A new service contract was approved and went in to effect in 2010. The compensation under the contract is based on actual costs incurred by AMS related to the services supplied. The total amount of compensation under this contract was $407,289 as of the end of the period.

All of the departmental costs associated with finance/accounting, health/member/physician services, pharmacy management, corporate sales, regulatory compliance, and new market development are originally recorded on the books of AHP and then allocated to the company's subsidiary and affiliates based on membership (enrollment). The costs being allocated include the salaries, bonuses, expenses, and benefits of all employees that are listed as AHP employees that perform job functions for AHP, ACC, AHPGA, AHPLA, AHPNC and AHPNY. Other costs that are allocated to the subsidiary and affiliate health plans include, but are not limited to: postage, utilities, general consulting and legal fees, temporary help and employee recruitment for the previously mentioned departments, as well as office supplies and depreciation on office furniture/equipment, software licenses, and overhead costs associated with overall design and production of health plan marketing materials. The total amount of costs allocated to the Company under this agreement was $777,211 as of the end of the period.

The Company remits current federal income taxes to its parent, AMS' under a tax allocation agreement which became effective on January 1, 2009. This agreement permits the Company to remit taxes to its parent that would otherwise be payable to the federal government if taxes were calculated on a single-entity basis. AMS files a consolidated federal income tax return in which income generated by the Company is sheltered by subsidiary, affiliate and parent company losses.

G. 60% of the outstanding shares of the Company are owned by AHP, a health maintenance organization domiciled in Washington. The remaining 40% is owned by AMS, a management services organization domiciled in Delaware.

H, I, J & K. Not Applicable.

11. **Debt**

A. AMS, the holding company of the Company, has the following debt obligations as of the end of the period:

In 2004, the Company borrowed a total of $3.0 million from its then Chief Executive Officer and Senior Vice President of Finance. Warrants for 75,000 shares were issued in connection with this funding at $1.00 per share. These warrants were exercised in 2005 and 2006 and there were no outstanding warrants as of the current period. The debt (including accrued interest) was due on August 17, 2009. However, as of November 27, 2006, this debt was subordinated to the Three Arch Partners debt, effectively extending the due date through July 5, 2011. In the first amendment to this agreement effective April 27, 2011 the maturity was extended through March 1, 2012. As of the current period, $1,500,000 is outstanding.

In November 2006, the Company borrowed $5.0 million from a related party which consisted of four secured convertible promissory notes with a maturity date of July 31, 2008 and an interest rate of 10%. The loan amount was fully paid by the Company in February 2008. As of the current period, 20,000 warrants were issued and outstanding to the related party, which are convertible into common stock at an exercise price of $5.00 per share. These warrants expire on November 27, 2011. The valuation per share of common stock at December 31, 2010 was $1.23.

On February 7, 2007, the Company entered into an agreement with Morgan Stanley Senior Funding (Morgan Stanley) for a $20.0 million loan. The loan was originally a three-year facility with interest accruing at LIBOR rates plus 7%, with both principal and interest due at the end of three years. On December 17, 2009, the Company amended the loan agreement with Morgan Stanley, which resulted in the maturity date for the loan being extended to October 8, 2010. The amendment also changed the interest rate on the loan to 19%, 10% of which was due and payable at the end of each month. The remaining 9% of interest was due on October 8, 2010. Fees incurred in connection with the amendments to the loan agreement with Morgan Stanley totaled $43,687 and $1,616,028, both of which were converted to debt obligations and included in the outstanding principal as of December 31, 2009. The loan maturity date was further extended on October 8, 2010, December 7, 2010, December 14, 2010, December 21, 2010, January 13, 2011 February 28, 2011, March 15, 2011, March 29, 2011, April 15, 2011, and April 27, 2011. The maturity date as of the last extension is January 1, 2012. Loan fees associated with the 2010 extensions were $2,898,636.

The December 7, 2010 agreement added a minimum liquidity covenant to the loan agreement. The Company is required to maintain not less than $3.0 million in cash in accounts subject to control agreements in favor of Morgan Stanley & Co. The December 14, 2010 agreement changed the monthly cash interest payments from 10% to 19%. The April 27, 2011 amendment agreement eliminated the minimum liquidity covenant requirement and increased the interest rate to 20% with an option for Arcadian to elect to defer all payments until maturity, commensurate with an increase in the interest rate to 25% associated with the election of this option.

The loan is secured by the common stock of the Company. In addition to the fees incurred, the Company issued a warrant for 108,973 shares of common stock to Morgan Stanley exercisable immediately. The warrants were valued at fair market value of $432,537 and this amount was recorded as a discount to the note and addition to paid-in capital. The warrants were fully amortized as of the current period. As of the current period, 108,973 of the warrants were outstanding with a par value of $0.001.

On July 5, 2007, the Company entered into agreements with Three Arch Partners for $15.0 million in loans, which mature on July 5, 2011. The loans are four-year facilities with interest accruing at LIBOR plus 16.5%, with both principal and interest due at the end of four years. The interest rate on the loan is 21.89%. The loans are secured by the stock of the Company and its subsidiaries. The security interest is a second lien subordinate to the Morgan Stanley Senior funding. This agreement was subsequently extended pursuant to the second amendment dated April 27, 2011 with a maturity date of March 1, 2012.

On May 23, 2008, the Company entered into agreements with Morgan Stanley Dean Witter Venture Partners IV, LP and various individuals, the significant majority of who are stockholders for $4.7 million in loans. The loans were established as six-month facilities with interest accruing at 22.5% for six months. Pursuant to the terms of the agreements, if a private placement offering did not occur before the anniversary date, the maturity date automatically extended for six-month periods until the earlier of such a private placement or October 31, 2010. If the maturity is extended beyond the six-month anniversary date, pursuant to the agreement, the interest rate is increased to 32.5% for the remaining term of the facility beginning November 1, 2008. The agreements were subsequently extended pursuant to an amendment dated March 29, 2011 with a maturity date of May 31, 2011. The agreements were subsequently extended further pursuant to an amendment dated April 27, 2011 with a maturity date of March 1, 2012. There are no warrants associated with this facility. The security interest is fully perfected in all existing and after-acquired assets of the Company and any unrestricted subsidiaries.

During 2010, CMS imposed Sanctions, a Washington Regulatory Notice, and financial adjustments to the consolidated financial statements, were deemed by Morgan Stanley to have a material adverse effect, which resulted in non compliance with certain covenants set forth in the Morgan Stanley agreements. As a result, the lender was deemed to be permitted to accelerate the debt owed by the Company. As of December 31, 2010, Morgan Stanley had not called the debt. As noted above, the Company has entered into various amendments to the Morgan Stanley agreement on January 13, 2011 February 28, 2011, March 15, 2011, March 29, 2011, April 15, 2011, and April 27, 2011 to extend the maturity date of the debt to 2012.

In connection with the April 27, 2011 amendment, the Company is required to maintain compliance with financial covenants, which include limiting capital expenditures to less than $2,400,000 in 2011; and minimum EBITDA by quarter. The Company was in compliance with all debt covenants as of the current period.

There are also non-financial covenants with which the Company must comply. Under the occurrence of an event of default under the debt agreement, the lenders could elect to declare all amounts outstanding under the credit facilities to be immediately due and payable and terminate all commitments to extend further credit.

B. Not applicable.

12. **Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

A, B & C. Not applicable.

D. The Company participates in a qualified, 401(k) plan sponsored by its parent company, AMS. All employees with three or more months of service are eligible for a Company match of up to 5% of their annual income that is contributed to the plan. Employer match contributions are made on a quarterly basis, with a true up performed following the plan year. The liability for this contribution is reflected in the balance of the amounts withheld on or retained for the account of others on page 3 of this filing. The Company's employer match liability at the end of the period is $13,883.

The 401(k) plan is administered by Fidelity Investments and therefore the Company assumes none of the liabilities associated with its administration.

E. The Company accrues a liability for paid time off for its employees on a monthly basis. The liability for compensated absences can be reasonably estimated and is reflected as part of the general expenses due and accrued on page 3 of this filing.

F. Not applicable.

13. **Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

1. The Company has 10 shares authorized and 5 shares issued and outstanding of $0.01 par value common stock as of the current period.

2. Not Applicable

3. Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company's state of incorporation, Arkansas, to the greater of 10% of insurer's equity or the net income, excluding realized capital gains, as of previous December 31st.

4. The Company paid has declared the following dividends since its inception:

Year of Issuance	Ordinary	Extraordinary
2009	1,000,000	-
2010	1,450,000	-
2011	3,500,000	-
Cumulative	5,950,000	-

5. Within the limitations of (13.3) above, there are no restrictions placed on the portion of the Company profits that may be paid as ordinary dividends to stockholder.

6 - 13. Not Applicable.

14. **Contingencies**

A - E. Not Applicable.

15. **Leases**

A. The Company leases office equipment under various non-cancelable operating agreements that expire on, or before 2013. In addition, the Company has entered into a lease for office space that expires in 2013. Total equipment and rental expenses related to lease payments was $18,172 as of the end of the period.

As of the end of the period, the Company has the following aggregate non-cancelable lease commitments:

Aggregate Lease Commitments

Year	Amount
2011	$52,535
2012	69,831
2013	25,069
2014	-
2015	-
Total	**$147,435**

B. Leasing is not a significant part of the Company's business activities in terms of revenue, net income or assets.

16. **Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk**

1, 2, 3 & 4. Not Applicable

17. **Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

A, B & C. Not Applicable

18. **Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

A. ASO Plans - Not applicable

B. ASC Plans – Not applicable

C. Medicare Plans – Low Income Cost Sharing ("LICS") reconciliation payable.

The Company receives LICS advance payments from the Center of Medicare and Medicaid Services ("CMS") on a monthly basis. These payments represent the difference in dollar amount that CMS pays on behalf of low income beneficiaries for their prescriptions versus non-low income beneficiaries. It is paid to the Company on a prospective basis. Plans are paid dollar for dollar for the low income subsidy cost sharing, and since plans are paid prospectively, an annual reconciliation will be performed. The difference between the actual LICS pharmacy costs incurred for the 2010 plan service year and the advance payments received will be recognized as a payable (if advance payments are higher than costs) or a receivable (if advance payments are less than costs), and settled with CMS approximately six-months after year end.

The Company receives Reinsurance advance payments from CMS on a monthly basis. These payments represent the anticipated catastrophic coverage amounts that CMS will cover as projected in bids for all the Company's beneficiaries. The Company tracks the catastrophic spend amounts, also known as Actual Reinsurance Subsidy, which is 80 percent of allowable drug costs above the out-of-pocket threshold, net of any other remuneration (e.g., rebates, coupons, discounts collectively referred to as direct and indirect remuneration), spent within the plan for the benefit year. Reinsurance reconciliation is the difference between the sum of all prospective reinsurance payments received for the coverage year and the actual Reinsurance subsidy amount within the same coverage year. CMS will collect the amount of Reinsurance dollars that exceed subsidized Reinsurance amounts. Conversely, CMS will pay the difference in the final reconciliation if the Reinsurance subsidy is less than the Reinsurance amounts received.

At the end of the period, the Company's receivables related to LICS and Reinsurance were $1,260,088 and $700,778 (for the 2010 plan year), respectively. For the 2011 plan year, the Company has accrued a liability related to Reinsurance of $175,970.

19. **Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

Not Applicable

20. **Fair Market Value Measurement**

A, B, C & D. Not Applicable

21. **Other Items**

A – G. Not Applicable

22. **Events Subsequent**

The Company declared a dividend of $3,500,000 on March 31, 2011 which is reflected as a liability on page 3, line 23 of the accompanying financial statements. The scheduled payment date for this dividend is April 29, 2011.

23. **Reinsurance**

A. Section 1 – General Interrogatories

(1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% of controlled, either directly or indirectly, by the Company or by any representative, officer, trustee or director of the Company?
Yes ( ) No (**X**)

(2) Have any policies issued by the Company been reinsured with a company chartered in a country other than United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business?
Yes ( ) No (**X**)

A. Section 2 – Ceded Reinsurance Report – Part A

(1) Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for non-payment of premium or other similar credit?
Yes ( ) No (**X**)

(2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?
Yes ( ) No (**X**)

A. Section 3 – Ceded Reinsurance Report – Part B

(1) What is the estimated amount of aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected on Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of business reinsured in making this estimate. $ 53,758

(2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the Company as of the effective date of the agreement?
Yes ( ) No (**X**)

B. Uncollectible Reinsurance – Not Applicable (None)

C. Commutation of Ceded Reinsurance – Not Applicable (None)

24. **Retrospectively Rated Contracts & Contracts Subject to Redetermination**

A. The Company estimates accrued retrospective premium adjustments through a mathematical approach using an algorithm provided by CMS in the *CMS Prescription Drug Event Data Training Participant Guide*.

B. The Company records accrued retrospective premium as an adjustment of earned premium.

C. The amount of net premiums written by the Company at the end of the period that are subject to retrospective rating features was 0% of the total net premiums written. No other premiums written by the Company are subject to retrospective rating features.

25. **Change in Incurred Claims and Claim Adjustment Expenses**

Reserves as of December 31, 2010 were $9,551,272. As of the end of the period $8,365,422 has been paid for incurred claims and claims adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now $1,622,733 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on the Company's Medicare Advantage line of business. Therefore, there has been a $436,883 unfavorable prior-year development since December 31, 2010 to the end of the period. The increase is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

26. **Intercompany Pooling Arrangements**

A – G. Not Applicable

27. **Structured Settlements**

Not Applicable

28. **Health Care Receivables**

A. Pharmaceutical Rebate Receivables – The Company booked pharmacy rebates for prior years expenses that it expects to receive from its pharmaceutical vendor. Total pharmaceutical rebate receivables at the end of the period are $1,069,400.

In addition, the Company had incurred pharmacy claims on members that were subsequently transferred to other health plans by CMS. Pursuant to Medicare Part D reimbursement regulations, the Company is able to bill the other plans for these claims and report any non-payment to CMS after 30-days. Accordingly, the Company has a receivable for plan to plan of $2,174, all of which has been admitted as of the end of the period.

B. Risk Sharing Receivables – Risk sharing can fluctuate between a liability (reported on page 3, line 4 of the financials) or an asset (reported on page 2, line 23 of the financials). CMS advances funds to the Company for pharmacy expenses based on bids submitted by the Company in the previous year. A portion of the difference between actual pharmacy expenses paid and the amounts received from CMS is listed as either a payable or receivable and is settled up with CMS the following year. The Company's risk sharing receivable from CMS at the end of the period was $503,478.

C. Other – (Claims Receivable Due from Providers and A/R –P2P)

The Company paid medical and hospital claims on members that were subsequently terminated retroactively by CMS. As most of the claims paid were with contracted providers, the Company is able to seek reimbursement from the providers for these non-eligible members' claims per provisions of the contracts. The receivable is recorded when billed and an allowance for doubtful accounts is provided based on historical collection rates and other factors. The Company's receivable from providers at the end of the period was $109,560 all of which has been non-admitted.

As of the end of the period, the Company had a receivable, net of allowances for doubtful accounts, due from its agents of $38,436. This receivable is driven primarily by commissions paid on retroactively terminated members. The Company expects that it will be able to fully recover these agent balances as it will be able to offset them against its ongoing payment of retention and renewal commissions.

29. **Participating Policies**

Not Applicable

30. **Premium Deficiency Reserves**

Not Applicable

31. **Anticipated Salvage and Subrogation**

Not Applicable