



ANNUAL STATEMENT

For the Year Ending December 31, 2006

OF THE CONDITION AND AFFAIRS OF THE

QCA Health Plan, Inc.

| | | | | | | |
|---------------------------------------|---|--|--|------------|----------------------|------------|
| NAIC Group Code | 0000 <small>(Current Period)</small> | 0000 <small>(Prior Period)</small> | NAIC Company Code | 95448 | Employer's ID Number | 71-0794605 |
| Organized under the Laws of | Arkansas | | State of Domicile or Port of Entry | Arkansas | | |
| Country of Domicile | United States of America | | | | | |
| Licensed as business type: | Life, Accident & Health[] Dental Service Corporation[] Other[] | Property/Casualty[] Vision Service Corporation[] Is HMO Federally Qualified? Yes[] No[X] N/A[] | Hospital, Medical & Dental Service or Indemnity[] Health Maintenance Organization[X] | | | |
| Incorporated/Organized | 04/08/1996 | | Commenced Business | 07/31/1996 | | |
| Statutory Home Office | 10825 Financial Centre Parkway, Suite 400 <small>(Street and Number)</small> | | Little Rock, AR 72211 <small>(City, or Town, State and Zip Code)</small> | | | |
| Main Administrative Office | 10825 Financial Centre Parkway, Suite 400 <small>(Street and Number)</small> | | | | | |
| | Little Rock, AR 72211 <small>(City or Town, State and Zip Code)</small> | | (501)228-7111 <small>(Area Code) (Telephone Number)</small> | | | |
| Mail Address | 10825 Financial Centre Parkway, Suite 400 <small>(Street and Number or P.O. Box)</small> | | Little Rock, AR 72211 <small>(City, or Town, State and Zip Code)</small> | | | |
| Primary Location of Books and Records | 10825 Financial Centre Parkway, Suite 400 <small>(Street and Number)</small> | | | | | |
| | Little Rock, AR 72211 <small>(City, or Town, State and Zip Code)</small> | | (501)228-7111 <small>(Area Code) (Telephone Number)</small> | | | |
| Internet Website Address | www.qcark.com | | | | | |
| Statutory Statement Contact | Randall Crow <small>(Name)</small> | | (501)228-7111-5109 <small>(Area Code)(Telephone Number)(Extension)</small> | | | |
| | rcrow@qcark.com <small>(E-Mail Address)</small> | | (501)228-0135 <small>(Fax Number)</small> | | | |
| Policyowner Relations Contact | Terri James (address same as above) <small>(Street and Number)</small> | | | | | |
| | Little Rock, AR 72211 <small>(City, or Town, State and Zip Code)</small> | | (501)228-0135 <small>(Area Code) (Telephone Number)(Extension)</small> | | | |

OFFICERS

| Name | Title |
|----------------------|-----------|
| Francis Lee Browning | President |
| Michael Edward Stock | Treasurer |
| Randall Alvin Crow | Secretary |

OTHERS

Roy Perry Lamm
Roger Keeney Howe M.D., MMM

Joni Self Daniels
Miles Haley Wilson

DIRECTORS OR TRUSTEES

Richard Allen Pierson
Charles W. Smith M.D.
Barbara Garner Williams RN, PhD
Joseph Maurice Elser M.D.
Pamela Jean Stoyanoff

Francis Lee Browning
Patricia Ellen Gorman #
Buford Joseph Suffridge DDS,MS,PA
Joseph Patrick Searcy
A. David Hall M.D.

State of Arkansas
County of Pulaski ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the 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.

(Signature)
Francis Lee Browning

(Printed Name)
1.

President

(Title)

(Signature)
Randall Alvin Crow

(Printed Name)
2.

Secretary

(Title)

(Signature)
Michael Edward Stock

(Printed Name)
3.

Treasurer

(Title)

Subscribed and sworn to before me this _____ day of _____, 2007

- a. Is this an original filing?
b. If no, 1. State the amendment number
2. Date filed
3. Number of pages attached

Yes[X] No[]

(Notary Public Signature)

DIRECTORS OR TRUSTEES (continued)

James Knox Hendren Ph.D.
Harold Jackson Lassiter Jr.

Martin Fiser M.D.

ASSETS

| | Current Year | | | Prior Year |
|---|--------------|--------------------|---------------------------------|---------------------|
| | 1 | 2 | 3 | 4 |
| | Assets | Nonadmitted Assets | Net Admitted Assets (Cols. 1-2) | Net Admitted Assets |
| 1. Bonds (Schedule D) | 13,674,061 | | 13,674,061 | 13,939,259 |
| 2. Stocks (Schedule D) | | | | |
| 2.1 Preferred stocks | | | | |
| 2.2 Common Stocks | | | | |
| 3. Mortgage loans on real estate (Schedule B): | | | | |
| 3.1 First liens | | | | |
| 3.2 Other than first liens | | | | |
| 4. Real estate (Schedule A): | | | | |
| 4.1 Properties occupied by the company (less \$.....0 encumbrances) | | | | |
| 4.2 Properties held for the production of income (less \$.....0 encumbrances) | | | | |
| 4.3 Properties held for sale (less \$.....0 encumbrances) | | | | |
| 5. Cash (\$.....9,670,803 Schedule E Part 1), cash equivalents (\$.....0 Schedule E Part 2) and short-term investments (\$.....0 Schedule DA) | 9,670,803 | | 9,670,803 | 10,007,897 |
| 6. Contract loans (including \$.....0 premium notes) | | | | |
| 7. Other invested assets (Schedule BA) | 5,261 | | 5,261 | 5,086 |
| 8. Receivables for securities | | | | 1,000,000 |
| 9. Aggregate write-ins for invested assets | | | | |
| 10. Subtotals, cash and invested assets (Lines 1 to 9) | 23,350,125 | | 23,350,125 | 24,952,242 |
| 11. Title plants less \$.....0 charged off (for Title insurers only) | | | | |
| 12. Investment income due and accrued | 154,337 | | 154,337 | 107,135 |
| 13. Premiums and considerations | | | | |
| 13.1 Uncollected premiums and agents' balances in the course of collection | 277,166 | | 277,166 | 2,312 |
| 13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$.....0 earned but unbilled premiums) | | | | |
| 13.3 Accrued retrospective premiums | | | | |
| 14. Reinsurance: | | | | |
| 14.1 Amounts recoverable from reinsurers | 251,425 | | 251,425 | |
| 14.2 Funds held by or deposited with reinsured companies | | | | |
| 14.3 Other amounts receivable under reinsurance contracts | | | | |
| 15. Amounts receivable relating to uninsured plans | | | | |
| 16.1 Current federal and foreign income tax recoverable and interest thereon | 1,893 | | 1,893 | 5,473 |
| 16.2 Net deferred tax asset | 562,000 | | 562,000 | 498,000 |
| 17. Guaranty funds receivable or on deposit | | | | |
| 18. Electronic data processing equipment and software | | | | |
| 19. Furniture and equipment, including health care delivery assets (\$.....0) | | | | |
| 20. Net adjustment in assets and liabilities due to foreign exchange rates | | | | |
| 21. Receivables from parent, subsidiaries and affiliates | 254,746 | | 254,746 | 710 |
| 22. Health care (\$.....0) and other amounts receivable | 351,605 | 351,605 | | |
| 23. Aggregate write-ins for other than invested assets | | | | 1 |
| 24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) | 25,203,297 | 351,605 | 24,851,692 | 25,565,873 |
| 25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | | |
| 26. Total (Lines 24 and 25) | 25,203,297 | 351,605 | 24,851,692 | 25,565,873 |
| DETAILS OF WRITE-INS | | | | |
| 0901. | | | | |
| 0902. | | | | |
| 0903. | | | | |
| 0998. Summary of remaining write-ins for Line 9 from overflow page | | | | |
| 0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above) | | | | |
| 2301. 0 | | | | |
| 2302. rounding | | | | 1 |
| 2303. | | | | |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | | | | |
| 2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) | | | | 1 |

LIABILITIES, CAPITAL AND SURPLUS

| | Current Year | | | Prior Year |
|--|--------------|----------------|--------------|--------------|
| | 1 Covered | 2 Uncovered | 3 Total | 4 Total |
| 1. Claims unpaid (less \$.....0 reinsurance ceded) | 6,190,109 | 649,790 | 6,839,899 | 8,158,606 |
| 2. Accrued medical incentive pool and bonus amounts | | | | |
| 3. Unpaid claims adjustment expenses | 50,171 | | 50,171 | 67,987 |
| 4. Aggregate health policy reserves | | | | |
| 5. Aggregate life policy reserves | | | | |
| 6. Property/casualty unearned premium reserves | | | | |
| 7. Aggregate health claim reserves | | | | |
| 8. Premiums received in advance | 966,864 | | 966,864 | 1,274,779 |
| 9. General expenses due or accrued | 1,073,645 | | 1,073,645 | 1,178,204 |
| 10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)) | | | | |
| 10.2 Net deferred tax liability | | | | |
| 11. Ceded reinsurance premiums payable | | | | |
| 12. Amounts withheld or retained for the account of others | | | | |
| 13. Remittances and items not allocated | | | | |
| 14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current) | | | | |
| 15. Amounts due to parent, subsidiaries and affiliates | 312,501 | | 312,501 | 184,153 |
| 16. Payable for securities | | | | |
| 17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers) | | | | |
| 18. Reinsurance in unauthorized companies | | | | |
| 19. Net adjustments in assets and liabilities due to foreign exchange rates | | | | |
| 20. Liability for amounts held under uninsured plans | 667,587 | | 667,587 | 1,080,373 |
| 21. Aggregate write-ins for other liabilities (including \$.....0 current) | (2) | | (2) | |
| 22. Total liabilities (Lines 1 to 21) | 9,260,875 | 649,790 | 9,910,665 | 11,944,102 |
| 23. Aggregate write-ins for special surplus funds | X X X | X X X | | |
| 24. Common capital stock | X X X | X X X | 1,553 | 1,553 |
| 25. Preferred capital stock | X X X | X X X | 25,500,046 | |
| 26. Gross paid in and contributed surplus | X X X | X X X | | 8,123,807 |
| 27. Surplus notes | X X X | X X X | | 17,210,808 |
| 28. Aggregate write-ins for other than special surplus funds | X X X | X X X | | |
| 29. Unassigned funds (surplus) | X X X | X X X | (10,560,212) | (11,714,037) |
| 30. Less treasury stock, at cost: | | | | |
| 30.1 .....3,600 shares common (value included in Line 24 \$.....360) | X X X | X X X | 360 | 360 |
| 30.2 .....0 shares preferred (value included in Line 25 \$.....0) | X X X | X X X | | |
| 31. Total capital and surplus (Lines 23 to 29 minus Line 30) | X X X | X X X | 14,941,027 | 13,621,771 |
| 32. Total Liabilities, capital and surplus (Lines 22 and 31) | X X X | X X X | 24,851,692 | 25,565,873 |
| DETAILS OF WRITE-INS | | | | |
| 2101. Rounding | (2) | | (2) | |
| 2102. | | | | |
| 2103. | | | | |
| 2198. Summary of remaining write-ins for Line 21 from overflow page | | | | |
| 2199. TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above) | (2) | | (2) | |
| 2301. | X X X | X X X | | |
| 2302. | X X X | X X X | | |
| 2303. | X X X | X X X | | |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | X X X | X X X | | |
| 2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) | X X X | X X X | | |
| 2801. | X X X | X X X | | |
| 2802. | X X X | X X X | | |
| 2803. | X X X | X X X | | |
| 2898. Summary of remaining write-ins for Line 28 from overflow page | X X X | X X X | | |
| 2899. TOTALS (Lines 2801 through 2803 plus 2898) (Line 28 above) | X X X | X X X | | |

STATEMENT OF REVENUE AND EXPENSES

| | Current Year | | Prior Year |
|---|----------------|------------|------------|
| | 1 Uncovered | 2 Total | 3 Total |
| 1. Member Months | X X X | 243,317 | 246,380 |
| 2. Net premium income (including \$.....0 non-health premium income) | X X X | 60,478,211 | 59,884,416 |
| 3. Change in unearned premium reserves and reserve for rate credits | X X X | | |
| 4. Fee-for-service (net of \$.....0 medical expenses) | X X X | | |
| 5. Risk revenue | X X X | | |
| 6. Aggregate write-ins for other health care related revenues | X X X | | |
| 7. Aggregate write-ins for other non-health revenues | X X X | | |
| 8. Total revenues (Lines 2 to 7) | X X X | 60,478,211 | 59,884,416 |
| Hospital and Medical: | | | |
| 9. Hospital/medical benefits | 3,875,806 | 40,797,961 | 40,819,712 |
| 10. Other professional services | | | |
| 11. Outside referrals | | | |
| 12. Emergency room and out-of-area | 251,904 | 2,651,626 | 2,896,625 |
| 13. Prescription drugs | | 9,913,438 | 8,724,142 |
| 14. Aggregate write-ins for other hospital and medical | | | |
| 15. Incentive pool, withhold adjustments and bonus amounts | | | |
| 16. Subtotal (Lines 9 to 15) | 4,127,710 | 53,363,025 | 52,440,479 |
| Less: | | | |
| 17. Net reinsurance recoveries | | 593,679 | 753,535 |
| 18. Total hospital and medical (Lines 16 minus 17) | 4,127,710 | 52,769,346 | 51,686,944 |
| 19. Non-health claims (net) | | | |
| 20. Claims adjustment expenses, including \$.....720,054 cost containment expenses | | 2,500,794 | 2,313,666 |
| 21. General administrative expenses | | 5,144,766 | 4,662,511 |
| 22. Increase in reserves for life and accident and health contracts (including \$.....0 increase in reserves for life only) | | | |
| 23. Total underwriting deductions (Lines 18 through 22) | 4,127,710 | 60,414,906 | 58,663,121 |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23) | X X X | 63,305 | 1,221,295 |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17) | | 1,089,437 | 738,627 |
| 26. Net realized capital gains (losses) less capital gains tax of \$.....0 | | | |
| 27. Net investment gains (losses) (Lines 25 plus 26) | | 1,089,437 | 738,627 |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)] | | | |
| 29. Aggregate write-ins for other income or expenses | | | |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29) | X X X | 1,152,742 | 1,959,922 |
| 31. Federal and foreign income taxes incurred | X X X | 13,557 | 30,886 |
| 32. Net income (loss) (Lines 30 minus 31) | X X X | 1,139,185 | 1,929,036 |
| DETAILS OF WRITE-INS | | | |
| 0601. | X X X | | |
| 0602. | X X X | | |
| 0603. | X X X | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | X X X | | |
| 0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) | X X X | | |
| 0701. | X X X | | |
| 0702. | X X X | | |
| 0703. | X X X | | |
| 0798. Summary of remaining write-ins for Line 7 from overflow page | X X X | | |
| 0799. TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above) | X X X | | |
| 1401. | | | |
| 1402. | | | |
| 1403. | | | |
| 1498. Summary of remaining write-ins for Line 14 from overflow page | | | |
| 1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above) | | | |
| 2901. Other Revenue | | | |
| 2902. | | | |
| 2903. | | | |
| 2998. Summary of remaining write-ins for Line 29 from overflow page | | | |
| 2999. TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above) | | | |

STATEMENT OF REVENUE AND EXPENSES (Continued)

| | | 1 | 2 |
|--------------------------------------|--|--------------|------------|
| | | Current Year | Prior Year |
| CAPITAL & SURPLUS ACCOUNT | | | |
| 33. | Capital and surplus prior reporting year | 13,621,771 | 12,233,420 |
| 34. | Net income or (loss) from Line 32 | 1,139,185 | 1,929,036 |
| 35. | Change in valuation basis of aggregate policy and claim reserves | | |
| 36. | Change in net unrealized capital gains (losses) less capital gains tax of \$.....0 | | |
| 37. | Change in net unrealized foreign exchange capital gain or (loss) | | |
| 38. | Change in net deferred income tax | 64,000 | (73,000) |
| 39. | Change in nonadmitted assets | 116,073 | (467,678) |
| 40. | Change in unauthorized reinsurance | | |
| 41. | Change in treasury stock | | |
| 42. | Change in surplus notes | (17,210,808) | |
| 43. | Cumulative effect of changes in accounting principles | | |
| 44. | Capital Changes: | | |
| 44.1 | Paid in | 25,500,046 | |
| 44.2 | Transferred from surplus (Stock Dividend) | | |
| 44.3 | Transferred to surplus | | |
| 45. | Surplus adjustments: | | |
| 45.1 | Paid in | (8,123,807) | |
| 45.2 | Transferred to capital (Stock Dividend) | | |
| 45.3 | Transferred from capital | | |
| 46. | Dividends to stockholders | | |
| 47. | Aggregate write-ins for gains or (losses) in surplus | (165,433) | (7) |
| 48. | Net change in capital and surplus (Lines 34 to 47) | 1,319,256 | 1,388,351 |
| 49. | Capital and surplus end of reporting year (Line 33 plus 48) | 14,941,027 | 13,621,771 |
| DETAILS OF WRITE-INS | | | |
| 4701. | Rounding | (3) | (7) |
| 4702. | Adjustment to Retained Earnings on Debt for Stock conversion | (165,430) | |
| 4703. | ..... |  |  |
| 4798. | Summary of remaining write-ins for Line 47 from overflow page | | |
| 4799. | TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above) | (165,433) | (7) |

CASH FLOW

| | 1 Current Year | 2 Prior Year |
|---|-------------------|-----------------|
| Cash from Operations | | |
| 1. Premiums collected net of reinsurance | 59,895,442 | 60,308,738 |
| 2. Net investment income | 1,006,629 | 708,895 |
| 3. Miscellaneous income | 116,073 | (444,287) |
| 4. Total (Lines 1 through 3) | 61,018,144 | 60,573,346 |
| 5. Benefit and loss related payments | 54,339,478 | 52,387,930 |
| 6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts | | |
| 7. Commissions, expenses paid and aggregate write-ins for deductions | 8,180,722 | 5,778,686 |
| 8. Dividends paid to policyholders | | |
| 9. Federal and foreign income taxes paid (recovered) \$.....0 net of tax on capital gains (losses) | 9,977 | 85,557 |
| 10. Total (Lines 5 through 9) | 62,530,177 | 58,252,173 |
| 11. Net cash from operations (Line 4 minus 10) | (1,512,033) | 2,321,173 |
| Cash from Investments | | |
| 12. Proceeds from investments sold, matured or repaid: | | |
| 12.1 Bonds | 5,000,000 | 998,099 |
| 12.2 Stocks | | |
| 12.3 Mortgage loans | | |
| 12.4 Real estate | | |
| 12.5 Other invested assets | | |
| 12.6 Net gains or (losses) on cash, cash equivalents and short-term investments | | |
| 12.7 Miscellaneous proceeds | 1,000,000 | |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7) | 6,000,000 | 998,099 |
| 13. Cost of investments acquired (long-term only): | | |
| 13.1 Bonds | 4,699,197 | 4,970,297 |
| 13.2 Stocks | | |
| 13.3 Mortgage loans | | |
| 13.4 Real estate | | |
| 13.5 Other invested assets | | 5,000 |
| 13.6 Miscellaneous applications | 175 | 1,000,086 |
| 13.7 Total investments acquired (Lines 13.1 to 13.6) | 4,699,372 | 5,975,383 |
| 14. Net increase (decrease) in contract loans and premium notes | | |
| 15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) | 1,300,628 | (4,977,284) |
| Cash from Financing and Miscellaneous Sources | | |
| 16. Cash provided (applied): | | |
| 16.1 Surplus notes, capital notes | | |
| 16.2 Capital and paid in surplus, less treasury stock | | |
| 16.3 Borrowed funds | | |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities | | |
| 16.5 Dividends to stockholders | | |
| 16.6 Other cash provided (applied) | (125,689) | 711,636 |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) | (125,689) | 711,636 |
| 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) | (337,094) | (1,944,475) |
| 19. Cash, cash equivalents and short-term investments: | | |
| 19.1 Beginning of year | 10,007,897 | 11,952,372 |
| 19.2 End of year (Line 18 plus Line 19.1) | 9,670,803 | 10,007,897 |

Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

| | | | |
|---------|--|--|--|
| 20.0001 | | | |
|---------|--|--|--|

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|------------|---|------------------------|----------------|----------------|---|-----------------------------|---------------------------|--------------|----------------------|-----------------------|-----------------|---------------------|
| | Total | Comprehensive (Hospital & Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employee Health Benefit Plan | Title XVIII- Medicare | Title XIX- Medicaid | Stop Loss | Disability Income | Long- term Care | Other Health | Other Non-Health |
| 1. Net premium income | 60,478,211 | 60,478,211 | | | | | | | | | | | |
| 2. Change in unearned premium reserves and reserve for rate credit | | | | | | | | | | | | | |
| 3. Fee-for-service (net of \$.....0 medical expenses) | | | | | | | | | | | | | XXX |
| 4. Risk revenue | | | | | | | | | | | | | XXX |
| 5. Aggregate write-ins for other health care related revenues | | | | | | | | | | | | | XXX |
| 6. Aggregate write-ins for other non-health care related revenues | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 7. Total revenues (Lines 1 to 6) | 60,478,211 | 60,478,211 | | | | | | | | | | | |
| 8. Hospital/medical benefits | 40,797,961 | 40,797,961 | | | | | | | | | | | XXX |
| 9. Other professional services | | | | | | | | | | | | | XXX |
| 10. Outside referrals | | | | | | | | | | | | | XXX |
| 11. Emergency room and out-of-area | 2,651,626 | 2,651,626 | | | | | | | | | | | XXX |
| 12. Prescription drugs | 9,913,438 | 9,913,438 | | | | | | | | | | | XXX |
| 13. Aggregate write-ins for other hospital and medical | | | | | | | | | | | | | XXX |
| 14. Incentive pool, withhold adjustments and bonus amounts | | | | | | | | | | | | | XXX |
| 15. Subtotal (Lines 8 to 14) | 53,363,025 | 53,363,025 | | | | | | | | | | | XXX |
| 16. Net reinsurance recoveries | 593,679 | 593,679 | | | | | | | | | | | XXX |
| 17. Total hospital and medical (Lines 15 minus 16) | 52,769,346 | 52,769,346 | | | | | | | | | | | XXX |
| 18. Non-health claims (net) | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 19. Claims adjustment expenses including \$.....720,054 cost containment expenses | 2,500,794 | 2,500,794 | | | | | | | | | | | |
| 20. General administrative expenses | 5,144,766 | 5,144,766 | | | | | | | | | | | |
| 21. Increase in reserves for accident and health contracts | | | | | | | | | | | | | XXX |
| 22. Increase in reserves for life contracts | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 23. Total underwriting deductions (Lines 17 to 22) | 60,414,906 | 60,414,906 | | | | | | | | | | | |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23) | 63,305 | 63,305 | | | | | | | | | | | |
| DETAILS OF WRITE-INS | | | | | | | | | | | | | |
| 0501. | | | | | | | | | | | | | XXX |
| 0502. | | | | | | | | | | | | | XXX |
| 0503. | | | | | | | | | | | | | XXX |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | | | | | | | | | | | | | XXX |
| 0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above) | | | | | | | | | | | | | XXX |
| 0601. | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0602. | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0603. | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 1301. Prescription Drugs | | | | | | | | | | | | | XXX |
| 1302. | | | | | | | | | | | | | XXX |
| 1303. | | | | | | | | | | | | | XXX |
| 1398. Summary of remaining write-ins for Line 13 from overflow page | | | | | | | | | | | | | XXX |
| 1399. TOTALS (Lines 1301 through 1303 plus 1398) (Line 13 above) | | | | | | | | | | | | | XXX |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

| | Line of Business | 1 Direct Business | 2 Reinsurance Assumed | 3 Reinsurance Ceded | 4 Net Premium Income (Columns 1 + 2 - 3) |
|-----|--|-------------------------|-----------------------------|---------------------------|--|
| 1. | Comprehensive (hospital and medical) | 61,787,749 | | 1,309,538 | 60,478,211 |
| 2. | Medicare Supplement | | | | |
| 3. | Dental only | | | | |
| 4. | Vision only | | | | |
| 5. | Federal Employees Health Benefits Plan | | | | |
| 6. | Title XVIII - Medicare | | | | |
| 7. | Title XIX - Medicaid | | | | |
| 8. | Stop loss | | | | |
| 9. | Disability income | | | | |
| 10. | Long-term care | | | | |
| 11. | Other health | | | | |
| 12. | Health subtotal (Lines 1 through 11) | 61,787,749 | | 1,309,538 | 60,478,211 |
| 13. | Life | | | | |
| 14. | Property/casualty | | | | |
| 15. | TOTALS (Lines 12 to 14) | 61,787,749 | | 1,309,538 | 60,478,211 |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|--|------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|--------------|----------------------|-------------------|-----------------|---------------------|
| | Total | Comprehensive (Hospital & Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefits Plan | Title XVIII Medicare | Title XIX Medicaid | Stop Loss | Disability Income | Long-Term Care | Other Health | Other Non-Health |
| 1. Payments during the year: | | | | | | | | | | | | | |
| 1.1 Direct | 54,817,085 | 54,817,085 | | | | | | | | | | | |
| 1.2 Reinsurance assumed | | | | | | | | | | | | | |
| 1.3 Reinsurance ceded | 342,254 | 342,254 | | | | | | | | | | | |
| 1.4 Net | 54,474,831 | 54,474,831 | | | | | | | | | | | |
| 2. Paid medical incentive pools and bonuses | | | | | | | | | | | | | |
| 3. Claim liability December 31, current year from Part 2A: | | | | | | | | | | | | | |
| 3.1 Direct | 6,839,899 | 6,839,899 | | | | | | | | | | | |
| 3.2 Reinsurance assumed | | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | | | | | | | | | | | | | |
| 3.4 Net | 6,839,899 | 6,839,899 | | | | | | | | | | | |
| 4. Claim reserve December 31, current year from Part 2D: | | | | | | | | | | | | | |
| 4.1 Direct | | | | | | | | | | | | | |
| 4.2 Reinsurance assumed | | | | | | | | | | | | | |
| 4.3 Reinsurance ceded | | | | | | | | | | | | | |
| 4.4 Net | | | | | | | | | | | | | |
| 5. Accrued medical incentive pools and bonuses, current year | | | | | | | | | | | | | |
| 6. Net healthcare receivables (a) | 135,353 | 135,353 | | | | | | | | | | | |
| 7. Amounts recoverable from reinsurers December 31, current year | 251,425 | 251,425 | | | | | | | | | | | |
| 8. Claim liability December 31, prior year from Part 2A: | | | | | | | | | | | | | |
| 8.1 Direct | 8,158,606 | 8,158,606 | | | | | | | | | | | |
| 8.2 Reinsurance assumed | | | | | | | | | | | | | |
| 8.3 Reinsurance ceded | | | | | | | | | | | | | |
| 8.4 Net | 8,158,606 | 8,158,606 | | | | | | | | | | | |
| 9. Claim reserve December 31, prior year from Part 2D: | | | | | | | | | | | | | |
| 9.1 Direct | | | | | | | | | | | | | |
| 9.2 Reinsurance assumed | | | | | | | | | | | | | |
| 9.3 Reinsurance ceded | | | | | | | | | | | | | |
| 9.4 Net | | | | | | | | | | | | | |
| 10. Accrued medical incentive pools and bonuses, prior year | | | | | | | | | | | | | |
| 11. Amounts recoverable from reinsurers December 31, prior year | | | | | | | | | | | | | |
| 12. Incurred benefits: | | | | | | | | | | | | | |
| 12.1 Direct | 53,363,025 | 53,363,025 | | | | | | | | | | | |
| 12.2 Reinsurance assumed | | | | | | | | | | | | | |
| 12.3 Reinsurance ceded | 593,679 | 593,679 | | | | | | | | | | | |
| 12.4 Net | 52,769,346 | 52,769,346 | | | | | | | | | | | |
| 13. Incurred medical incentive pools and bonuses | | | | | | | | | | | | | |

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|-----------|---|------------------------|----------------|----------------|---|----------------------------|--------------------------|--------------|----------------------|-------------------|-----------------|---------------------|
| | Total | Compre- hensive (Hospital & Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefits Plan | Title XVIII Medicare | Title XIX Medicaid | Stop Loss | Disability Income | Long-Term Care | Other Health | Other Non-Health |
| 1. Reported in Process of Adjustment: | | | | | | | | | | | | | |
| 1.1 Direct | 2,319,211 | 2,319,211 | | | | | | | | | | | |
| 1.2 Reinsurance assumed | | | | | | | | | | | | | |
| 1.3 Reinsurance ceded | | | | | | | | | | | | | |
| 1.4 Net | 2,319,211 | 2,319,211 | | | | | | | | | | | |
| 2. Incurred but Unreported: | | | | | | | | | | | | | |
| 2.1 Direct | 4,508,996 | 4,508,996 | | | | | | | | | | | |
| 2.2 Reinsurance assumed | | | | | | | | | | | | | |
| 2.3 Reinsurance ceded | | | | | | | | | | | | | |
| 2.4 Net | 4,508,996 | 4,508,996 | | | | | | | | | | | |
| 3. Amounts Withheld from Paid Claims and Capitulations: | | | | | | | | | | | | | |
| 3.1 Direct | 11,692 | 11,692 | | | | | | | | | | | |
| 3.2 Reinsurance assumed | | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | | | | | | | | | | | | | |
| 3.4 Net | 11,692 | 11,692 | | | | | | | | | | | |
| 4. TOTALS | | | | | | | | | | | | | |
| 4.1 Direct | 6,839,899 | 6,839,899 | | | | | | | | | | | |
| 4.2 Reinsurance assumed | | | | | | | | | | | | | |
| 4.3 Reinsurance ceded | | | | | | | | | | | | | |
| 4.4 Net | 6,839,899 | 6,839,899 | | | | | | | | | | | |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

| | Line of Business | Claims Paid During the Year | | Claim Reserve and Claim Liability December 31 of Current Year | | 5 | 6 |
|-----|--|---|--|---|--|--|---|
| | | 1 On Claims Incurred Prior to January 1 of Current Year | 2 On Claims Incurred During the Year | 3 On Claims Unpaid December 31 of Prior Year | 4 On Claims Incurred During the Year | Claims Incurred in Prior Years (Columns 1 + 3) | Estimated Claim Reserve and Claim Liability December 31 of Prior Year |
| 1. | Comprehensive (hospital and medical) | 5,615,837 | 48,607,569 | 28,053 | 6,811,846 | 5,643,890 | 8,158,606 |
| 2. | Medicare Supplement | | | | | | |
| 3. | Dental only | | | | | | |
| 4. | Vision only | | | | | | |
| 5. | Federal Employees Health Benefits Plan | | | | | | |
| 6. | Title XVIII - Medicare | | | | | | |
| 7. | Title XIX - Medicaid | | | | | | |
| 8. | Other health | | | | | | |
| 9. | Health subtotal (Lines 1 to 8) | 5,615,837 | 48,607,569 | 28,053 | 6,811,846 | 5,643,890 | 8,158,606 |
| 10. | Healthcare receivables (a) | | 603,030 | | | | 467,677 |
| 11. | Other non-health | | | | | | |
| 12. | Medical incentive pool and bonus amounts | | | | | | |
| 13. | TOTALS (Lines 9 - 10 + 11 + 12) | 5,615,837 | 48,004,539 | 28,053 | 6,811,846 | 5,643,890 | 7,690,929 |

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Grand Total

Section A - Paid Health Claims

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2002 | 2 2003 | 3 2004 | 4 2005 | 5 2006 |
| 1. Prior | 14,850 | 351 | | | |
| 2. 2002 | 57,024 | 66,861 | 66,910 | 66,910 | 66,910 |
| 3. 2003 | X X X | 50,589 | 56,702 | 56,682 | 56,650 |
| 4. 2004 | X X X | X X X | 42,820 | 48,071 | 48,074 |
| 5. 2005 | X X X | X X X | X X X | 47,624 | 53,269 |
| 6. 2006 | X X X | X X X | X X X | X X X | 48,608 |

Section B - Incurred Health Claims

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|---|-----------|-----------|-----------|-----------|
| | 1 2002 | 2 2003 | 3 2004 | 4 2005 | 5 2006 |
| 1. Prior | | | | | |
| 2. 2002 | 70,597 | 67,259 | 66,921 | 66,907 | 66,910 |
| 3. 2003 | X X X | 59,694 | 56,742 | 56,682 | 56,650 |
| 4. 2004 | X X X | X X X | 51,620 | 48,071 | 48,074 |
| 5. 2005 | X X X | X X X | X X X | 55,783 | 53,297 |
| 6. 2006 | X X X | X X X | X X X | X X X | 55,420 |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claims Payments | 3 Claim Adjustment Expense Payments | 4 (Col. 3/2) Percent | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 (Col. 5/1) Percent | 7 Claims Unpaid | 8 Unpaid Claims Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 (Col. 9/1) Percent |
|---|-------------------------|-------------------------|---|----------------------------|---|----------------------------|-----------------------|--|---|-----------------------------|
| 1. 2002 | 82,212 | 66,910 | 1,939 | 2.898 | 68,849 | 83.746 | | | 68,849 | 83.746 |
| 2. 2003 | 69,532 | 56,650 | 1,710 | 3.019 | 58,360 | 83.933 | | | 58,360 | 83.933 |
| 3. 2004 | 57,508 | 48,074 | 2,210 | 4.597 | 50,284 | 87.438 | | | 50,284 | 87.438 |
| 4. 2005 | 61,062 | 53,269 | 2,671 | 5.014 | 55,940 | 91.611 | 28 | | 55,968 | 91.657 |
| 5. 2006 | 61,788 | 48,608 | 2,163 | 4.449 | 50,771 | 82.169 | 6,812 | 50 | 57,633 | 93.275 |

12 Total

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Hospital and Medical
Section A - Paid Health Claims

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2002 | 2 2003 | 3 2004 | 4 2005 | 5 2006 |
| 1. Prior | 14,850 | 351 | | | |
| 2. 2002 | 57,024 | 66,861 | 66,910 | 66,910 | 66,910 |
| 3. 2003 | X X X | 50,589 | 56,702 | 56,682 | 56,650 |
| 4. 2004 | X X X | X X X | 42,820 | 48,071 | 48,074 |
| 5. 2005 | X X X | X X X | X X X | 47,624 | 53,269 |
| 6. 2006 | X X X | X X X | X X X | X X X | 48,608 |

Section B - Incurred Health Claims

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|---|-----------|-----------|-----------|-----------|
| | 1 2002 | 2 2003 | 3 2004 | 4 2005 | 5 2006 |
| 1. Prior | | | | | |
| 2. 2002 | 70,597 | 67,259 | 66,921 | 66,907 | 66,910 |
| 3. 2003 | X X X | 59,694 | 56,742 | 56,682 | 56,650 |
| 4. 2004 | X X X | X X X | 51,620 | 48,071 | 48,074 |
| 5. 2005 | X X X | X X X | X X X | 55,783 | 53,297 |
| 6. 2006 | X X X | X X X | X X X | X X X | 55,420 |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claims Payments | 3 Claim Adjustment Expense Payments | 4 (Col. 3/2) Percent | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 (Col. 5/1) Percent | 7 Claims Unpaid | 8 Unpaid Claims Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 (Col. 9/1) Percent |
|---|-------------------------|-------------------------|---|----------------------------|---|----------------------------|-----------------------|--|---|-----------------------------|
| 1. 2002 | 82,212 | 66,910 | 1,939 | 2.898 | 68,849 | 83.746 | | | 68,849 | 83.746 |
| 2. 2003 | 69,532 | 56,650 | 1,710 | 3.019 | 58,360 | 83.933 | | | 58,360 | 83.933 |
| 3. 2004 | 57,508 | 48,074 | 2,210 | 4.597 | 50,284 | 87.438 | | | 50,284 | 87.438 |
| 4. 2005 | 61,062 | 53,269 | 2,671 | 5.014 | 55,940 | 91.611 | 28 | | 55,968 | 91.657 |
| 5. 2006 | 61,788 | 48,608 | 2,163 | 4.449 | 50,771 | 82.169 | 6,812 | 50 | 57,633 | 93.275 |

12 Hospital and Medical

| | | |
|----|---|------|
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Medicare Supplement | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Medicare Supplement . . . | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Medicare Supplement . . | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Dental Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Dental Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Dental Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Vision Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Vision Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Vision Only | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Fed Emp HBPP | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Fed Emp HBPP | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Fed Emp HBPP | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XVIII-Medicare | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XVIII-Medicare | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XVIII-Medicare | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XIX-Medicaid | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XIX-Medicaid | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XIX-Medicaid | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Other | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur Claims - Other | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Other | NONE |
| 13 | Underwriting Invest Exh Pt 2D - A & H Reserve | NONE |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

| | Claim Adjustment Expenses | | 3 General Administrative Expenses | 4 Investment Expenses | 5 Total |
|---|--------------------------------------|--|--|-----------------------------|---------------|
| | 1 Cost Containment Expenses | 2 Other Claim Adjustment Expenses | | | |
| 1. Rent (\$.....0 for occupancy of own building) | 214,412 | 330,291 | 571,984 | | 1,116,687 |
| 2. Salaries, wages and other benefits | 1,143,445 | 1,761,420 | 3,050,348 | | 5,955,213 |
| 3. Commissions (less \$.....0 ceded plus \$.....0 assumed) | | | 2,629,847 | | 2,629,847 |
| 4. Legal fees and expenses | | | 54,805 | | 54,805 |
| 5. Certifications and accreditation fees | | | | | |
| 6. Auditing, actuarial and other consulting services | 408,229 | 250,999 | 949,039 | | 1,608,267 |
| 7. Traveling expenses | 15,298 | 3,470 | 223,436 | | 242,204 |
| 8. Marketing and advertising | 1,296 | | 286,502 | | 287,798 |
| 9. Postage, express and telephone | 27,430 | 278,272 | 1,034,736 | | 1,340,438 |
| 10. Printing and office supplies | 45,705 | 183,660 | 962,565 | | 1,191,930 |
| 11. Occupancy, depreciation and amortization | | | 29,403 | | 29,403 |
| 12. Equipment | 589 | 130,022 | 23,123 | | 153,734 |
| 13. Cost or depreciation of EDP equipment and software | | | | | |
| 14. Outsourced services including EDP, claims, and other services | 79,396 | 324,598 | 1,689,366 | | 2,093,360 |
| 15. Boards, bureaus and association fees | | | | | |
| 16. Insurance, except on real estate | | | 655,890 | | 655,890 |
| 17. Collection and bank service charges | | | | | |
| 18. Group service and administration fees | | | | | |
| 19. Reimbursements by uninsured plans | (1,691,425) | (1,562,552) | (8,316,428) | | (11,570,405) |
| 20. Reimbursements from fiscal intermediaries | | | | | |
| 21. Real estate expenses | | | | | |
| 22. Real estate taxes | | | | | |
| 23. Taxes, licenses and fees: | | | | | |
| 23.1 State and local insurance taxes | | | | | |
| 23.2 State premium taxes | | | 303,569 | | 303,569 |
| 23.3 Regulator authority licenses and fees | | | | | |
| 23.4 Payroll taxes | 123,679 | 80,560 | 982,195 | | 1,186,434 |
| 23.5 Other (excluding federal income and real estate taxes) | | | 4,468 | | 4,468 |
| 24. Investment expenses not included elsewhere | | | | | |
| 25. Aggregate write-ins for expenses | 352,000 | | 9,918 | | 361,918 |
| 26. Total expenses incurred (Lines 1 to 25) | 720,054 | 1,780,740 | 5,144,766 | | (a) 7,645,560 |
| 27. Less expenses unpaid December 31, current year | | 50,171 | 1,073,645 | | 1,123,816 |
| 28. Add expenses unpaid December 31, prior year | | 67,987 | 1,178,204 | | 1,246,191 |
| 29. Amounts receivable relating to uninsured plans, prior year | | | | | |
| 30. Amounts receivable relating to uninsured plans, current year | | | | | |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) .. | 720,054 | 1,798,556 | 5,249,325 | | 7,767,935 |
| DETAILS OF WRITE-INS | | | | | |
| 2501. Other Misc Expenses | 2,000 | | 9,918 | | 11,918 |
| 2502. Network Rental Fees | 350,000 | | | | 350,000 |
| 2503. 0 | | | | | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | | | | | |
| 2599. Totals (Lines 2501 through 2503 + 2598) (Line 25 above) | 352,000 | | 9,918 | | 361,918 |

(a) Includes management fees of \$.....9,052,472 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

| | 1 Collected During Year | 2 Earned During Year |
|---|-------------------------------|----------------------------|
| 1. U.S. Government bonds | (a) 337,642 | 525,807 |
| 1.1 Bonds exempt from U.S. tax | (a) | |
| 1.2 Other bonds (unaffiliated) | (a) | |
| 1.3 Bonds of affiliates | (a) | |
| 2.1 Preferred stocks (unaffiliated) | (b) | |
| 2.11 Preferred stocks of affiliates | (b) | |
| 2.2 Common stocks (unaffiliated) | | |
| 2.21 Common stocks of affiliates | | |
| 3. Mortgage loans | (c) | |
| 4. Real estate | (d) | |
| 5. Contract loans | | |
| 6. Cash, cash equivalents and short-term investments | (e) 554,299 | 563,630 |
| 7. Derivative instruments | (f) | |
| 8. Other invested assets | | |
| 9. Aggregate write-ins for investment income | | |
| 10. Total gross investment income | 891,941 | 1,089,437 |
| 11. Investment expenses | | (g) |
| 12. Investment taxes, licenses and fees, excluding federal income taxes | | (g) |
| 13. Interest expense | | (h) |
| 14. Depreciation on real estate and other invested assets | | (i) |
| 15. Aggregate write-ins for deductions from investment income | | |
| 16. Total deductions (Lines 11 through 15) | | |
| 17. Net Investment income (Line 10 minus Line 16) | | 1,089,437 |
| DETAILS OF WRITE-INS | | |
| 0901. 0 | | |
| 0902. | | |
| 0903. | | |
| 0998. Summary of remaining write-ins for Line 9 from overflow page | | |
| 0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) | | |
| 1501. | | |
| 1502. | | |
| 1503. | | |
| 1598. Summary of remaining write-ins for Line 15 from overflow page | | |
| 1599. TOTALS (Lines 1501 through 1503 plus 1598) (Line 15, above) | | |

- (a) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

| | 1 Realized Gain (Loss) on Sales or Maturity | 2 Other Realized Adjustments | 3 Unrealized Increases (Decreases) by Adjustment | 4 Total |
|--|--|------------------------------------|--|------------|
| 1. U.S. Government bonds | | | | |
| 1.1 Bonds exempt from U.S. tax | | | | |
| 1.2 Other bonds (unaffiliated) | | | | |
| 1.3 Bonds of affiliates | | | | |
| 2.1 Preferred stocks (unaffiliated) | | | | |
| 2.11 Preferred stocks of affiliates | | | | |
| 2.2 Common stocks (unaffiliated) | | | | |
| 2.21 Common stocks of affiliates | | | | |
| 3. Mortgage loans | | | | |
| 4. Real estate | | | | |
| 5. Contract loans | | | | |
| 6. Cash, cash equivalents and short-term investments | | | | |
| 7. Derivative instruments | | | | |
| 8. Other invested assets | | | | |
| 9. Aggregate write-ins for capital gains (losses) | | | | |
| 10. Total capital gains (losses) | | | | |
| DETAILS OF WRITE-INS | | | | |
| 0901. | | | | |
| 0902. | | | | |
| 0903. | | | | |
| 0998. Summary of remaining write-ins for Line 9 from overflow page | | | | |
| 0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) | | | | |

EXHIBIT OF NONADMITTED ASSETS

| | 1 | 2 | 3 |
|--|--|--|--|
| | Current Year Total Nonadmitted Assets | Prior Year Total Nonadmitted Assets | Change in Total Nonadmitted Assets (Col. 2 - Col. 1) |
| 1. Bonds (Schedule D) | | | |
| 2. Stocks (Schedule D): | | | |
| 2.1 Preferred stocks | | | |
| 2.2 Common stocks | | | |
| 3. Mortgage loans on real estate (Schedule B): | | | |
| 3.1 First liens | | | |
| 3.2 Other than first liens | | | |
| 4. Real estate (Schedule A): | | | |
| 4.1 Properties occupied by the company | | | |
| 4.2 Properties occupied for the production of income | | | |
| 4.3 Properties held for sale | | | |
| 5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA) | | | |
| 6. Contract loans | | | |
| 7. Other invested assets (Schedule BA) | | | |
| 8. Receivables for securities | | | |
| 9. Aggregate write-ins for invested assets | | | |
| 10. Subtotals, cash and invested assets (Lines 1 to 9) | | | |
| 11. Title plants (for Title insurers only) | | | |
| 12. Invested income due and accrued | | | |
| 13. Premium and considerations: | | | |
| 13.1 Uncollected premiums and agents' balances in the course of collection | | | |
| 13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due | | | |
| 13.3 Accrued retrospective premiums | | | |
| 14. Reinsurance: | | | |
| 14.1 Amounts recoverable from reinsurers | | | |
| 14.2 Funds held by or deposited with reinsured companies | | | |
| 14.3 Other amounts receivable under reinsurance contracts | | | |
| 15. Amounts receivable relating to uninsured plans | | | |
| 16.1 Current federal and foreign income tax recoverable and interest thereon | | | |
| 16.2 Net deferred tax asset | | | |
| 17. Guaranty funds receivable or on deposit | | | |
| 18. Electronic data processing equipment and software | | | |
| 19. Furniture and equipment, including health care delivery assets | | | |
| 20. Net adjustment in assets and liabilities due to foreign exchange rates | | | |
| 21. Receivables from parent, subsidiaries and affiliates | | | |
| 22. Health care and other amounts receivable | 351,605 | 467,678 | 116,073 |
| 23. Aggregate write-ins for other than invested assets | | | |
| 24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) | 351,605 | 467,678 | 116,073 |
| 25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | |
| 26. Total (Lines 24 and 25) | 351,605 | 467,678 | 116,073 |
| DETAILS OF WRITE-INS | | | |
| 0901. | | | |
| 0902. | | | |
| 0903. | | | |
| 0998. Summary of remaining write-ins for Line 9 from overflow page | | | |
| 0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above) | | | |
| 2301. 0 | | | |
| 2302. | | | |
| 2303. | | | |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | | | |
| 2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) | | | |

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment | Total Members at End of | | | | | 6 Current Year Member Months |
|--|-------------------------|-----------------------|------------------------|-----------------------|----------------------|---------------------------------------|
| | 1 Prior Year | 2 First Quarter | 3 Second Quarter | 4 Third Quarter | 5 Current Year | |
| 1. Health Maintenance Organizations | 1,649 | 1,192 | 1,187 | 1,261 | 1,219 | 14,577 |
| 2. Provider Service Organizations | | | | | | |
| 3. Preferred Provider Organizations | | | | | | |
| 4. Point of Service | 20,552 | 20,451 | 18,997 | 18,462 | 18,484 | 228,740 |
| 5. Indemnity Only | | | | | | |
| 6. Aggregate write-ins for other lines of business | | | | | | |
| 7. TOTAL | 22,201 | 21,643 | 20,184 | 19,723 | 19,703 | 243,317 |
| DETAILS OF WRITE-INS | | | | | | |
| 0601. 0 | | | | | | |
| 0602. | | | | | | |
| 0603. | | | | | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | | | | | | |
| 0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) | | | | | | |

Notes to Financial Statement

QCA HEALTH PLAN, INC.

Notes to Financial Statements - Statutory Basis December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in the preparation of the accompanying financial statements. Such policies are in conformity with the Annual Statement Instructions and the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners ("NAIC") and the accounting practices as prescribed or permitted by the Arkansas Insurance Department and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents: The Company considers all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Premiums Receivable: The Company uses the allowance method of accounting for uncollectible receivables. Premiums receivable represent medical premium revenue that has been billed and recognized as revenue, but has not been collected.

Investment Securities: Bonds and other debt instruments are classified as held to maturity and are stated at cost adjusted for amortization of premiums and accretion of discounts computed by the interest method. Certificates of deposit, money market trust accounts, and other interest bearing accounts are stated at cost.

Medical Claims Payable: Reported claims expected to be paid after the balance sheet date for services provided to members prior to the balance sheet date are recorded as liabilities. Claims for services provided to members during the financial reporting period which are unreported at the balance sheet date are estimated based on the Company's claims experience and recorded as liabilities. The amounts recorded are based upon estimates of the ultimate net cost of such services provided. These reserves are subject to continuous review by management and changes in estimates are reflected in earnings currently.

Income Taxes: Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to the differences between the treatment of surplus notes payable for financial and income tax reporting and net operating loss carryforwards. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Revenue: Medical premium revenue is recognized in the month in which members are entitled to receive health care services. Medical premiums collected in advance are recorded as unearned premium revenue.

Cost of Benefits Provided: Cost of benefits provided includes the costs of all medical services delivered to enrolled members of the Company and for whom the Company has recorded medical premium revenue during the reporting period. These costs include payments for specific medical services paid to physicians, hospitals, and other health care providers on a fee-for-service basis. Costs of benefits include claims paid, claims in process and pending, estimates of unreported claims and charges, and processing costs of those estimates at the end of the fiscal year for which the Company will be responsible. There are certain provider contracts within the network that contain various risk sharing arrangements, in which the unallocated withhold amounts for members who have not designated a primary care physician are returned to the Company as part of the settlement and administration of such risk sharing arrangements and accordingly are recorded as a reduction of cost of benefits provided.

Notes to Financial Statement

Premium Tax: The state in which the Company does business requires the remittance of premium taxes based upon a percentage of billed premiums.

Advertising Costs: Advertising and promotions related expenses are charged to operations when incurred.

Non-Admitted Assets: Certain assets (principally pharmaceutical rebate receivables and deferred tax assets not expected to be realized within a 12 month period) designated as "non-admitted" are not included in the financial statements.

Accounting Estimates: The preparation of financial statements in conformity with the accounting practices described above requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

(2) **Accounting Changes and Corrections of Errors**

None.

(3) **Business Combinations and Goodwill**

None.

(4) **Discontinued Operations**

None.

(5) **Investments**

The carrying value and estimated market value of investments in securities as of December 31, 2006 and 2005 are as follows:

| | | 2006 | | | |
|----------------------------|----|-------------------|------------------------------|-------------------------------|------------------------------|
| | | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. Government securities | \$ | 13,674,061 | 4,375 | 88,923 | 13,589,513 |
| | | 2005 | | | |
| | | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. Government securities | \$ | 13,939,259 | - | 154,612 | 13,784,647 |

The carrying value and estimated market value of securities as of December 31, 2006, by contractual maturity, are shown below:

| | Carrying Value | Estimated Market Value |
|-------------------------------|-------------------|------------------------------|
| Matures in one year or less | \$ - | - |
| Matures in one to three years | 13,674,061 | 13,589,513 |
| | \$ 13,674,061 | 13,589,513 |

Included in the amounts above the Company holds a U.S. Government debt security that is restricted due to regulatory requirements, which matures in one to three years

Notes to Financial Statement

and is held to maturity. At December 31, 2006 and 2005, the aggregate fair value was \$623,524 and \$320,252, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2006 and 2005, aggregated by investment category and length of time individual securities have been in a continuous loss position, is as follows:

| | | 2006 | | | | | |
|----------------|----|---------------------|-------------------|----------------------|-------------------|-------------------|-------------------|
| | | Less Than 12 Months | | 12 Months or Greater | | Total | |
| | | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury | | | | | | | |
| bills | \$ | 617,778 | 5,746 | 2,939,610 | 30,893 | 3,557,388 | 36,639 |
| FFCB | | | | | | | |
| certificates | | - | - | 492,700 | 7,300 | 492,700 | 7,300 |
| FNMA | | | | | | | |
| certificates | | - | - | 1,984,065 | 14,448 | 1,984,065 | 14,448 |
| FHLM | | | | | | | |
| certificates | | - | - | 1,483,170 | 16,363 | 1,483,170 | 16,363 |
| Federal agency | | | | | | | |
| bonds | | 499,050 | 852 | - | - | 499,050 | 852 |
| FHLB | | | | | | | |
| certificates | | 497,850 | 2,150 | 1,988,650 | 11,171 | 2,486,500 | 13,321 |
| | \$ | <u>1,614,678</u> | <u>8,748</u> | <u>8,888,195</u> | <u>80,175</u> | <u>10,502,873</u> | <u>88,923</u> |
| | | 2005 | | | | | |
| | | Less Than 12 Months | | 12 Months or Greater | | Total | |
| | | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury | | | | | | | |
| bills | \$ | 3,921,560 | 29,853 | 1,990,355 | 7,882 | 5,911,915 | 37,735 |
| FFCB | | | | | | | |
| certificates | | - | - | 1,969,580 | 29,730 | 1,969,580 | 29,730 |
| FNMA | | | | | | | |
| certificates | | 981,410 | 16,338 | 978,595 | 15,947 | 1,960,005 | 32,285 |
| FHLM | | | | | | | |
| certificates | | 1,472,165 | 23,319 | 494,700 | 8,212 | 1,966,865 | 31,531 |
| FHLB | | | | | | | |
| certificates | | - | - | 1,976,282 | 23,331 | 1,976,282 | 23,331 |
| | \$ | <u>6,375,135</u> | <u>69,510</u> | <u>7,409,512</u> | <u>85,102</u> | <u>13,784,647</u> | <u>154,612</u> |

All of the securities above are either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews

Notes to Financial Statement

of the issuer's financial condition. As management has the ability to hold debt securities until maturity, no declines are deemed to be other-than-temporary.

(6) Joint Ventures, Partnerships and Limited Liability Companies

The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of its admitted assets.

(7) Investment Income

The Company's investment income was earned on cash and cash equivalents, and bonds and no investment income was excluded from surplus for the years ending December 31, 2006 and 2005.

(8) Derivative Instruments

None.

(9) Income Taxes

The Company's net deferred tax asset account was comprised of the following as of December 31:

| | 2006 | 2005 |
|---------------------|--------------|-------------|
| Deferred tax assets | \$ 3,351,412 | 3,673,359 |
| Valuation allowance | (2,789,412) | (3,175,359) |
| | \$ 562,000 | 498,000 |

The Company has available as of December 31, 2006 unused operating loss carryforwards that may be applied against future taxable income and that expire as follows:

| <u>Year of Expiration</u> | <u>Unused Operating Loss Carryforwards</u> |
|---------------------------|--|
| 2019 | \$ 5,770,611 |
| 2020 | 4,145,090 |
| 2021 | 557,462 |
| | \$ 10,473,163 |

The provision for income taxes in the financial statements differs from the amount determined by applying the statutory Federal income rate to earnings before income taxes. The reconciling items and amounts as of December 31, 2006 and 2005 are as follows:

| | 2006 | 2005 |
|---|------------|-----------|
| Expected income tax expense | \$ 368,877 | 610,351 |
| Benefit from net operating loss carryforwards | (355,319) | (579,464) |
| | \$ 13,558 | 30,887 |

While the Company has substantial unused operating loss carryforwards to offset any regular taxable income, the Company is only allowed a 90% net operating loss reduction in the calculation of the alternative minimum tax (AMT). Thus, in years in which the Company's regular taxable income is offset due to loss carryforwards, the Company will still be subject to some amount of AMT. This has resulted in AMT credit carryovers of approximately \$157,000 that may be available to offset future regular income tax.

Notes to Financial Statement

(10) Information Concerning Parent, Subsidiaries and Affiliates

During November 1999, the Company entered into a service agreement with an affiliate of a stockholder whereby the affiliate would provide a full range of administrative, managerial and technological services as well as the continued license rights that the Company had previously obtained from the stockholder. An amendment to this agreement was entered into effective November 30, 2001, whereby the term of the agreement will continue until December 31, 2007, and will be renewed automatically for additional renewal terms of 1 year thereafter. The affiliate may also terminate the agreement in the event that the Company is not compliant with the risk based capital requirements contained within the amendment. The Company paid this affiliate \$9,052,472 and \$10,706,262 during 2006 and 2005, respectively, for these services.

In accordance with stated provisions of the service agreement, the Company has notified the stockholder affiliate that the service agreement will not be renewed at the end of its current term. As a result of the service agreement termination, the responsibilities for administrative, managerial and technology services will be returned to the Company. This transition of responsibility will result in no changes in the management of the Company or the composition of the workforce. The Company has also entered into a technology services agreement with the affiliate effective December 15, 2006 that will provide for the provision of ongoing technology services through 2014.

Under the provisions of various provider contracts, the Company paid \$47,652,889 and \$45,940,600 to hospitals owned by or affiliated with stockholders during 2006 and 2005, respectively.

Premium revenue in the amount of \$2,906,916 and \$3,814,548 was received from hospitals owned or affiliated with stockholders during 2006 and 2005, respectively that relate to risk-based and administrative services only (ASO) lines of business.

The Company was due \$254,746 and \$710 from a stockholder as of December 31, 2006 and 2005, respectively. The balance relates to an agreement between the Company and QualChoice of Arkansas, Inc. ("QualChoice"), for professional services from a network of physicians, in which qualifying fee-for-service medical charges are withheld by QualChoice and remitted to the Company.

The Company owed \$312,501 and \$184,152 to stockholders as of December 31, 2006 and 2005, respectively, for general expenses paid on behalf of the Company.

The Company entered into an agreement with QualChoice in November 2001, whereby the Company assumed the groups QualChoice managed under a third party administrator agreement on January 1, 2002, on behalf of employers which sponsor health benefit plans for employees. The Company assumed the obligations to perform such duties under the existing contracts with QualChoice, and in exchange for receiving these groups, the Company is to pay QualChoice \$650,000 in annual network rental fees for the years ending December 31, 2002 through 2007, however, the fees can be renegotiated annually. The Company paid \$350,000 and \$425,004 in network rental fees to QualChoice for the years ending December 31, 2006 and 2005, respectively.

(11) Surplus Notes

The Company had the following surplus notes payable at December 31:

Notes to Financial Statement

| | 2006 | 2005 |
|---|------|------------|
| Surplus notes payable to various stockholders with interest at 8.5%, principal payments beginning April 2000, convertible into 12,529 shares of common stock at any time prior to maturity | \$ - | 4,568,000 |
| Surplus notes payable to various affiliates of a stockholder with interest at 8.5%, principal payments beginning in April 2001, convertible into 5,676 shares of common stock at any time prior to maturity | - | 3,150,000 |
| Surplus note payable to a stockholder with interest at 3.0%, principal payments beginning in April 2010 | - | 5,000,000 |
| Surplus notes payable to an affiliate of a stockholder with interest at 8.5%, principal payments beginning in April 2001, convertible into 2,703 shares of common stock at any time prior to maturity | - | 1,500,000 |
| Surplus notes payable to various stockholders with interest at 8.5%, principal payments beginning in April 2001, convertible into 5,392 shares of common stock at any time prior to maturity | - | 2,992,808 |
| | \$ - | 17,210,808 |
| | - | 17,210,808 |

During 2006, all surplus notes and accrued interest were exchanged for preferred stock as discussed in Note 13.

Principal and interest payments on the surplus notes are due each April 15 to the extent that there is surplus capital at the end of the previous year calculated in accordance with a formula prescribed by the Arkansas Department of Insurance and their approval.

As discussed in Note 10, the Company entered into a service agreement with an affiliate of a stockholder during November 1999. In order to induce the Company to enter into this service agreement, a subsidiary of this affiliate provided the Company with \$5,000,000 in exchange for a \$5,000,000 face amount surplus note payable. The surplus note payable had a nominal interest rate of 3% and a common stock purchase warrant which entitles the holder to purchase 9,009 shares of the Company's common stock for \$.10 per share. The warrants become exercisable for a five year period beginning with the occurrence of the earliest of the following: (1) closing of the Company's initial public offering, (2) change in control, as defined in the agreement, or (3) November 2004. As discussed in Note 13, the surplus notes were exchanged for preferred stock. However, the warrants were not exchanged and may still be exercised according to the terms of the original agreement.

(12) Retirement Plans, Deferred Compensation and Other Postretirement Benefit Plans

The Company has an employee 401(k) plan covering all full-time employees of the Company who have completed three months of employment and choose to participate. The Company contributes an amount equal to the portion of the employee's contribution which does not exceed 3% of the employee's salary. Contributions to the plan during 2006 and 2005 totaled \$136,464 and \$120,110 respectively.

(13) Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

Notes to Financial Statement

The Company has 50,000 shares of \$.10 per share par value common stock authorized and 11,925 shares outstanding, exclusive of 3,600 shares held as treasury stock. During 2006, the Company exchanged all surplus notes, including accrued interest, for 25,500.046 shares of \$1,000 par value preferred stock. The Company does not intend to pay dividends on its common or preferred stock in the foreseeable future.

The Company's preferred stock structure is as follows as of December 31:

| | 2006 | 2005 |
|---|---------------|------|
| Series A, \$1,000 par value; 5% noncumulative, nonvoting; convertible into 4,732 shares of nonvoting common stock; 2,868 shares authorized and issued. | \$ 2,868,000 | - |
| Series B, \$1,000 par value; 5% noncumulative, nonvoting; convertible into 16,833 shares of nonvoting common stock; 9,342.808 shares authorized and issued. | 9,342,808 | - |
| Series C, \$1,000 par value; 2% noncumulative, nonvoting, nonconvertible; 5,000 shares authorized and issued. | 5,000,000 | - |
| Series D, \$1,000 par value; noncumulative, nonvoting, nonconvertible; 8,289.238 shares authorized and issued. | 8,289,238 | - |
| | \$ 25,500,046 | - |

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the Company the holders of the preferred stock shall be entitled to share ratably in any assets of the Company available for distribution to the Company's stockholders. The amount will be equal to the greater of (a) \$1,000 per share of preferred stock, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization, plus all declared, approved, but unpaid dividends through such distribution payment date or (b) the amount per share such shareholder would receive if such shareholder converted such shares of preferred stock into common stock in accordance with the conversion factor set out on in the "Statement of Preferences and Terms of Preferred Stock" immediately prior to such liquidation, dissolution, or winding up of the affairs of the Company. Any payments or distributions to the preferred stockholders shall be made before any such payments or distributions shall be made to common stockholders

(14) Contingent Liabilities

The Company is a defendant in general litigation as of December 31, 2006, in the ordinary course of business. The Company's management believes, however, that any liability it may incur as a result of this litigation would not have a material or adverse effect to the financial statements and, accordingly, no contingencies have been recorded.

The Company is subject to various regulatory requirements, including maintenance of minimum capital and surplus. At December 31, 2006, the Company is in compliance

Notes to Financial Statement

with requirements established by the Arkansas Insurance Department. The Company is required to maintain restricted investments in the minimum maturity amount of \$625,000.

(15) **Leases**

None.

(16) **Information About Financial Instruments With Off Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

None.

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

None.

(18) **Gain or Loss To The Reporting Entity From Uninsured A&H Plans and The Uninsured Portion of Partially Insured Plans**

During 2006 and 2005, the Company had Administrative Services Only (ASO) contracts and minimum premium contracts, for which the employer retained all health care service risk, while the Company assumed administrative risk. The Company recorded administrative fee revenues of approximately \$11,570,405 and \$13,687,648 for 2006 and 2005, respectively. The amounts are not recorded as revenue in this statutory statement, but rather as a reduction in operating expenses. The profit (loss) associated with this line of business was \$(257,817) and \$256,354 for 2006 and 2005, respectively. The claims volume was approximately \$138,159,742 and \$135,419,223 for 2006 and 2005, respectively. The Company has no Medicare or similarly structured cost based reimbursement contracts.

(19) **Direct Premium Written/Produced By Managing General Agents/Third Party Administrators**

None.

(20) **September 11 Events**

None.

(21) **Other Items**

None.

(22) **Events Subsequent**

None.

(23) **Reinsurance**

The Company is covered under a medical reinsurance agreement effective October 1, 2006 through September 30, 2007 that provides annual coverage for eligible in area and out of area medical services of 90% in excess of \$150,000 per member. The policy covers all medical and pharmaceutical services including inpatient and outpatient hospital, sub-acute facility services, skilled nursing facility and rehabilitation facility services, hospice services, home health agency services, outpatient facility services, prescription drugs, and physician and other professional services. Certain of the covered services have per unit or annual coverage limits. For example, coverage for inpatient hospital services is limited to \$4,000 per day and coverage for prescription drugs is limited to \$250,000 per contract year. The reinsurance limitation of the maximum average per day is waived for transplant services performed in a hospital whose negotiated arrangement has been approved by the reinsurer. Each insured

Notes to Financial Statement

member's coverage is limited to \$2,000,000 in the contract year. The policy is a renewal of an initial contract signed in October 2005, with Allianz Life Insurance Company of North America. The original reinsurance agreement provided coverage for only hospital services and high cost specialty pharmaceuticals.

The reinsurance agreement also includes catastrophic reinsurance coverage. The catastrophic provision provides coverage for the same categories of eligible medical services of 90% in excess of \$500,000 per member with coverage limited to an average of \$10,000 per day over the entire length of stays in the hospital with a maximum of \$2,000,000 per member. The Company receives reimbursement under the agreement at the most favorable coverage level.

The reinsurance agreement contains a provision through which the Company may receive an Experience Refund equal to 50% of a realized gain in a given contract year. A realized gain is defined as the amount by which the actual claims against the policy filed by the Company are less than 65% of total policy premiums for the contract year. The policy must be renewed in a subsequent contract year for the Company to receive a prior year's Experience Refund. At December 31, 2006 the Company recorded a receivable of \$251,425 for an Experience Refund related to the contract year ended September 30, 2006.

The reinsurance agreement also contains a Continuation of Coverage endorsement in the event of insolvency on the part of the Company. The limitation on liability to Allianz under this endorsement is \$5,000,000.

The Company has no return commission, which would have been due if the company had cancelled the reinsurance. The company has no retroactive reinsurance agreements. The reinsurance does not have retroactive termination arrangement clause.

(24) Retrospectively Rated Contracts & Contracts Subject To Redetermination

None.

(25) Change In Incurred Claims and Claim Adjustment Expenses

None.

(26) Intercompany Pooling Arrangements

None.

(27) Structured Settlements

None.

(28) Health Care Receivables

The Company experienced the following activity associated with the pharmaceutical rebate receivables by quarter for the previous three years from December 31, 2006:

Notes to Financial Statement

| Quarter | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More Than 180 Days After Billing |
|----------|--|---|--|--|--|
| 12/31/06 | \$ 351,605 | - | - | - | - |
| 9/30/06 | 392,330 | - | - | - | - |
| 6/30/06 | 467,134 | 531,035 | 272,458 | 258,577 | - |
| 3/31/06 | 485,150 | 520,130 | 253,599 | 272,458 | (5,927) |
| 12/31/05 | 467,678 | 546,015 | 265,977 | 253,599 | 26,439 |
| 9/30/05 | 28,994 | 570,333 | 289,902 | 265,978 | 14,453 |
| 6/30/05 | 101,557 | 559,407 | 254,521 | 289,902 | 14,984 |
| 3/31/05 | 26,000 | 513,446 | 227,203 | 251,808 | 34,435 |
| 12/31/04 | - | 468,660 | 231,535 | 227,203 | 9,922 |
| 9/30/04 | - | 651,845 | 230,180 | 226,204 | 195,461 |
| 6/30/04 | - | 444,767 | 203,634 | 230,180 | 10,953 |
| 3/31/04 | - | 426,801 | 204,199 | 195,335 | 27,267 |

(29) Participating Policies

None.

(30) Premium Deficiency Reserves

None.

(31) Anticipated Salvage and Subrogation

None.

SUMMARY INVESTMENT SCHEDULE

| Investment Categories | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | |
|---|---------------------------|-----------------|---|-----------------|
| | 1 Amount | 2 Percentage | 3 Amount | 4 Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | 3,594,027 | 15.395 | 3,594,027 | 15.395 |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | | | | |
| 1.22 Issued by U.S. government sponsored agencies | 10,080,034 | 43.179 | 10,080,034 | 43.179 |
| 1.3 Foreign government (including Canada, excluding mortgage-backed securities) | | | | |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 States, territories and possessions general obligations | | | | |
| 1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations | | | | |
| 1.43 Revenue and assessment obligations | | | | |
| 1.44 Industrial development and similar obligations | | | | |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or Guaranteed by GNMA | | | | |
| 1.512 Issued or Guaranteed by FNMA and FHLMC | | | | |
| 1.513 All other | | | | |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | | | | |
| 1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 | | | | |
| 1.523 All other | | | | |
| 2. Other debt and other fixed income securities (excluding short term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) | | | | |
| 2.2 Unaffiliated foreign securities | | | | |
| 2.3 Affiliated securities | | | | |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | | | | |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | | | | |
| 3.22 Unaffiliated | | | | |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | | | | |
| 3.32 Unaffiliated | | | | |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | | | | |
| 3.42 Unaffiliated | | | | |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | | | | |
| 3.52 Unaffiliated | | | | |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | | | | |
| 4.2 Agricultural | | | | |
| 4.3 Single family residential properties | | | | |
| 4.4 Multifamily residential properties | | | | |
| 4.5 Commercial loans | | | | |
| 4.6 Mezzanine real estate loans | | | | |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | | | | |
| 5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt) | | | | |
| 5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt) | | | | |
| 6. Contract loans | | | | |
| 7. Receivables for securities | | | | |
| 8. Cash, cash equivalents and short-term investments | 9,670,803 | 41.426 | 9,670,803 | 41.426 |
| 9. Other invested assets | | | | |
| 10. Total invested assets | 23,344,864 | 100.000 | 23,344,864 | 100.000 |

GENERAL INTERROGATORIES (Continued)

BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof? Yes No
14. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof? Yes No
15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes No

FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.11 To directors or other officers \$ 0
- 16.12 To stockholders not officers \$ 0
- 16.13 Trustees, supreme or grand (Fraternal only) \$ 0
- 16.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.21 To directors or other officers \$ 0
- 16.22 To stockholders not officers \$ 0
- 16.23 Trustees, supreme or grand (Fraternal only) \$ 0
- 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes No
- 17.2 If yes, state the amount thereof at December 31 of the current year:
- 17.21 Rented from others \$ 0
- 17.22 Borrowed from others \$ 0
- 17.23 Leased from others \$ 0
- 17.24 Other \$ 0
- 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes No
- 18.2 If answer is yes:
- 18.21 Amount paid as losses or risk adjustment \$ 0
- 18.22 Amount paid as expenses \$ 0
- 18.23 Other amounts paid \$ 0
- 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes No
- 19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 254,746

INVESTMENT

- 20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes No
- 20.2 If no, give full and complete information, relating thereto:
- 21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1). Yes No
- 21.2 If yes, state the amount thereof at December 31 of the current year:
- 21.21 Loaned to others \$ 0
- 21.22 Subject to repurchase agreements \$ 0
- 21.23 Subject to reverse repurchase agreements \$ 0
- 21.24 Subject to dollar repurchase agreements \$ 0
- 21.25 Subject to reverse dollar repurchase agreements \$ 0
- 21.26 Pledged as collateral \$ 0
- 21.27 Placed under option agreements \$ 0
- 21.28 Letter stock or securities restricted as to sale \$ 0
- 21.29 Other \$ 0
- 21.3 For category (21.28) provide the following:

| 1 Nature of Restriction | 2 Description | 3 Amount |
|----------------------------|------------------|-------------|
| | | |

- 22.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes No
- 22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No N/A
If no, attach a description with this statement.
- 23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes No
- 23.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes No
- 24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

| 1 Name of Custodian(s) | 2 Custodian's Address |
|-----------------------------------|--|
| Arvest Asset Management | 200 Commerce Dr. Ste. 100, Little Rock, AR |
| Simmons First National Bank | 8315 Cantrell Road, Suite 200, Little Rock, AR |

- 24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1 Name(s) | 2 Location(s) | 3 Complete Explanation(s) |
|--------------|------------------|------------------------------|
| | | |

- 24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year? Yes No
- 24.04 If yes, give full and complete information relating thereto:

GENERAL INTERROGATORIES (Continued)

| 1 Old Custodian | 2 New Custodian | 3 Date of Change | 4 Reason |
|--------------------|--------------------|---------------------|-------------|
| | | | |

24.05 Identify all investment advisers, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1 Central Registration Depository Number(s) | 2 Name | 3 Address |
|---|------------------------------|---|
| | Becky Parcher Mark Garner | 200 Commerce Dr., Ste. 100, Little Rock, AR 8315 Cantrell Road, Suite 200, Little Rock, AR |

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b)(1)])? Yes[] No[X]

25.2 If yes, complete the following schedule:

| 1 CUSIP # | 2 Name of Mutual Fund | 3 Book/Adjusted Carrying Value |
|---------------|--------------------------|--------------------------------------|
| 25.2999 Total | | |

25.3 For each mutual fund listed in the table above, complete the following schedule:

| 1 Name of Mutual Fund (from above table) | 2 Name of Significant Holding of the Mutual Fund | 3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding | 4 Date of Valuation |
|--|--|--|---------------------------|
| | | | |

26. Provide the following information for all short term and long term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

| | 1 Statement (Admitted) Value | 2 Fair Value | 3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+) |
|-----------------------|------------------------------------|--------------------|--|
| 26.1 Bonds | 13,674,061 | 13,589,513 | (84,548) |
| 26.2 Preferred stocks | | | |
| 26.3 Totals | 13,674,061 | 13,589,513 | (84,548) |

26.4 Describe the sources of methods utilized in determining the fair values
Provided by bank statements/Trust Company reporting

27.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes[X] No[]

27.2 If no, list exceptions:

OTHER

28.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ 0

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

| 1 Name | 2 Amount Paid |
|-----------|------------------|
| | |

29.1 Amount of payments for legal expenses, if any? \$ 43,867

29.2 List the name of the firm and the amount paid if any such payments represented 25% or more of the total payments for legal expenses during the period covered by this statement.

| 1 Name | 2 Amount Paid |
|----------------------------|------------------|
| Wright, Lindsey & Jennings | 37,448 |

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$ 0

30.2 List the name of firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies officers or department of government during the period covered by this statement.

GENERAL INTERROGATORIES (Continued)

| 1 Name | 2 Amount Paid |
|-----------|------------------|
| | |

GENERAL INTERROGATORIES (Continued)

PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [] No[X]
- 1.2 If yes, indicate premium earned on U.S. business only: \$ 0
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ 0
- 1.31 Reason for excluding:
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ 0
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ 0
- 1.6 Individual policies - Most current three years:
- 1.61 Total premium earned \$ 0
- 1.62 Total incurred claims \$ 0
- 1.63 Number of covered lives 0
- All years prior to most current three years:
- 1.64 Total premium earned \$ 0
- 1.65 Total incurred claims \$ 0
- 1.66 Number of covered lives 0
- 1.7 Group policies - Most current three years:
- 1.71 Total premium earned \$ 0
- 1.72 Total incurred claims \$ 0
- 1.73 Number of covered lives 0
- All years prior to most current three years:
- 1.74 Total premium earned \$ 0
- 1.75 Total incurred claims \$ 0
- 1.76 Number of covered lives 0

2. Health Test

| | 1 Current Year | 2 Prior Year |
|-------------------------------------|-------------------|-----------------|
| 2.1 Premium Numerator | 60,478,211 | 59,884,416 |
| 2.2 Premium Denominator | 60,478,211 | 59,884,416 |
| 2.3 Premium Ratio (2.1 / 2.2) | 1.000 | 1.000 |
| 2.4 Reserve Numerator | 6,839,899 | 8,158,606 |
| 2.5 Reserve Denominator | 6,839,899 | 8,158,606 |
| 2.6 Reserve Ratio (2.4 / 2.5) | 1.000 | 1.000 |

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? Yes [] No[X]
- 3.2 If yes, give particulars:
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes[X] No []
- 4.2 If not previously filed furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [] No[X]
- 5.1 Does the reporting entity have stop-loss reinsurance? Yes[X] No []
- 5.2 If no, explain:
- 5.3 Maximum retained risk (see instructions):
- 5.31 Comprehensive Medical \$ 335,000
- 5.32 Medical Only \$ 0
- 5.33 Medicare Supplement \$ 0
- 5.34 Dental \$ 0
- 5.35 Other Limited Benefit Plan \$ 0
- 5.36 Other \$ 0
- 6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:
 Provider contracts have hold harmless agreements and continuity of care provisions. Through the reinsurance company \$5,000,000 is reinsured for continuation of benefits in event of insolvency.
- 7.1 Does the reporting entity set up its claim liability for provider services on a service date base? Yes[X] No []
- 7.2 If no, give details:
- 8. Provide the following information regarding participating providers:
- 8.1 Number of providers at start of reporting year 5,450
- 8.2 Number of providers at end of reporting year 7,239
- 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [] No[X]
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months 0
- 9.22 Business with rate guarantees over 36 months 0
- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes[X] No []
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses \$ 0
- 10.22 Amount actually paid for year bonuses \$ 0
- 10.23 Maximum amount payable withholds \$ 332,704
- 10.24 Amount actually paid for year withholds \$ 332,704
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, Yes [] No[X]
- 11.13 An Individual Practice Association (IPA), or, Yes [] No[X]
- 11.14 A Mixed Model (combination of above)? Yes[X] No []
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes[X] No []
- 11.3 If yes, show the name of the state requiring such net worth.
 Arkansas
- 11.4 If yes, show the amount required. \$ 100,000
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes[X] No []
- 11.6 If the amount is calculated, show the calculation.
 Net Worth requirement of \$100,000 plus certain RBC requirements of the State. The RBC calculations are included with this filing
- 12. List service areas in which the reporting entity is licensed to operate:

| |
|-------------------------|
| 1 |
| Name of Service Area |
| State of Arkansas |

FIVE-YEAR HISTORICAL DATA

| | 1 2006 | 2 2005 | 3 2004 | 4 2003 | 5 2002 |
|--|------------|------------|------------|------------|------------|
| BALANCE SHEET (Pages 2 and 3) | | | | | |
| 1. Total admitted assets (Page 2, Line 26) | 24,851,692 | 25,565,873 | 23,527,284 | 21,620,466 | 21,397,654 |
| 2. Total liabilities (Page 3, Line 22) | 9,910,665 | 11,944,102 | 11,293,864 | 12,237,385 | 16,906,554 |
| 3. Statutory surplus | 2,685,230 | 2,630,273 | 2,481,421 | 2,809,833 | 3,367,163 |
| 4. Total capital and surplus (Page 3, Line 31) | 14,941,027 | 13,621,771 | 12,233,420 | 9,383,081 | 4,491,100 |
| INCOME STATEMENT (Page 4) | | | | | |
| 5. Total revenues (Line 8) | 60,478,211 | 59,884,416 | 56,883,747 | 68,934,338 | 81,326,814 |
| 6. Total medical and hospital expenses (Line 18) | 52,769,346 | 51,686,944 | 48,318,399 | 56,616,965 | 69,741,847 |
| 7. Claims adjustment expenses (Line 20) | 2,500,794 | 2,313,666 | 2,209,635 | 1,711,242 | ..... |
| 8. Total administrative expenses (Line 21) | 5,144,766 | 4,662,511 | 4,143,261 | 6,083,244 | 7,929,471 |
| 9. Net underwriting gain (loss) (Line 24) | 63,305 | 1,221,295 | 2,212,452 | 4,522,887 | 1,716,294 |
| 10. Net investment gain (loss) (Line 27) | 1,089,437 | 738,627 | 248,986 | 220,613 | 241,704 |
| 11. Total other income (Lines 28 plus 29) ..... | ..... | ..... | 1,320 | ..... | ..... |
| 12. Net income or (loss) (Line 32) | 1,139,185 | 1,929,036 | 2,279,342 | 4,743,500 | 1,957,998 |
| RISK-BASED CAPITAL ANALYSIS | | | | | |
| 13. Total adjusted capital | 14,941,027 | 13,621,771 | 12,233,420 | 9,383,081 | 4,491,100 |
| 14. Authorized control level risk-based capital | 2,685,230 | 2,630,273 | 2,481,421 | 2,809,833 | 3,367,163 |
| ENROLLMENT (Exhibit 1) | | | | | |
| 15. Total members at end of period (Column 5, Line 7) | 19,703 | 22,201 | 20,867 | 20,228 | 33,686 |
| 16. Total members months (Column 6, Line 7) | 243,317 | 246,380 | 241,222 | 341,255 | 454,888 |
| OPERATING PERCENTAGE (Page 4) | | | | | |
| (Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0 | | | | | |
| 17. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 18. Total hospital and medical plus other non-health (Lines 18 plus Line 19) | 87 | 86 | 85 | 82 | 86 |
| 19. Cost containment expenses | 1 | 1 | 2 | X X X | X X X |
| 20. Other claims adjustment expenses | 3 | 2 | 2 | ..... | ..... |
| 21. Total underwriting deductions (Line 23) | 100 | 98 | 96 | 93 | 98 |
| 22. Total underwriting gain (loss) (Line 24) | 0 | 2 | 4 | 7 | 2 |
| UNPAID CLAIMS ANALYSIS | | | | | |
| (U&I Exhibit, Part 2B) | | | | | |
| 23. Total claims incurred for prior years (Line 13, Column 5) | 5,643,890 | 5,231,680 | 6,212,397 | 10,602,690 | 14,957,326 |
| 24. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)] | 7,690,929 | 8,859,592 | 9,519,929 | 13,679,752 | 15,812,396 |
| INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES | | | | | |
| 25. Affiliated bonds (Sch. D Summary, Line 25, Column 1) ..... | ..... | ..... | ..... | ..... | ..... |
| 26. Affiliated preferred stocks (Sch. D Summary, Line 39, Column 1) ..... | ..... | ..... | ..... | ..... | ..... |
| 27. Affiliated common stocks (Sch. D Summary, Line 53, Column 2) ..... | ..... | ..... | ..... | ..... | ..... |
| 28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Column 5, Line 11) ..... | ..... | ..... | ..... | ..... | ..... |
| 29. Affiliated mortgage loans on real estate ..... | ..... | ..... | ..... | ..... | ..... |
| 30. All other affiliated | 5,261 | 5,086 | ..... | ..... | ..... |
| 31. Total of above Lines 25 to 30 | 5,261 | 5,086 | ..... | ..... | ..... |

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

ALLOCATED BY STATES AND TERRITORIES

| | 1 | 2 | Direct Business Only | | | | | 7 | 8 |
|---|---------------------------|---------------------------------|----------------------------|----------------------|--------------------|--|---|----------------------------|---|
| | | | 3 | 4 | 5 | 6 | | | |
| State, Etc. | Guaranty Fund (Yes or No) | Is Insurer Licensed (Yes or No) | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life & Annuity Premiums & Deposit-Type Contract Funds | Property/Casualty Premiums | |
| 1. Alabama (AL) | No | No | | | | | | | |
| 2. Alaska (AK) | No | No | | | | | | | |
| 3. Arizona (AZ) | No | No | | | | | | | |
| 4. Arkansas (AR) | No | Yes | 61,787,749 | | | | | | |
| 5. California (CA) | No | No | | | | | | | |
| 6. Colorado (CO) | No | No | | | | | | | |
| 7. Connecticut (CT) | No | No | | | | | | | |
| 8. Delaware (DE) | No | No | | | | | | | |
| 9. District of Columbia (DC) | No | No | | | | | | | |
| 10. Florida (FL) | No | No | | | | | | | |
| 11. Georgia (GA) | No | No | | | | | | | |
| 12. Hawaii (HI) | No | No | | | | | | | |
| 13. Idaho (ID) | No | No | | | | | | | |
| 14. Illinois (IL) | No | No | | | | | | | |
| 15. Indiana (IN) | No | No | | | | | | | |
| 16. Iowa (IA) | No | No | | | | | | | |
| 17. Kansas (KS) | No | No | | | | | | | |
| 18. Kentucky (KY) | No | No | | | | | | | |
| 19. Louisiana (LA) | No | No | | | | | | | |
| 20. Maine (ME) | No | No | | | | | | | |
| 21. Maryland (MD) | No | No | | | | | | | |
| 22. Massachusetts (MA) | No | No | | | | | | | |
| 23. Michigan (MI) | No | No | | | | | | | |
| 24. Minnesota (MN) | No | No | | | | | | | |
| 25. Mississippi (MS) | No | No | | | | | | | |
| 26. Missouri (MO) | No | No | | | | | | | |
| 27. Montana (MT) | No | No | | | | | | | |
| 28. Nebraska (NE) | No | No | | | | | | | |
| 29. Nevada (NV) | No | No | | | | | | | |
| 30. New Hampshire (NH) | No | No | | | | | | | |
| 31. New Jersey (NJ) | No | No | | | | | | | |
| 32. New Mexico (NM) | No | No | | | | | | | |
| 33. New York (NY) | No | No | | | | | | | |
| 34. North Carolina (NC) | No | No | | | | | | | |
| 35. North Dakota (ND) | No | No | | | | | | | |
| 36. Ohio (OH) | No | No | | | | | | | |
| 37. Oklahoma (OK) | No | No | | | | | | | |
| 38. Oregon (OR) | No | No | | | | | | | |
| 39. Pennsylvania (PA) | No | No | | | | | | | |
| 40. Rhode Island (RI) | No | No | | | | | | | |
| 41. South Carolina (SC) | No | No | | | | | | | |
| 42. South Dakota (SD) | No | No | | | | | | | |
| 43. Tennessee (TN) | No | No | | | | | | | |
| 44. Texas (TX) | No | No | | | | | | | |
| 45. Utah (UT) | No | No | | | | | | | |
| 46. Vermont (VT) | No | No | | | | | | | |
| 47. Virginia (VA) | No | No | | | | | | | |
| 48. Washington (WA) | No | No | | | | | | | |
| 49. West Virginia (WV) | No | No | | | | | | | |
| 50. Wisconsin (WI) | No | No | | | | | | | |
| 51. Wyoming (WY) | No | No | | | | | | | |
| 52. American Samoa (AS) | No | No | | | | | | | |
| 53. Guam (GU) | No | No | | | | | | | |
| 54. Puerto Rico (PR) | No | No | | | | | | | |
| 55. U.S. Virgin Islands (VI) | No | No | | | | | | | |
| 56. Northern Marianas Islands (MP) | No | No | | | | | | | |
| 57. Canada (CN) | No | No | | | | | | | |
| 58. Aggregate other alien (OT) | X X X | X X X | | | | | | | |
| 59. Subtotal | X X X | X X X | 61,787,749 | | | | | | |
| 60. Reporting entity contributions for Employee Benefit Plans | X X X | X X X | | | | | | | |
| 61. TOTAL (Direct Business) | X X X | (a) 1 | 61,787,749 | | | | | | |
| DETAILS OF WRITE-INS | | | | | | | | | |
| 5801. | X X X | X X X | | | | | | | |
| 5802. | X X X | X X X | | | | | | | |
| 5803. | X X X | X X X | | | | | | | |
| 5898. Summary of remaining write-ins for Line 58 from overflow page | X X X | X X X | | | | | | | |
| 5899. TOTALS (Lines 5801 through 5803 plus 5898) (Line 58 above) | X X X | X X X | | | | | | | |

(a) Insert the number of yes responses except for Canada and Other Alien.
 Explanation of basis of allocation of premiums by states, etc.:

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER
MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART**

PARENTS:

QualChoice of Arkansas, Inc.
FEIN: 71-0752544
Third Party Administrator of
Managed Care Health

Zenith National Insurance Corp.
FEIN: 95-1651549
Property and Casualty Insurer with
Speciality in Worker's Compensation

Novalis Corporation
FEIN: 14-1785722
Managed Care Services
and Consulting Firm

51.15%

30.19%

1.68%

University of Arkansas
for Medical Sciences
FEIN: 71-6046242

Arkansas Children's Hospital
FEIN: 71-0236857

15.09%

1.89%

52

HMO:

QCA Health Plan, Inc.
FEIN: 71-0794605
Health Maintenance Organization