Report on Examination

of

Physicians United Plan, Inc.

Winter Park, Florida

as of

December 31, 2007

By The

State of Florida

Office of Insurance Regulation

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Tallahassee, Florida

April 6, 2009

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

Physicians United Plan, Inc.
483 N. Semoran Blvd.
Winter Park, Florida 32792

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

SCOPE OF EXAMINATION

This examination covered the period of July 29, 2005 through December 31, 2007. This was the first financial condition examination of the Company by the Office of Insurance Regulation (the "Office").

Planning for the current examination began on June 13, 2008. The fieldwork commenced on June 24, 2008 and concluded on October 14, 2008. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual*, and *Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Accrued retrospective premiums
- Accrued medical incentive pool and bonus amounts
- Commitments and contingent liabilities

HISTORY

GENERAL

The Company was incorporated in Florida on February 21, 2005 and commenced business on January 1, 2006.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

The Company's articles of incorporation were amended on October 27, 2006 and December 1, 2007.

CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	Common Stock	**Preferred Stock**
Shares authorized	10,000,000	10,000,000
Shares issued and outstanding	1,600	6,184,000
Total capital stock	$16	$61,840
Par value per share	$0.01	$0.01

At December 31, 2007, the Company was controlled by IDJB Investments, LLC. An abbreviated organizational chart appears on page 9.

PROFITABILITY

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

	2007	2006	2005
Year-end enrollment	3,205	894	-
In millions:			
Net premiums	$25.4	$6.5	-
Total revenues	$25.4	$6.5	-
Net loss	$4.1	$2.9	$0.4
Total capital and surplus	$0.3	$1.5	$3.5

DIVIDENDS

The Company did not pay shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S., however, the meeting was not adequately documented in the minutes as required by Section 607.1601(1), F.S. Directors serving as of December 31, 2007 were:

Directors

Name and Location	Principal Occupation
Dennis S. Agliano, M.D. Tampa, Florida	Physician Tampa Bay ENT & Cosmetic Surgery, P.A.
Rohini Bajaj, M.D. Longwood, Florida	Physician IDJB Investments, LLC
Sandeep Bajaj, M.D. Longwood, Florida	Physician IDJB Investments, LLC
Howard G. King Winter Haven, Florida	Chief Executive Officer Bond Clinic, P.A.
J. Daniel Kollefrath Winter Park, Florida	Chief Executive Officer and President Physicians United Plan, Inc.
Ralph Nobo, Jr., M.D. Bartow, Florida	Physician Private practice

As of December 31, 2007, the Company's senior officers, as appointed by its board of directors in accordance with the Company's bylaws, were:

Senior Officers

Name	Title
J. Daniel Kollefrath	Chief Executive Officer and President
Aaron S. Henry	Secretary and Treasurer

Conflict of Interest Procedure

As of December 31, 2007, the Company had not adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S.; however, the policy statement was adopted during the course of this examination.

Corporate Records

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., except that the minutes did not include a record of the Board's authorization of Company investments as required by Section 641.35(7), F.S.

Surplus Debt

As of December 31, 2007, the Company was obligated for surplus notes in the total amount of $2 million. The notes, which bore interest at the annual rate of 11.25%, were approved by the Company's board of directors and the Office, and complied with the provisions of Rule 69O-191.088, Florida Administrative Code (F.A.C.). In accordance with Section 641.19(19), F.S., the surplus note debt was included in the Company's surplus. As discussed on page 21, the Company issued additional surplus notes in 2008. As of December 31, 2007, the notes were as follows:

Holder	Amount
IDJB Investments, LLC	$1,000,000
IDJB Investments, LLC	500,000
IDJB Investments, LLC	500,000
	$2,000,000

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. However, it failed to file a holding company registration statement with the Office as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C.

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

Management Services Agreements

Intellisight, LLC provided management services to the Company pursuant to a May 6, 2005 agreement in return for fees which amounted to $275,851 and $773,118 in years 2006 and 2007, respectively. The fees were based on the greater of $25,000 or 3% of total collected premiums per month. The provided services related to claims management, a call center, and the transmission of marketing and enrollment information to the Centers for Medicare & Medicaid Services and the Florida Medicaid Program.

Intellisight, LLC provided management and administrative services to the Company pursuant to a December 1, 2006 agreement. The fee related to the agreement amounted to $72,000 in 2007.

Guardian Health Service, LLC provided care coordination, chart review and coding function services to the Company pursuant to a June 1, 2007 agreement. Fees were based on the number of members per month and amounted to $153,760 in 2007.

Marketing Agreement

The Company entered into a marketing services agreement dated July 1, 2006 with I-6 Creative Agency. Fees related to the agreement amounted to $193,400 and $154,104 in years 2006 and 2007, respectively.

Consulting Agreement

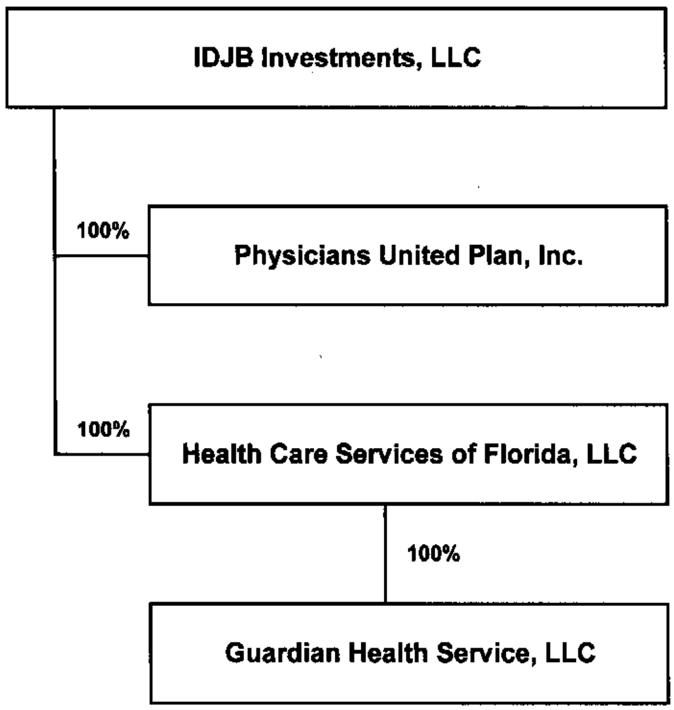
Health Care Services of Florida, LLC provided management consulting and provider network development services to the Company pursuant to a June 1, 2007 agreement in return for fees which amounted to $21,080 in 2007.

Employee Lease Agreement

Dynamic Resources Group, LLC (DRG) provided staffing to the Company pursuant to an April 21, 2007 employee lease agreement. The Company reimbursed DRG for the actual cost of employee compensation and benefits.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. The Company's 2007 annual statement did not include a completed Schedule Y containing the names of all related companies in its holding company group, as required by the NAIC *Annual Statement Instructions*.

Physicians United Plan, Inc.
Organizational Chart
December 31, 2007



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and was covered by a blanket fidelity bond in the amount of $1 million as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, as a result, did not provide pension or other employee benefits.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of $300,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of $10,000 in accordance with Section 641.227, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until July 23, 2009.

The Company used a network of general agents and brokers, and operated as an IPA model as defined by Rule 69O-191.024, F.A.C. It provided health care services to Medicare members. Its total membership at December 31, 2007 was 3,205.

The Company operated in the Florida counties of Lake, Marion, Orange, Osceola, Polk, Seminole and Sumter.

TREATMENT OF MEMBERS

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

REINSURANCE

On January 1, 2007, the Company renewed a one year stop-loss reinsurance agreement with OneBeacon Insurance Company. The Company's retention limit was $100,000 per member and 10% of excess losses up to $1.5 million per member per year. The premium rate was $7.50 on a per member per month basis with a minimum annual premium of $75,000.

The stop-loss agreement reviewed was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines. The agreement was reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005, 2006 and 2007, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Winter Park, Florida, where this examination was conducted.

The Company was required by Consent Order 82276-05-0 to establish and adhere to procedures intended to detect and prevent certain prohibited transactions in accordance with Executive Order 13224. Upon examination, the Company was unable to demonstrate its compliance with the requirement.

INFORMATION SYSTEMS CONTROLS

As part of this examination, we reviewed the adequacy of the Company's information systems controls and found them to be generally effective except in the area of contingency planning. Specifically, we found that the Company did not have an effective disaster recovery and business continuity plan intended to enable its recovery from hurricanes and other disasters. In addition, we found that the Company lacked sufficient network configuration documentation.

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

Provider Network Agreement

Physician Partners of Greater Orlando, LLC provided health care provider network services to the Company pursuant to a March 1, 2006 agreement, as amended on March 6, 2006 and March 3, 2007, in return for fees which amounted to $209,107 and $28,257 in years 2006 and 2007, respectively.

Management Services Agreement

Physician Partners of Greater Orlando, LLC provided management services to the Company pursuant to a January 2, 2007 agreement in return for fees which amounted to $32,640 in 2007.

Pharmacy Benefits Management Agreement

Pharmaceutical Technologies, Inc. provided the Company with a pharmacy network and claims processing services pursuant to an April 1, 2005 agreement. The agreement was replaced effective June 30, 2007 with a similar agreement between the Company and Partners Rx Management, LLC. Fees paid pursuant to the agreements were $98,693 and $331,319 in years 2006 and 2007, respectively.

Administrative Services Agreement

Connextions, Inc. provided administrative services to the Company pursuant to an October 16, 2006 agreement in return for fees which amounted to $78,198 and $35,000 in years 2006 and 2007, respectively. Services provided included sales inquiry, sales appointment scheduling, automated self-service application, and program management and support services.

Sales Management Agreement

Insurance Consulting Group, Inc. provided sales management services to the Company pursuant to a July 1, 2007 agreement in return for fees which amounted to $118,800 in 2007. Services included recruiting, training, and supervision and oversight of licensed representatives.

The Company was required by Consent Order 82276-05-0 filed by the Office on August 1, 2005 to submit to the Office for written approval all management, administrative services, and affiliated contracts prior to execution and/or consummation. However, the agreements described above had not been submitted to the Office as required by the consent order. In addition, the above agreements did not contain provisions that they shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

Independent Auditor Agreement

The Company contracted with Richard A. Glover, CPA, PA, in 2005 and Felsing Rankin, LLC, in 2006 and 2007 to conduct annual audits of its statutory-basis financial statements. Fees related to the agreements were $11,150, $33,500, and $36,750 in years 2005, 2006, and 2007, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2007 as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 22.

Physicians United Plan, Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	$2,971,700	$0	$2,971,700
Investment income due and accrued	29,962	0	29,962
Uncollected premiums and agents' balances	99,999	0	99,999
Accrued retrospective premiums	890,852	0	890,852
Amounts recoverable from reinsurers	81,582	(7,840)	73,742
Health care and other amounts receivable	1,322,239	(453,954)	868,285
Total assets	$5,396,334	($461,794)	$4,934,540

Physicians United Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	$4,643,755	$0	$4,643,755
Accrued medical incentive pool and bonus amounts	38,000	0	38,000
Unpaid claims adjustment expenses	56,885	0	56,885
General expenses due or accrued	407,032	35,960	442,992
Amounts due to parent, subsidiaries and affiliates	0	69,550	69,550
Total liabilities	5,145,672	105,510	5,251,182
Capital and Surplus			
Common capital stock	16	0	16
Preferred capital stock	61,840	0	61,840
Gross paid in and contributed surplus	5,948,144	0	5,948,144
Surplus notes	2,000,000	0	2,000,000
Unassigned funds (deficit)	(7,759,338)	(567,304)	(8,326,642)
Total capital and surplus (deficit)	250,662	(567,304)	(316,642)
Total liabilities, capital and surplus	$5,396,334	($461,794)	$4,934,540

Physicians United Plan, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		$25,425,461
Hospital and medical benefits	$11,303,076	
Other professional services	657,201	
Outside referrals	2,364,501	
Emergency room and out-of-area	5,941,513	
Prescription drugs	2,913,623	
Incentive pool, withhold adjustments and bonus amounts	74,913	
	23,254,827	
Net reinsurance recoveries	81,582	
Total hospital and medical	23,173,245	
Claims adjustment expenses	271,142	
General administrative expenses	6,348,676	
Total underwriting deductions		29,793,063
Net underwriting gain (loss)		(4,367,602)
Net investment income earned		241,285
Net income (loss)		($4,126,317)

Physicians United Plan, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006		$1,500,332
Net loss	($4,126,317)	
Change in nonadmitted assets	(133,353)	
Change in surplus notes	1,000,000	
Change in paid in capital	2,010,000	
Examination adjustments	(567,304)	
		(1,816,974)
Capital and surplus (deficit) - December 31, 2007		($316,642)

COMMENTS ON FINANCIAL STATEMENTS

Amounts Recoverable From Reinsurers **$73,742**

In its 2007 annual statement, the Company overstated the amount of its reinsurance receivable by $7,840. As a result, the account "amounts recoverable from reinsurers" has been decreased to $73,742.

Health Care and Other Amounts Receivable **$868,285**

The amount reported by the Company in its 2007 annual statement of $1,322,239 has been reduced by $453,954. Of the total amount reported by the Company, $559,464 has been non-admitted and $105,510 has been reclassified to "general expenses due or accrued," resulting in a net adjustment of $453,954.

Claims Unpaid **$4,643,755**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

Amounts Due To Parent, Subsidiaries and Affiliates **$69,550**

In its 2007 annual statement, the Company incorrectly reported as "general expenses due or accrued" amounts payable to an affiliate. Accordingly, $69,550 has been reclassified to "amounts due to parent, subsidiaries and affiliates."

General Expenses Due or Accrued **$442,992**

The amount reported by the Company in its 2007 annual statement of $407,032 has been increased by $35,960 as a result of the reclassifications described above.

Deficit **$316,642**

The $250,662 reported by the Company as its total capital and surplus at December 31, 2007 has been reduced by $567,304 to a deficit of $316,642 as a result of examination adjustments described above. Because the Company's actual capital and surplus after examination adjustments was a deficit of $316,642, which is $1,816,642 less than its minimum required amount of capital and surplus of $1,500,000, the Company was insolvent and in violation of Section 641.225, F.S. In the first quarter of 2008, the Company issued 380,000 additional shares of preferred stock for $965,000 and a $1 million surplus note. In the third quarter of 2008, the Company issued additional surplus notes in the total amount of $4.2 million as a result of losses occurring in 2008.

Physicians United Plan, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

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

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Capital and surplus (deficit), December 31, 2007 - per annual statement				$250,662
Assets:				
Amounts recoverable from reinsurers	$81,582	$73,742	($7,840)	
Health care and other amounts receivable	$1,322,239	$868,285	($453,954)	
Liabilities:				
General expenses due or accrued	$407,032	$442,992	($35,960)	
Amounts due to parent, subsidiaries and affiliates	$0	$69,550	($69,550)	
Net change in capital and surplus				(567,304)
Capital and surplus (deficit), December 31, 2007 - per examination				($316,642)

SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

Annual Shareholder Meeting

As reported on page 5, the annual shareholder meeting for the election of directors was not adequately documented in the Company's minutes as required by Section 607.1601(1), F.S. **We recommend that the Company keep as permanent records minutes of all meetings of its shareholder, as required by Section 607.1601(1), F.S.**

Authorization of Investments

As reported on page 6, the recorded minutes of the Company's board of directors did not include a record of the Board's authorization of Company investments as required by Section 641.35(7), F.S. **We recommend that the Company's board of directors document in the minutes of its meetings its authorization of Company investments.**

Holding Company Registration Statement

As reported on page 7, the Company failed to file a holding company registration statement with the Office as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C. **We recommend that the Company file a holding company registration statement.**

Annual Statement Schedule Y

As reported on page 9, the Company's 2007 annual statement did not include a completed Schedule Y containing the names of all related companies in its holding company group, as required by the NAIC *Annual Statement Instructions*. **We recommend that, in future annual statements filed with the**

Office, the Company include a completed Schedule Y containing the names of all related companies in its holding company group.

Executive Order 13224

As reported on page 12, the Company was unable to demonstrate that it had established and adhered to procedures intended to detect and prevent certain prohibited transactions in accordance with Executive Order 13224 and Consent Order 82276-05-0. **We recommend that the Company establish and adhere to the procedures, as required by the consent order.**

Information Systems Controls

As reported on page 13, the Company did not have in place an effective disaster recovery and business continuity plan and lacked sufficient network configuration documentation. **We recommend that the Company establish an effective disaster recovery and business continuity plan and sufficient network configuration documentation.**

Agreements

As reported on page 14, the Company failed to submit to the Office for written approval all management, administrative services, and affiliated contracts prior to execution and/or consummation as required by Consent Order 82276-05-0, and to include in all of its agreements provisions that the agreements shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that the Company comply with Consent Order 82276-05-0 and Section 641.234(3), F.S.**

Accounting Errors

As reported beginning on page 20, the Company overstated the amount of certain of its assets and incorrectly classified portions of certain of its assets and liabilities in its 2007 annual statement. **We**

recommend that, in future statements filed with the Office, the Company accurately state the amount of its assets and liabilities in accordance with Section 641.35, F.S.

Deficit

As reported on page 21, the Company's actual capital and surplus at December 31, 2007 after examination adjustments was a deficit of $316,642, which is $1,816,642 less than its minimum required amount of capital and surplus of $1,500,000, and the Company was insolvent and in violation of Section 641.225, F.S. **We recommend that the Company maintain at least the minimum amount of capital and surplus required by Section 641.225, F.S., at all times.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Physicians United Plan, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was a deficit of $316,642 which was not in compliance with Section 641.225, F.S. Its minimum required capital and surplus at December 31, 2007 was $1,500,000. In the first quarter of 2008, the Company issued 380,000 additional shares of preferred stock for $965,000 and a $1 million surplus note. In the third quarter of 2008, the Company issued additional surplus notes in the total amount of $4.2 million as a result of losses occurring in 2008.

In addition to the undersigned, the following participated in this examination: Thomas I. Cook, CISA, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

M. Alison Miele, AFE
Financial Examiner/Analyst
Florida Office of Insurance Regulation