



MD MEDICARE CHOICE, INC. RECEIVERSHIP INSOLVENCY REPORT

June 25, 2015

Fred Staubit
Accounting Manager
Florida Department of Financial Services
Division of Rehabilitation and Liquidation
P.O. Box 110
Tallahassee, Florida 32302-0110

Receivership Information/Reference:

Name of Receivership	MD Medicare Choice, Inc.
Receivership Number	519
Date of Administrative Supervision	August 27, 2008
Date of Liquidation	September 30, 2008
Guaranty Association	None

Scope:

As provided in the Provider Contract between the "Receiver of MD Medicare Choice, Inc.", (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as "RECEIVER", and Berkowitz Pollack Brant Advisors and Accountants (formerly known as Berkowitz Dick Pollack & Brant Certified Public Accountants and Consultants, LLP), hereinafter referred to as "PROVIDER" effective October 15, 2009, under Section 5, SCOPE OF WORK, states in part:

- 1) Prepare an insolvency summary report ("Insolvency Report"), pursuant to the requirements of 631.398(3), Florida Statutes, relating to the history and causes of insolvency, including a statement of the business practices of MD Medicare Choice, Inc., which led to its insolvency.
- 2) For the Receivership of MD Medicare Choice, Inc., PROVIDER will review MD Medicare Choice, Inc.'s records in the RECEIVER's possession for information relating to the cause(s) of MD Medicare Choice, Inc.'s insolvency and prepare and submit an approved, written summary report on those causes.

The authority under which the insolvency report is written is Section 631.398, Florida Statutes which states as follows:

The 2009 Florida Statutes

Title XXXVII

Chapter 631

INSURANCE

INSURER INSOLVENCY; GUARANTY OF PAYMENT

631.398 Prevention of insolvencies.--To aid in the detection and prevention of insurer insolvencies or impairments:

(1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. [119.07](#)(1) until the termination of a delinquency proceeding.

(2) The office shall:

(a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History.--ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

The locations and dates of our review of files in the RECEIVER's possession were as follows:

- March 12-13, 2009: Review of Receiver's files at Receiver's offices and the Sessions Road warehouse by Martin Prinsloo, CPA and David Siegel, CPA.
- August 12-14, 2009: Review of Receiver's files at the Sessions Road warehouse by Martin Prinsloo, CPA and David Siegel, CPA.

Business: Historical information related to the company is as follows:

1. **Date and Location of Incorporation:** Originally incorporated in the State of Florida on February 11, 2005 as PartnerCare Health Plan Inc. On September 30, 2007 the Company changed its name to MD Medicare Choice, Inc. ("MDMC")¹
2. **Date Company began doing business in Florida:** During 2005 the Company applied for and was issued a Certificate of Authority by the Florida Office of Insurance Regulation to operate as a health maintenance organization in the State of Florida commencing January 1, 2006. On September 20, 2007, the shareholders of the Company sold a controlling share of the Company's capital stock to Caribe Equity Group, Inc., a company incorporated in the Commonwealth of Puerto Rico. Simultaneously with the closing of the stock purchase agreement governing the purchase and sale of the Company stock, the Board of Directors approved the Amended and Restated Articles of Incorporation.²
3. **Lines of business:** The Company offered various plans to residents of the State of Florida, who were eligible for Medicare parts A and B, benefits under "Medicare Advantage", pursuant to a contract signed with the United States Centers for Medicare and Medicaid Services (CMS), to operate as a Medicare Advantage Organization pursuant to Title 18, Sections 1851-1859 of Social Security Act and federal regulations at 42 CFR 422.501.³
4. **Certificates of Authority:** The Company was granted a Certificate of Authority by the Florida Office of Insurance Regulation ("OIR") to operate as a health maintenance organization in the State of Florida commencing January 1, 2006.⁴
5. **Geographic Areas:** The Company's geographic area of insurance coverage was Florida.

1. Per Independent Auditors' Report, Note 1. a) issued by Hevia, Beagles & Company, P.A. on May 26, 2008.

2. Ibid.

3. Ibid.

4. Per note 20 C. to the Annual Statement for the Year 2007 of MD Medicare Choice, Inc.

6. Operating Results: According to the 2007 Annual Statement and Audit Report which includes 2006, and the June 30, 2008 quarterly financial statements of the company:

- a) Net Premium Income was \$95,691,066 for the six months ended 6/30/2008, \$31,948,842 in 2007 and \$4,052,285 in 2006.
- b) Net Underwriting Losses were (\$9,749,457) for the six months ended 6/30/2008, (\$9,053,558) in 2007 and (\$6,028,267) in 2006.
- c) Net Income (Loss) was (\$9,577,073) for the six months ended 6/30/2008, (\$8,967,881) for 2007 and (\$5,948,548) for 2006.

7. Ownership:

- a) The Company's audited financial statements for the years ended December 31, 2007 and 2006 disclosed that Caribe Equity Group, Inc. owned a controlling interest of the Company's capital stock.
- b) The December 31, 2007 Annual Statement for the Company listed the following officers and directors:
 - Antonio Marrero, Chief Executive Officer
 - Carlos H. Lugo, President
 - Jose J. Esparra, Chief Financial Officer
 - Abnel Crespo, Senior Executive Vice President Sales & Marketing

8. Affiliates

- Caribe Equity Group, Inc., parent company of MD Medicare Choice, Inc.

Management: People involved with the ownership and management of the Company were as follows:

Name: Antonio Marrero
Job Title: Chairman and Chief Executive Officer
Dates of Employment: Unknown

Name: Carlos H. Lugo
Job Title: President
Dates of Employment: Unknown

Name: Jose J. Esparra
Job Title: Chief Financial Officer
Dates of Employment: Unknown

Name: Abnel Crespo
Job Title: Senior Executive Vice President
Dates of Employment: Unknown

Name: Raul Villalabos
Job Title: Senior Executive Vice President – Medical Affairs
Dates of Employment: Unknown

Name: Carlos LaCasa
Job Title: Corporate Vice President of Legal, Contracting/Compliance
Dates of Employment: Unknown

Background/Events of Impact:

MDMC was a health maintenance organization that obtained its Florida license in February 2005 and began operations in January 2006. Headquartered in Tampa, Florida, the Medicare only HMO provided health care coverage to approximately 16,000 Medicare beneficiaries in 23 counties. Medicare premiums and contracts are administered through a federal agency, the Centers for Medicare and Medicaid Services (“CMS”).

MDMC failed to generate any profits during the operating years of 2006, 2007 and 2008. MDMC reported negative surplus of \$(7,677,867) as of June 30, 2008 in its Quarterly Statement filed with the OIR. MDMC subsequently received a capital infusion of approximately \$2.5 million but this was insufficient to cure its insolvency. On August 27, 2008 the OIR and MDMC entered into a Consent Order for Administrative Supervision and Contingent Order of Liquidation requiring, among other things, that MDMC would provide evidence of capital infusions and supporting documentation of assets by specific dates and times. MDMC failed to meet the deadlines and provide additional documentation as specified by the Consent Order for Administrative Supervision and Contingent Order of Liquidation. MDMC was ordered into liquidation effective September 30, 2008 at 11:59 P.M. in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida.

Underwriting Results:

According to the MDMC Financial Statements, there were Net Underwriting Losses of (\$6,028,267) for 2006, (\$9,053,558) for 2007 and (\$9,749,457) for the six months ended June 30, 2008.

Financial Highlights:

The following financial information is per the 2007 Audit Report, which includes 2006, and the June 30, 2008 quarterly financial statements of the company:

Description	Year Ended 12/31/2006	Year Ended 12/31/2007	6 Mos. Ended 6/30/2008
Total Admitted Assets	\$ 1,230,276	\$ 7,223,669	\$ 32,216,763
Total Liabilities	1,730,159	9,869,891	39,894,630
Surplus Deficit	\$ (499,883)	\$ (2,646,222)	\$ (7,677,867)
Net Premium Income	\$ 4,052,285	\$ 31,948,842	\$ 95,691,066
Total Hospital and Medical Costs	(5,152,269)	(24,310,530)	(81,434,830)
Other Underwriting Expense	(991,839)		
General and Administrative Expenses	(3,936,444)	(16,691,870)	(24,005,693)
Net Investment Income	79,719	85,677	172,384
Net Loss	\$ (5,948,548)	\$ (8,967,881)	\$ (9,577,073)

Causes of Insolvency:

MDMC experienced explosive premium growth during 2007 and 2008 when premiums grew from approximately \$4 million in 2006 to over \$95 million in the first six months of 2008. Despite this growth MDMC failed to achieve any profits. Total hospital medical and underwriting costs and expenses grew from approximately \$6 million in 2006 to \$24 million in 2007 and \$81 million in the 6 months ended June 30, 2008. As a percentage of premium income, the hospital and medical costs increased from 76% in 2007 to 85% in the six months ended June 30, 2008. General and administrative (“G&A”) expenses were also too high to achieve profitability. G&A expenses declined as a percentage of net premium income from 97% in 2006 to 25% in 2008. In actual dollars, however, G&A expenses increased every year from approximately \$4 million in 2006 to \$16.6 million in 2007 and to \$24 million in 2008 for just six months.

A significant part of G&A expenses was executive compensation that totaled over \$4.8 million in 2008 for 7 executives. Executive compensation included housing allowances plus apartment lease payments, car allowances plus lease payments for luxury automobiles, salaries, bonuses and other perquisites. On July 2, 2008, MDMC submitted employment agreements to the OIR that indicated MDMC would pay \$7,517,568 in salaries and bonuses to the top seven officers of the company during 2008.⁵

The Receiver conducted an investigation of the financial affairs of MDMC in accordance with Florida Statute Section 631.391. The Receiver's investigation found that seven executives were paid approximately \$2.8 million over and above their contracted compensation amounts per their employment agreements with MDMC. Furthermore the Receiver's investigation uncovered millions of dollars in payments to companies owned by or affiliated with several officers of MDMC. It is unclear if MDMC received full value for these payments. Approximately \$452,000 in payments by MDMC to or on behalf of Caribe Equity Group were also identified by the Receiver. No related party transactions were disclosed in the financial statements of the Company for any period.

Furthermore, MDMC recorded accrued income and receivables purportedly due from CMS that totaled approximately \$21 million as of July 31, 2008. This money was never received because MDMC failed to provide documentation to CMS required to support the amounts recorded. Net cash provided from or (used in) operations was \$(5,084,140) in 2006, \$(7,238,214) in 2007 and \$3,618,591 for the six months ended June 30, 2008.

The Company's auditors included a paragraph in their audit report for the years ended December 31, 2006 and 2007 stating that there was substantial doubt about the Company's ability to continue as a going concern. In a report dated May 26, 2008 the auditors of MDMC reported significant deficiencies in management's internal control over the recording and processing of member enrollment and premiums, claims and information systems; the auditors also reported a material weakness over financial reporting.

On September 24, 2008, Florida Bank, where MDMC had an operating account, requested approval to extend a line of credit for approximately \$12.5 million secured by revenues of MDMC. The line of credit was needed to cure an overdraft of approximately \$10 million. The overdraft was created due to an investment sweep account for approximately \$27.6 million that was frozen by the Securities Exchange Commission ("SEC"). The SEC action prevented MDMC from paying its bills in the normal course of business.⁶

Summary and Conclusion:

MDMC was found to be insolvent and that management and the owners of MDMC failed to cure the insolvency. MDMC was ordered into liquidation effective September 30, 2008 at 11:59 P.M. in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida.

⁵ Per September 24th, 2008 Affidavit of Toma L. Wilkerson.

⁶ Ibid.

The OIR determined that grounds existed for issuing an Order for entry into receivership under Sections 631.051(1) and 631.051(3) of the Florida Statutes and that MDMC was in unsound financial condition. Specifically, the OIR found that:

- MDMC was insolvent as of the quarter ended June 30, 2008. The total liabilities of MDMC were \$39,894,630 which exceeded the total assets of \$32,216,763 resulting in negative capital and surplus of \$(7,677,867) rendering MDMC insolvent at June 30, 2008.
- MDMC violated lawful orders issued by OIR by entering into affiliate agreements without prior approval from the OIR and failing to maintain accurate internal control procedures in addition to failing to meet the capital and surplus requirements specified in the consent order.
- MDMC failed to meet the conditions set forth in the Consent Order for Administration Supervision and Contingent Order of Liquidation.
- MDMC did not have access to an investment account in the amount of approximately \$27.6 million and, as such, it could not cover its debts in the normal course of business.⁷

⁷ Ibid.

APPENDIX

Independent Auditors' Report
For the Years Ended December 31, 2007 and 2006

Auditors' Internal Control Letter

Statutory Filing of Quarterly Financial Statements as of June 30, 2008

INDEPENDENT AUDITOR'S REPORT

MD Medicare Choice, Inc.

Financial Statements

As of December 31, 2007 and 2006



HEVIA, BEAGLES & COMPANY, P. A.
PROFESSIONAL CONSULTING GROUP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
MD Medicare Choice, Inc.
(Formerly PartnerCare Health Plan, Inc.)
Tampa, Florida

We have audited the accompanying statements of admitted assets, liabilities and surplus (deficit) – statutory basis of MD Medicare Choice, Inc. (Formerly PartnerCare Health Plan, Inc.) as of December 31, 2007 and 2006, and the related statements of income – statutory basis, changes in surplus (deficit) – statutory basis, and cash flows – statutory basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in Note 1 to the financial statements, the Company prepares its financial statements using accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly in all material respects, the admitted assets, liabilities, and surplus (deficit) of MD Medicare Choice, Inc. as of December 31 2007 and 2006, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 and 6 to the financial statements, net premium income for the Medicare Advantage (MA) business is estimated based on the Company's bid contract with the Center for Medicare and Medicaid Services (CMS). The amount collected from CMS during 2007 was substantially less than reported net premium income, however, MA contracts provide for a risk factor to adjust premiums paid for members that represent a higher or lower risk to the Company. The accompanying financial statements include a significant estimate for retrospective premiums receivable. This estimated asset represents 94% of the Company's total assets. The Company's estimation methodology necessarily includes significant assumptions and variability. Actual results could differ from these estimates, and that difference could be material. While management believes the

Exhibit B

methodology used and resulting estimate is reasonable, the Company has no history in developing this estimate. Accordingly, this estimate represents a significant uncertainty.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 8 to the financial statements, the Company incurred net losses of \$8,967,881 and \$5,948,547 for the years ended December 31, 2007 and 2006, respectively, and had a \$2,646,222 net deficit as of December 31, 2007. Also, as of December 31, 2007 and 2006 the Company did not meet the minimum capital and surplus requirement of the Florida Office of Insurance Regulation. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 8.

The financial statements do not include any adjustment that might result from the outcome of the uncertainties discussed in the two preceding paragraphs.

This report is intended solely for the information and use of the Company's management and for filing with the Florida Office of Insurance Regulation to which jurisdiction the Company is subject and should not be used for any other purpose.

Haris Bogdan Company
Certified Public Accountants

St. Petersburg, Florida
May 26, 2008

**MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)**

**STATEMENT OF ADMITTED ASSETS, LIABILITIES
AND SURPLUS (NET DEFICIT) -STATUTORY BASIS**

DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and Short-Term Investments	\$ 165,296	\$ 543,894
Uncollected Retrospective Premiums	6,799,497	664,027
Receivable Under Reinsurance Contract	249,307	—
Accrued Pharmacy Rebates	<u>9,569</u>	<u>22,355</u>
Total Assets	<u><u>7,223,669</u></u>	<u><u>1,230,276</u></u>

LIABILITIES, CAPITAL AND NET DEFICIT

Current Liabilities		
Claims Unpaid and Unpaid Claims Adjustment Expense	\$ 7,433,546	\$ 1,516,484
Due to CMS Risk-Sharing Arrangement for Part D	1,260,000	—
General Expenses Accrued	<u>1,176,345</u>	<u>213,675</u>
Total Liabilities	<u><u>9,869,891</u></u>	<u><u>1,730,159</u></u>
Surplus (Net Deficit)		
Common Stock	—	45,482
Common Stock, Class A Share	34,112	—
Common Stock, Class B Share	99,602	—
Preferred Stock, Class A Share	11,370	—
Contributed Surplus	14,363,271	6,870,732
Deficit	<u>(17,154,577)</u>	<u>(7,416,097)</u>
Total Net Deficit	<u><u>(2,646,222)</u></u>	<u><u>(499,883)</u></u>
Total Liabilities, Capital and Deficit	<u><u>\$ 7,223,669</u></u>	<u><u>\$ 1,230,276</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)

STATEMENT OF OPERATIONS - STATUTORY BASIS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Net Premium Income	<u>\$ 31,948,842</u>	<u>4,052,285</u>
Underwriting Expenses:		
Cost of Medical and Pharmacy Services	24,310,530	6,144,107
General Administrative Expenses	<u>16,691,870</u>	<u>3,936,445</u>
Total Underwriting Expenses	<u>41,002,400</u>	<u>10,080,552</u>
Net Underwriting Loss	(9,053,558)	(6,028,267)
Net Investment Income	<u>85,677</u>	<u>79,719</u>
Net Loss	<u>\$ (8,967,881)</u>	<u>(5,948,548)</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)

STATEMENTS OF CHANGES IN SURPLUS (NET DEFICIT) - STATUTORY BASIS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Capital and Surplus / (Deficit) - Beginning of year	\$ (499,883)	\$ 2,325,934
Net loss for the year	(8,967,881)	(5,948,548)
Redemption of Common Stock	(45,482)	—
Issuance of Common Stock, Class A Share	34,112	14,728
Issuance of Common Stock, Class B Share	99,602	—
Issuance of Preferred Stock, Class A Share	11,370	—
Contributed Capital	7,477,811	3,169,157
Change in Non-Admitted Assets	<u>(755,871)</u>	<u>(61,154)</u>
Capital and Deficit - End of year	<u>\$ (2,646,222)</u>	<u>\$ (499,883)</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)

STATEMENT OF CASH FLOWS - STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash from Operations:		
Premiums Collected	\$ 27,615,885	\$ 3,388,258
Benefits and Loss Related Payments	(18,371,113)	(4,649,978)
Commissions, Expenses and Aggregate Write Ins	(16,568,663)	(3,902,139)
Net Investment Income	85,677	79,719
	<u>(7,238,214)</u>	<u>(5,084,140)</u>
Net Cash (Used) in Operations		
Cash from Financing and Miscellaneous Sources:		
Issuance of Common Stock	—	14,728
Issuance of Common Stock, Class B Share	99,602	—
Contributed Capital	7,477,812	3,169,157
Other Miscellaneous Applications	(717,798)	(56,304)
	<u>6,859,616</u>	<u>3,127,581</u>
Net Cash Provided from Financing and Miscellaneous Sources		
Net Change in Cash and Short-term Investments	(378,598)	(1,956,559)
Cash and Short-term Investments - Beginning	<u>543,894</u>	<u>2,500,453</u>
Cash and Short-term Investments - Ending	<u>\$ 165,296</u>	<u>\$ 543,894</u>
The Company reported the following noncash financing activity in 2007		
Issuance of Common and Preferred Stock Class A in exchange of Common Stock	<u>\$ 45,482</u>	

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

1. Description of Organization and Summary of Significant Accounting Policies

a) *Organization:*

MD Medicare Choice, Inc., formerly PartnerCare Health Plan, Inc., (the Company), was incorporated in the State of Florida on February 11, 2005. During 2005 the Company applied for and was issued a Certificate of Authority by the Florida Office of Insurance Regulation to operate as a Health Maintenance Organization (HMO) in the State of Florida commencing January 1, 2006. On September 20, 2007, the shareholders of the Company sold a controlling share of Company stocks to Caribe Equity Group, Inc., a company incorporated in the Commonwealth of Puerto Rico. Simultaneously with the closing of the stock purchase agreement governing the purchase and sale of the Company stocks, the board of directors approved the Amended and Restated Articles of Incorporation. On September 30, 2007 the Company changed its name from PartnerCare Health Plan, Inc., to MD Medicare Choice, Inc.

The Company offers various plans to residents of the State of Florida, who are eligible for Medicare part A and B, benefits under "Medicare Advantage", pursuant to a contract signed with the United States Centers for Medicare and Medicaid Services, (CMS) to operate as a Medicare Advantage Organization pursuant to Title 18, Sections 1851-1859 of the Social Security Act and federal regulations at 42 CFR 422.501. These plans offered by the Company provide members with full Medicare benefits plus coverage of Medicare deductibles and co-payment amounts and some additional benefits that Medicare part A and B does not provide. Under the terms of this contract, CMS pays a per member per month (PM/PM) to the Company for each enrolled member.

b) *Basis of Presentation:*

The accompanying statutory financial statements of the Company have been prepared in accordance with accounting practices prescribed or permitted by the Florida Insurance Commissioner and the National Association of Insurance Commissioners (NAIC), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Commissioner of Insurance adopted the National Association of Insurance Commissioners' Statutory Accounting Practices (NAICSAP) as the basis of its statutory accounting practices, as long as they do not contradict the provisions of the Florida Office of Insurance Regulation.

The following is a summary of the significant accounting policies followed by the Company in the preparation of its financial statements:

c) *Fiscal Year*

The Company's fiscal year ends on December 31.

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

d) *Use of estimates*

The preparation of financial statements in conformity with NAICSAP requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are the estimated Accrued Retrospective Premium receivable and the actuarially calculated liability for Claims Unpaid and Claim Adjustment Expenses.

e) *Cash and cash equivalents*

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

f) *Health Plan premiums revenues*

Net premium income for the Medicare Advantage (MA) business is estimated based on the Company's bid contract with the Centers for Medicare and Medicaid Services (CMS). The amount collected from CMS during 2007 was substantially less than reported net premium income but MA contracts provide for a risk factor to adjust premiums paid for members that represent a higher or lower risk to the Company. Retroactive rate adjustments are made periodically based on the aggregate health status and risk scores of the Company's MA membership. These risk adjustments are evaluated quarterly based on actuarial estimates. The Company's estimation methodology necessarily includes significant assumptions and variability. Actual results could differ from these estimates, and that difference could be material. As additional information becomes available, the recorded estimate will be revised and reflected in operating results. Although the Company has no history making this estimate, management believes the estimation methodology and the results derived from that methodology to be reasonable.

CMS uses monthly rates per person for each county to determine the fixed monthly payments per member to pay to health benefit plans. These rates are adjusted under CMS's risk adjustment model which uses health status indicators, or risk scores, to improve the accuracy of payment. The risk adjustment model, which CMS implemented pursuant to the Balanced Budget Act of 1997 (BBA) and the Benefits and Improvement Protection Act of 2000 (BIPA), uses principal hospital inpatient diagnoses as well as diagnosis data from ambulatory treatment settings (hospital outpatient department and physician visits). CMS transitioned to this risk-based reimbursement model while the old reimbursement model based on demographic data including gender, age, and disability status was phased out. Under the risk adjustment methodology, all health benefit organizations must capture, collect, and submit the necessary diagnosis code information to CMS within prescribed deadlines. CMS processes risk adjustment rates based on information submitted twice a year, January

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

1, for ICD-9s submitted by the preceding September and July 1, for ICD-9s submitted by the preceding March.

As a result of changes in the CMS payment processes, including the phasing in of the risk adjustment methodology and the phasing out of the budget neutrality adjustment, CMS payments per member may change, either favorably or unfavorably. The Company has recorded an estimated \$4,880,000 risk adjustment receivable at December 31, 2007, net of a write-off of \$542,000 for amounts estimated uncollectible as of December 31, 2007.

g) *Pharmaceutical Rebates*

The Company accrues the pharmaceutical rebate due from its pharmacy benefit manager in the year the benefits are rendered to the Company's members. The related revenue is offset against claims expense.

h) *Medical services costs*

Medical services costs are accrued as services are rendered, including an estimate for claims incurred but not yet reported which is actuarially determined. The liability for claims unpaid and unpaid claims adjustment expense includes claims in process and an estimate for incurred but not yet reported claims (IBNR). Although the degree of variability inherent in the estimates of IBNR is significant and subject to change in the near term, management believes that the estimate is adequate. The IBNR and other expense payments are developed using actuarial methods and assumptions based upon payment patterns, medical costs inflation, historical development and other relevant factors. Estimates of future payments related to services incurred in the current and prior periods are continually reviewed and as adjustments to the reserve become necessary, such adjustments are reflected in current operations. The Company retained the services of a licensed actuary firm to certify the reasonability of this liability.

i) *Catastrophic Coverage Risk Sharing for Part D*

Once the enrolled members pharmacy costs exceed an out of pocket threshold, catastrophic coverage is provided. After the total costs paid by the enrolled member (including the deductible and the coinsurance under the initial coverage limit) exceed the out of pocket threshold, the enrolled member's coinsurance percentage declines for any further drug costs. For 2007 and 2006, the out of pocket threshold is \$3,850 and \$3,600, respectively. The coinsurance percentage for the catastrophic coverage is 5% for the enrolled member, 80% for CMS and the remainder 15% for the Plan Sponsor.

j) *Income tax*

The provision for income tax is based on amounts estimated to be currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are recognized

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statutory statement of revenue and expense in the period that includes the enactment date.

k) Contributed capital

The payment of dividends by the Company to its shareholders is limited and cannot be made except in accordance with Florida Statutes 628.371. The Company cannot pay dividends without prior approval of the Florida Office of Insurance Regulation.

On September 20, 2007, the shareholders of the Company sold a controlling share of Company stocks to Caribe Equity Group, Inc., a company incorporated in the Commonwealth of Puerto Rico. Simultaneously with the closing of the stock purchase agreement governing the purchase and sale of the Company stocks, the board of directors approved the Amended and Restated Articles of Incorporation. The Company filed the articles on November 13, 2007. Pursuant to the Amended and Restated Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of Class A Common Stock, par value \$0.01 per share; 2,000,000 shares of Series A Preferred Stock, par value \$0.01 per share; and 27,500,000 shares of Class B Common Stock, par value \$0.01 per share. At December 31, 2007, the Company has issued and outstanding 3,411,128 shares of Class A Common Stock, 9,960,184 shares of Class B Common Stock, and 1,137,043 shares of Series A Preferred Stock.

Every class of shares votes as a separate class on matters which require a vote of all of the shareholders. The weight attributed to the vote of each class of stock is determined as follows:

- Section 4.5 (b) of the Articles, is a snapshot of the relative holdings of the shareholders at such time as the number of Class B shares issued for value is a total of 5,585,640. At that moment, the relative voting power of each of the classes of stock is (i) 82.06% for the Class A common stock; (ii) 8.94% for the Class B common stock; and (iii) 9% for the Series A Preferred stock where it remains locked until the number of Class B shares issued exceeds 12,500,000. From this information, the shareholders can determine the relative voting power of each class of stock as capital flows into the Company;
- As of December 31, 2007, a total of 9,960,184 Class B shares are due to be delivered to Caribe Equity Group, Inc., in exchange for additional capital contributions made by it to the Company during 2007. Consequently, on

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)

Notes to Statutory Financial Statements
December 31, 2007 and 2006

December 31, 2007, the voting power of each class of stock of the Company was: Class A Common (74%); Class B Common (17%); and Series A Preferred (9%); and

- After the number of Class B shares issued equals or exceeds 12,500,000, the issuance of additional Class B shares results in the dilution of the Class A common and Series A Preferred shares proportionately; provided, that in no event will the dilution of Class A common shares result in its voting and economic power dropping below 51%.

Notwithstanding the foregoing, Article V, Section 2(b) provides that the holders of Class A Common Stock may adopt any measure brought before the shareholders acting alone as a class; and any measure requiring the approval of the shareholders of the Company must have the approval of the Class A shareholders voting as a class.

l) Reinsurance

The Company has an agreement with an insurance company to provide reinsurance for members' claims for Medicare Special Needs Program (SNP) – Long Term Care product and Medicare – Community Product. The reinsurance has a \$100,000 attachment point per member. Eligible expense limitations for covered acute care are limited to an average daily maximum of \$5,000 per day. Recoveries of claims and claim expenses have been reported as a reduction of cost of medical and pharmacy services. Reinsurance cost amounted to \$102,526 during the year ended December 31, 2007.

Amounts recoverable/payable from/to reinsurer are estimated in a manner consistent with the claim liability associated with the reinsured policy. Amounts recoverable from reinsurance are recognized when claims are paid. Reinsurance payable is recognized when premiums are earned. The Company has written-off an amount of \$90,000 of reinsurance receivable at December 31, 2007 which was deemed uncollectible in 2007.

m) Reclassifications

Certain amounts in the 2006 financial statements were reclassified to conform to the 2007 presentation.

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

2. Deposit with the Florida Office of Insurance Regulation

The Florida Office of Insurance Regulation (the Office) requires the Company to maintain a deposit of \$300,000 in trust. In addition, the Office required the Company to deposit with the Department of Financial Services \$10,000 in cash for use of the Rehabilitation Administrative Expense Fund as established in the Florida Statute 641.227.

3. Medical Claims Liabilities

The activity in the medical claims unpaid during the years ended December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Medical Claims Payable — Beginning of Year	\$ 1,516,484	\$ -
Incurred Claims and Claims Adjustment Expenses:		
Current year	24,848,814	6,144,107
Prior year	(538,284)	-
Total Incurred	<u>24,310,530</u>	<u>6,144,107</u>
Paid Claims and Claims Adjustment Expenses:		
Current year	17,415,268	4,627,623
Prior year	978,200	-
Total Paid	<u>18,393,468</u>	<u>4,627,623</u>
Medical Claims and Claims Adjustment Expenses Payable — End of Year	<u>\$ 7,433,546</u>	<u>\$ 1,516,484</u>

As a result of changes in estimates of insured events in prior years, the provision for unpaid losses and allocated loss adjustment expense decreased by \$515,929.

4. Income Tax

The Company was incorporated under the laws of the State of Florida and therefore is subject to Federal and State Income Taxes at tax rates which range from 5.5 - 35%. Also, the Company is subject to Alternative Minimum Tax (AMT) (3.3% of net income, as defined). AMT is imposed if the tentative minimum tax exceeds the regular tax liability.

Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Such differences relate primarily to the net operating losses incurred during 2007 and 2006 and deferral of start-up costs incurred in 2005 for income tax purposes.

MD MEDICARE CHOICE, INC.
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Notes to Statutory Financial Statements
December 31, 2007 and 2006

At December 31, 2007, the Company had available net operating losses and deferred startup costs of approximately \$13,000,000 and \$1,300,000, which originated and expires as follows:

<u>Origination year</u>	<u>Expiration year</u>	<u>Amount</u>
2005	2025	\$ 1,301,765
2006	2026	5,963,275
2007	2027	6,164,253
		<u>\$ 13,429,293</u>

The components of the Company's deferred tax asset as December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Gross deferred tax asset, due to NOL	\$ 5,962,000	2,440,000
Valuation allowance	(5,962,000)	(2,440,000)
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

No deferred tax asset has being recognized for the net operating losses carry forward due to unpredictability of favorable operating results trends to be attained during the next years. Therefore, the deferred tax asset was fully reserved.

5. Stock Options And Warrants

As of December 31, 2006 the Company had granted nonqualified incentive stock options to key employees (the "Prior Options") pursuant to its 2005 Stock Option Plan. The Prior Options provided that they were exercisable upon the attainment of certain Company performance benchmarks and entitled the holder to purchase common stock from the Company at prices ranging from \$1 per share to \$5.50 per share. 540,000 shares of stock had been reserved for these Prior Options. The Company had also established an employee stock option plan and reserved 475,000 shares of common stock for that plan. During the month of September 2007 the Company entered into various Agreements for Waiver and Release of Prior Stock Options and Substitution by New Restricted Shares and Replacement Options (the "Replacement Options Agreements") with certain holders of Prior Options. Each of the Replacement Options Agreements became effective as of August 31, 2007. Pursuant to the Replacement Options Agreements, the Prior Options were canceled in exchange for the issuance of new restricted shares of Company stock and new replacement options to the respective Prior Options holders. At December 31, 2007, the remaining effective agreement entitled the holder to 50,000 New Restricted Shares and 50,000 Replacement options. None of the shares were issued at December 31, 2007.

As of December 31, 2007 the Company has commitments to issue up to 2,060,000 shares of Class B Common Stock at par value (\$0.01) to certain employees and certain third parties as partial compensation for their employment and services respectively. The

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

aforesaid shares of Class B Common Stock remain committed for the stated purpose and have not been issued as of December 31, 2007.

Additionally, the Company has committed itself to deliver option agreements (the "New Options") for the purchase of up to 1,920,000 shares of Class B Common Stock at a price per share of \$1.00 to a limited number of Company employees and certain third party providers of services to the Company as partial compensation for their employment and services. As of December 31, 2007, the Company has not delivered the New Options to those persons entitled thereto.

As of November 30, 2007, there is an outstanding Warrant exercisable for the issuance of 235,600 shares of any class of stock of the Company other than Class A common stock or Series A Preferred stock. The warrant price is \$1 per share and the warrant expires in 2012.

6. Commitments and Contingencies

The Company's main contingency is related its medical service costs reserve which was certified by an independent actuarial firm.

a) Commitments:

- The Company entered into an agreement with CMS as an eligible Medicare Advantage organization pursuant to sections 1851 through 1859 of the Social Security act. Under the terms of this contract, CMS pays the Company a fixed amount for each member of the Company's coordinated plan and the Company provides the "Medicare Advantage" coverage to that member for the health services provided.
- The Company had entered into employment agreements with its president, chief executive officer, chief financial officer, medical directors and other top executives in the normal course of business.
- A management services agreement with a third-party administrator for claims processing expiring December 31, 2008. The agreement provides for a fixed payment of \$2,800,000 per year.
- The Company entered into an agreement with an unrelated party for a network of independent agents to provide beneficiary education, outreach and enrollment services to assist eligible Medicare beneficiaries applying for a Medicare Advantage Plan sponsored by the Company. The enrollment commitment for enrollments required for the period of August 1, 2007 through December 31, 2008 is twenty thousand (20,000). The Company agrees to pay a commission for every CMS approved application. Unless required by CMS or other federal regulations or guidance, the Company

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agrees not to reduce the commissions until March 31, 2008. While this Agreement is in force, the Company agrees that they will not enter into negotiations with or appoint any other person or entity to market the Medicare Advantage Plans in the State of Florida or any approved areas in the future. This Agreement is effective until July 31, 2012. After the expiration of the initial five years, this contract may be terminated by either party. If the production commitments are not met, the Company may elect to terminate the agreement without cause or allow a representation on a non-exclusive basis.

- The Company entered into an agreement to purchase a new integrated software system for the overall management of the Company. The agreement provides for a payment of \$1,300,000 in three annual installments and a maintenance fee based on membership with a minimum of \$15,000 per month.
- During 2007, the Company entered into a six year operating lease with an affiliated company, for a new main office building. Rent for the construction building –out- period is \$12,495 per month and approximately \$15,000 per month thereafter depending on actual square footage occupied. In addition, the Company has various operating leases covering the offices and equipment, with non related party, expiring in various dates throughout 2013.

Future minimum lease payments follow:

Year Ending December 31:		
2008	\$	590,215
2009		448,963
2010		290,002
2011		209,833
2012		160,522
Thereafter		149,940
Total	\$	<u>1,849,475</u>

Total rent expense for the years ended December 31, 2007 and 2006, was \$498,073 and \$152,796, respectively.

b) Contingencies:

- The liability for claims payable includes claims in process and an estimate for incurred but not yet reported claims (IBNR). Incurred but not reported claims reserve (IBNR) was actuarially determined. Although the degree of

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)

Notes to Statutory Financial Statements

December 31, 2007 and 2006

variability inherent in the estimates of IBNR is significant and subject to change in the near term, management believes that the estimate is adequate. The IBNR and other expense payments are developed using actuarial methods and assumptions based upon payment patterns, medical costs inflation, historical development and other relevant factors.

- CMS provides a risk-sharing arrangement for part D benefits whereby actual results for the Plan Sponsor are compared to the targeted results anticipated in the Plan Sponsor's bid accepted by CMS. Threshold limits for payments to or from CMS will be determined based upon symmetric risk corridor around the target amount. The target amount (direct subsidy plus premiums less administrative expenses) is compared to allowable claim costs (covered eligible drug costs incurred but not covered by CMS catastrophic payments or low income subsidies and net of any direct or indirect discounts, charge backs or rebates). If actual costs exceed the target amount but are less than the first threshold upper limit, no adjustment will be made. If the actual costs exceed the first threshold upper limit, CMS will make an additional payment equal to 75% of the excess that falls between the first and second threshold, and 80% of the excess that falls above the second threshold. However, if actual costs are less than target amount, then the Plan Sponsor must make a comparable payment to CMS. For 2007 and 2006, the first and second thresholds are 2.5% and 5.0%, respectively. Amount estimate to be refunded to CMS for contract year 2007 is \$1,260,000 as of December 31, 2007.
- CMS uses monthly rates per person for each county to determine the fixed monthly payments per member to pay to health benefit plans. These rates are adjusted under CMS's risk adjustment model which uses health status indicators, or risk scores, to improve the accuracy of payment. The risk adjustment model, which CMS implemented pursuant to the Balanced Budget Act of 1997 (BBA) and the Benefits and Improvement Protection Act of 2000 (BIPA), uses principal hospital inpatient diagnoses as well as diagnosis data from ambulatory treatment settings (hospital outpatient department and physician visits). CMS transitioned to this risk-based reimbursement model while the old reimbursement model based on demographic data including gender, age, and disability status was phased out. Under the risk adjustment methodology, all health benefit organizations must capture, collect, and submit the necessary diagnosis code information to CMS within prescribed deadlines. CMS process risk adjustment rates based on information submitted twice a year, January 1, for ICD-9s submitted by the preceding September and July 1, for ICD-9s submitted by the preceding March. As a result of changes in the CMS payment processes, including the phasing in of the risk adjustment methodology and the phasing out of the budget neutrality adjustment, CMS payments per member may change, either

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Notes to Statutory Financial Statements
December 31, 2007 and 2006

favorably or unfavorably. The Company has recorded an estimated \$4,880,000 risk adjustment receivable at December 31, 2007, net of a write-off of \$542,000 for amounts estimated uncollectible as of December 31, 2007.

7. Examination By Florida Office Of Insurance Regulation

As discussed in Note 1, the Company has only recently been granted a Certificate of Authority by the Florida Office of Insurance Regulation to operate as a health maintenance organization in the state of Florida commencing January 1, 2006. On January 29, 2008, the Company received notification from the Florida Office of Insurance Regulation that an examination will be performed for the period from October 7, 2005 up to December 31, 2007.

8. Results of Operations

The Company has incurred recurring operating losses since inception, mainly due to start-up losses, marketing costs, and the small number of Medicare Advantage members enrolled. On March 1st 2007, the Company had only 501 members enrolled and ended on December 31, 2007, with 4,592. Other factors that had increased the operating loss during 2007 were the commissions and advertising expenses amounting to \$1,887,283 and \$2,149,617, respectively as of December 31, 2007.

As explained on Note 1 to the Financial Statements, on September 20, 2007, the shareholders of the Company sold a controlling share of Company stocks to Caribe Equity Group, Inc., a company incorporated in the Commonwealth of Puerto Rico. The new controlling company made capital contributions of \$7,477,811 during fiscal year 2007 and additional \$2,066,770 during fiscal year 2008.

During 2007 the Company contracted a third party company to assist with eligible Medicare beneficiaries applying for a Medicare Advantage Plan sponsored by the Company. The enrollment commitment for enrollments required for the period of August 1, 2007 through December 31, 2008 is twenty thousand (20,000). On April 28, 2008, the Company voluntarily stops the enrollment process until Statutory Audited Financial Statements are issued and filed in the Office of Insurance Regulator. As of May 1st, 2008, based on CMS Monthly Plan Payment Report, the Company has 16,040 members enrolled.

The Company entered into agreement to acquire a new integrated software system for the overall management of the Company. This system will increase efficiency to the enrollment process and better member information to monitored medical loss and losses

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Notes to Statutory Financial Statements
December 31, 2007 and 2006

expenses. Management estimates that the new system will be operational during the third quarter of 2008.

Also, the Company contracted external consultants with the necessary competence to help identifying areas where controls were not working properly or where new controls are needed.

Management believes that the above, will significantly improve the operating results of the Company for 2008

9. Concentration of Business and Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, include cash and cash equivalents. The Company's deposits in financial institutions at times exceeded the amount insured by the Federally Deposited Insurance Corporation, ("FDIC"). The risks are managed by maintaining all deposits in high qualified financial institutions. The Company also has cash and short-term investments held by a major brokerage firm. The total held by the brokerage firm at December 31, 2007 and 2006 was \$385,269 and \$366,512, respectively.

The Company offers various plans to residents of the State of Florida, who are eligible for Medicare part A and B, benefits under "Medicare Advantage", pursuant to a contract with the United States Centers for Medicare and Medicaid Services, (CMS) to operate as a Medicare Advantage Organization pursuant to Title 18, Sections 1851-1859 of the Social Security Act and federal regulations at 42 CFR 422.501. Changes in such laws and regulations could affect the premiums to be received by the Company under such contract and the people eligible to participate in the plan. Premiums receivable consist only of CMS premiums. A 100% of premiums earned during 2007 and 2006 were related to this contract.

10. Retirement Plan

The Company adopted a 401(k) retirement plan effective September 1, 2006. This plan covers all employees who are at least 18 years of age with three or more months of service. The Company may contribute a matching contribution equal to 50% of an employee's elective contribution not to exceed 3% of an employee's compensation. The Company's matching contributions for the years ended December 31, 2007 and 2006 was \$4,346 and \$2,110, respectively.

11. Information Under Accounting Principles Generally Accepted in the United States of America

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation,

MD MEDICARE CHOICE, INC.
(FORMERLY PARTNERCARE HEALTH PLAN, INC.)
Notes to Statutory Financial Statements
December 31, 2007 and 2006

which vary in some respects from accounting principles generally accepted in the United States of America. Accounting policies under statutory accounting practices used by the Association in preparing statutory financial statements are disclosed in note 1. Under accounting principles generally accepted in the United States of America, the following policies are used, which are the principal variances with statutory accounting practices:

- The statement of cash flows emphasizes the changes in cash and cash equivalents and presents the sources and uses of cash into three classifications which are operating, investing, and financing activities.
- Certain accounts receivable recorded as nonadmitted assets for statutory purposes are presented at their net realizable value and furniture and equipment, also recorded as nonadmitted assets for statutory purposes, are presented at cost, net of accumulated depreciation.
- Policy acquisition costs are deferred over the period in which the premiums are earned. Acquisition costs are capitalized and amortized using the straight line method to properly match premium revenue with the expenses associated with the membership enrollment.

12. Reconciliation with Annual Statement

There were no material differences between the net income and capital and surplus reported in this financial statement and the 2007 Amended Annual Statement filed with the Florida Office of Insurance Regulation

13. Subsequent Event

The Company received additional capital contribution amounting to \$2,066,770 to comply with the capital requirement established by the State of Florida.

Auditors' Internal Control Letter



HEVIA, BEAGLES & COMPANY, P. A.
PROFESSIONAL CONSULTING GROUP
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
MD Medicare Choice, Inc.
Tampa, Florida

In planning and performing our audit of the financial statements of MD Medicare Choice, Inc. (the Company) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

During 2007, the Company experienced significant growth, a change in controlling ownership, and a change in key management positions. Those factors contributed to a general lack of controls throughout several of the Company's business processes. Subsequent to 2007, the Company engaged a qualified outside consulting firm to perform a comprehensive evaluation of its business processes and controls, and to assist in the implementation of improvements to those controls. A detailed evaluation of the various component controls by major business cycle has been provided to the Company's management by its outside consultants and should be referred to for the specific nature of the control deficiencies identified here in summary.

IN SUMMARY:

SIGNIFICANT DEFICIENCIES

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Enrollment and Premiums – There was a general lack of documentation of controls for approvals, review and follow-up of enrollment data, and in reconciliation of premium data.

Claims – There was a general lack of documentation of approvals, reviews, reconciliations and follow-up of claims data.

Information Systems- There was a general lack of documentation of controls over IT systems and applications.

MATERIAL WEAKNESSES

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses.

Financial Reporting – There was a general lack of documentation of approval and review processes of general journal entries and of financial reports by appropriate personnel

MANAGEMENT'S RESPONSE

The Company contracted external consultants with the necessary competence to help identifying areas where controls were not working properly or where new controls are needed (control deficiencies). The results of this documentation in the areas of enrollment, claims, information system, disbursements, and financial statement closing have been disclosed to the Florida Office of Insurance Regulation. As part of the remediation process, The Company hired two new directors (Information System and Accounting and Finance) to develop and implement controls and work plans identified by external consultants.

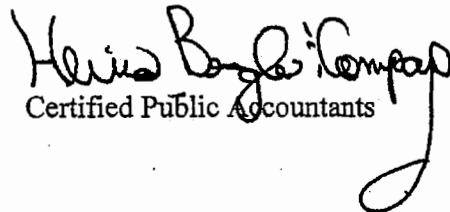
During 2007 the Company contracted a third party company to assist with eligible Medicare beneficiaries applying for a Medicare Advantage Plan sponsored by the Company. The enrollment commitment for enrollments required for the period of August 1, 2007 through December 31, 2008 is twenty thousand (20,000). As of May 1st, 2008, based on CMS Monthly Plan Payment Report, the Company has 16,040 members enrolled. This new contract will help to reduce internal control deficiencies found in the documentation of the enrollment process.

The Company entered into agreement to acquire a new integrated software system for the overall management of the Company. This system will increase efficiency of the enrollment process and better member information to monitor medical loss and losses expenses. Management estimates that the new system will be operational during the third quarter of 2008. The implementation has been designed taking into consideration internal control deficiencies found during the documentation of the enrollment and claims processes.

Management believes that the above, will significantly improve the operating control environment of the Company.

Management's response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the board of directors and management of the Company and for filing with the State of Florida Office of Insurance Regulation and other insurance departments and should not be used for any other purpose and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

May 26, 2008

QUARTERLY STATEMENT

MD Medicare Choice, Inc.

For the Quarter Ended

June 30, 2008

QUARTERLY STATEMENT

Of the
MD MEDICARE CHOICE INC.

In the State of

FLORIDA

To the

Insurance Department

Of the State of

FLORIDA

For the Month Ended

JUNE 30, 2008

ORIGINAL

1

QUARTERLY STATEMENT

AS OF JUNE 30, 2008

OF THE CONDITION AND AFFAIRS OF THE

MD Medicare Choice, Inc

AFFIX BAR CODE ABOVE

NAIC Group Code 0000 (Current Period) , (Prior Period) NAIC Company Code 12330 Employer's ID Number 13-4293848

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

Country of Domicile US

Licensed as business type:
 Life Accident and Health []
 Dental Service Corporation []
 Health Maintenance Organization [X]
 Is HMO Federally Qualified? Yes (X) No ()

Property/Casualty []
 Vision Service Corporation []
 Hospital, Medical and Dental Service or Indemnity []
 Other []

Incorporated/Organized February 15, 2005 Commenced Business January 1, 2006

Statutory Home Office 5501 West Waters Ave. Suite 401, Tampa, Florida 33634
 (Street and Number, City or Town, State and Zip Code)

Main Administrative Office 5501 West Waters Ave. Suite 401, Tampa, Florida 33634 813-901-9208
 (Street and Number, City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 5501 West Waters Ave. Suite 401, Tampa, Florida 33634
 (Street and Number, City or Town, State and Zip Code)

Primary Location of Books and Records 5501 West Waters Ave. Suite 401, Tampa, Florida 33634
813-901-9208
 (Street and Number, City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Website Address www.mdmedicarechoice.com

Statutory Statement Contact Jose J. Esparra-Cansobre 813-901-9208
 (Name) (Area Code) (Telephone Number) (Extension)

jesparra@mdmedicarechoice.com 813-901-9209
 (E-Mail Address) (Fax Number)

OFFICERS

Antonio Marrero (Chief Executive Officer)
 Carlos H. Lugo (President)

Jose J. Esparra (Chief Financial Officer)
 Abnel Crespo (Senior Executive VP Sales & Marketing)

OTHER OFFICERS

DIRECTORS OR TRUSTEES

Antonio Marrero-Barreto
 Jose J. Esparra-Cansobre
 Carlos H. Lugo-Olivieri
 Abnel Crespo

State of Florida }
 County of Hillsborough } SS

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

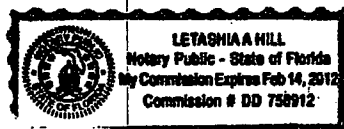
Antonio Marrero
 Chief Executive Officer

Jose J. Esparra
 Chief Financial Officer

Abnel Crespo
 Senior Executive VP Sales & Marketing

Subscribed and sworn to before me this
 15 day of August, 2008

Letashia A Hill



- a. Is this an original filing? Yes (X) No ()
- b. If no: 1. State the amendment number _____
2. Date filed _____
3. Number of pages attached _____

MDMC 00018

ASSETS

	Current Statement Date			4 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Col. 1 minus Col. 2)	
1. Bonds				
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances)				
4.2 Properties held for the production of income (less \$ encumbrances)				
4.3 Properties held for sale (less \$ encumbrances)				
5. Cash (\$ 7,392,476), cash equivalents (\$) and short-term investments (\$ 1,041,226)	8,433,702		8,433,702	165,296
6. Contract loans (including \$ premium notes)				
7. Other invested assets				
8. Receivables for securities				
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Line 1 to Line 9)	8,433,702		8,433,702	165,296
11. Title plants less \$ charged off (for Title insurers only)				
12. Investment income due and accrued				
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	22,634,408		22,634,408	6,799,497
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums)				
13.3 Accrued retrospective premiums				
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	413,598		413,598	249,307
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	771,691	771,691		
19. Furniture and equipment, including health care delivery assets (\$)	229,758	229,758		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates				
22. Health care (\$ 735,056) and other amounts receivable	869,530	134,475	735,056	9,569
23. Aggregate write-ins for other than invested assets	181,380	181,380		
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 10 to Line 23)	33,534,067	1,317,304	32,216,763	7,223,669
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Totals (Line 24 and Line 25)	33,534,067	1,317,304	32,216,763	7,223,669
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Line 0901 through Line 0903 plus Line 0998) (Line 9 above)				
2301. Prepaid Expenses	87,797	87,797		
2302. Account Receivable-other	93,584	93,584		
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)	181,380	181,380		

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	37,416,495		37,416,495	7,433,546
2. Accrued medical incentive pool and bonus amounts	48,000		48,000	
3. Unpaid claims adjustment expenses	180,000		180,000	180,000
4. Aggregate health policy reserves				
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserve				
7. Aggregate health claim reserves				
8. Premiums received in advance				
9. General expenses due or accrued	990,135		990,135	2,256,345
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized 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 \$ current) and interest thereon \$ (including \$ current)				
15. Amounts due to parent, subsidiaries and affiliates				
16. Payable for securities				
17. Funds held under reinsurance treaties with (\$ authorized reinsurers and \$ 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				
21. Aggregate write-ins for other liabilities (including \$ current)	1,260,000		1,260,000	
22. Total liabilities (Line 1 to Line 21)	39,894,630		39,894,630	9,869,891
23. Aggregate write-ins for special surplus funds	XXX	XXX		
24. Common capital stock	XXX	XXX	183,129	133,714
25. Preferred capital stock	XXX	XXX	11,370	11,370
26. Gross paid in and contributed surplus	XXX	XXX	19,255,376	14,363,271
27. Surplus notes	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds	XXX	XXX		
29. Unassigned funds (surplus)	XXX	XXX	(27,127,742)	(17,154,577)
30. Less treasury stock, at cost:				
30.1 shares common (value included in Line 24 \$)	XXX	XXX		
30.2 shares preferred (value included in Line 25 \$)	XXX	XXX		
31. Total capital and surplus (Line 23 to Line 29 minus Line 30)	XXX	XXX	(7,677,867)	(2,646,222)
32. Total Liabilities, capital and surplus (Line 22 and Line 31)	XXX	XXX	32,216,763	7,223,669
DETAILS OF WRITE-INS				
2101. Part D Reserves	1,260,000		1,260,000	
2102.				
2103.				
2198. Summary of remaining write-ins for Line 21 from overflow page				
2199. Totals (Line 2101 through Line 2103 plus Line 2198) (Line 21 above)	1,260,000		1,260,000	
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX		
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)	XXX	XXX		
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX		
2899. Totals (Line 2801 through Line 2803 plus Line 2898) (Line 28 above)	XXX	XXX		

STATEMENT OF REVENUE AND EXPENSES

	Current Year to Date		Prior Year to Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months	XXX	89,879	4,336	22,275
2. Net premium income (including \$ non-health premium income)	XXX	95,691,066	6,657,223	31,946,842
3. Change in unearned premium reserves and reserve for rate credits	XXX			
4. Fee-for-service (net of \$ medical expenses)	XXX			
5. Risk revenue	XXX			
6. Aggregate write-ins for other health care related revenues	XXX			
7. Aggregate write-ins for other non-health revenues	XXX			
8. Total revenues (Line 2 to Line 7)	XXX	95,691,066	6,657,223	31,946,842
Hospital and Medical:				
9. Hospital/medical benefits		40,939,005	4,211,328	13,361,926
10. Other professional services		1,228,711		357,195
11. Outside referrals		967,470		1,142,125
12. Emergency room and out-of-area		16,685,558		3,138,229
13. Prescription drugs		15,103,656	1,167,820	4,359,190
14. Aggregate write-ins for other hospital and medical		6,510,430	172,162	1,953,865
15. Incentive pool, withhold adjustments and bonus amounts				
16. Subtotal (Line 9 to Line 15)		81,434,830	5,551,310	24,310,530
Less:				
17. Net reinsurance recoveries				
18. Total hospital and medical (Line 16 minus Line 17)		81,434,830	5,551,310	24,310,530
19. Non-health claims (net)				
20. Claims adjustment expenses, including \$ cost containment expenses				
21. General administrative expenses		24,005,693	5,020,894	16,691,870
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)				
23. Total underwriting deductions (Line 18 through Line 22)		105,440,523	10,572,204	41,002,400
24. Net underwriting gain or (loss) (Line 8 minus Line 23)	XXX	(9,749,457)	(3,914,981)	(9,053,558)
25. Net investment income earned		172,384	36,323	85,677
26. Net realized capital gains (losses) less capital gains tax of \$				
27. Net investment gains (losses) (Line 25 plus Line 26)		172,384	36,323	85,677
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$) (amount charged off \$)]				
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 (Line 24 plus Line 27 plus Line 28 plus Line 29)	XXX	(9,577,073)	(3,878,658)	(8,967,881)
31. Federal and foreign income taxes incurred	XXX			
32. Net income (loss) (Line 30 minus Line 31)	XXX	(9,577,073)	(3,878,658)	(8,967,881)
DETAILS OF WRITE-INS				
0601.	XXX			
0602.	XXX			
0603.	XXX			
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX			
0699. Totals (Line 0601 through Line 0603 plus Line 0698) (Line 6 above)	XXX			
0701.	XXX			
0702.	XXX			
0703.	XXX			
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX			
0799. Totals (Line 0701 through Line 0703 plus Line 0798) (Line 7 above)	XXX			
1401. Capitation		6,164,457	172,162	1,851,339
1402. Reinsurance		345,973		102,526
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page				
1499. Totals (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)		6,510,430	172,162	1,953,865
2901.				
2902.				
2903.				
2998. Summary of remaining write-ins for Line 29 from overflow page				
2999. Totals (Line 2901 through Line 2903 plus Line 2998) (Line 29 above)				

STATEMENT OF REVENUE AND EXPENSES (continued)

CAPITAL AND SURPLUS ACCOUNT	1	2	3
	Current Year To Date	Prior Year To Date	Prior Year Ended December 31
33. Capital and surplus prior reporting year	(2,646,222)	(499,883)	(499,883)
34. Net income (loss) from Line 32	(9,577,073)	(3,878,658)	(8,967,881)
35. Change in valuation basis of aggregate policy and claims reserves			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$			
37. Change in net unrealized foreign exchange capital gain or (loss)			
38. Change in net deferred income tax			
39. Change in nonadmitted assets	(396,092)	(563,769)	(755,872)
40. Change in unauthorized reinsurance			
41. Change in treasury stock			
42. Change in surplus notes			
43. Cumulative effect of changes in accounting principles			
44. Capital Changes:			
44.1 Paid in	4,941,520	5,202,623	7,577,414
44.2 Transferred from surplus (Stock Dividend)			
44.3 Transferred to surplus			
45. Surplus adjustments:			
45.1 Paid in			
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			
48. Net change in capital and surplus (Line 34 to Line 47)	(5,031,645)	760,196	(2,146,339)
49. Capital and surplus end of reporting period (Line 33 plus Line 48)	(7,677,867)	260,313	(2,646,222)
DETAILS OF WRITE-INS			
4701.			
4702.			
4703.			
4798. Summary of remaining write-ins for Line 47 from overflow page			
4799. Totals (Line 4701 through Line 4703 plus Line 4798) (Line 47 above)			

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	79,856,155	25,813,372
2. Net investment income	172,384	85,677
3. Miscellaneous income		55,720
4. Total (Line 1 through Line 3)	80,028,539	25,954,769
5. Benefit and loss related payments	52,293,659	18,776,107
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	24,116,289	14,662,595
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) net of \$		
10. Total (Line 5 through Line 9)	76,409,948	33,438,702
11. Net cash from operations (Line 4 minus Line 10)	3,618,591	(7,483,933)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds		
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		
12.8 Total investment proceeds (Line 12.1 through Line 12.7)		
13. Cost of investments acquired (long-term only):		
13.1 Bonds		
13.2 Stocks		
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications		
13.7 Total investments acquired (Line 13.1 through Line 13.6)		
14. Net increase or (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)		
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	4,941,520	7,592,141
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	(291,705)	(813,533)
16.6 Other cash provided (applied)		
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	4,649,815	6,778,608
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	8,268,406	(705,325)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	165,296	870,621
19.2 End of period (Line 18 plus Line 19.1)	8,433,702	165,296

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
20.0002		
20.0003		
20.0004		
20.0005		
20.0006		
20.0007		
20.0008		
20.0009		
20.0010		

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	Comprehensive (Hospital and Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Other
		2 Individual	3 Group							
Total Members at end of:										
1. Prior Year	4,873							4,873		
2. First Quarter	15,045							15,045		
3. Second Quarter	16,620							16,620		
4. Third Quarter										
5. Current Year										
6. Current Year Member Months	89,879							89,879		
Total Member Ambulatory Encounters for Period:										
7. Physician	35,596							35,596		
8. Non-Physician	818							818		
9. Total	36,414							36,414		
10. Hospital Patient Days Incurred	22,271							22,271		
11. Number of Inpatient Admissions	2,053							2,053		
12. Health Premiums Written (a)	95,691,066							95,691,066		
13. Life Premiums Direct										
14. Property/Casualty Premiums Written										
15. Health Premiums Earned	95,691,066							95,691,066		
16. Property/Casualty Premiums Earned										
17. Amount Paid for Provision of Health Care Services	50,979,351							50,979,351		
18. Amount Incurred for Provision of Health Care Services	81,434,830							81,434,830		

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees \$

STATEMENT AS OF JUNE 30, 2008 OF THE MD Medicare Choice, Inc

CLAIMS UNPAID AND INCENTIVE POOL, WITHHOLD AND BONUS (Reported and Unreported)

Aging Analysis of Unpaid Claims

1 Account	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 91 - 120 Days	6 Over 120 Days	7 Total
Individually listed claims unpaid						
Baptist Hospital	61,264	18,107	26,738	21,982		128,071
Baptist Medical Center	60,339	19,475	48,905	6,823	3,657	138,399
Universal Hospital Jacksonville		8,844	251,533	112,856		373,232
University of Maryland	69,185	6,149	32,572			107,906
West Florida Hospital	88,238	131,330	24,807	25,702	387	270,464
West Florida Hospital	68,711	9,668	78,176	35,282	10,411	202,249
Proceda Regional Hospital	48,755					48,755
Pharmacia	171,632	214,812	318,458	294,508	69,363	1,068,773
Albany Medical Center	1,001,125	408,385	781,190	497,133	84,018	2,771,851
0199999 - Individually listed claims unpaid						
0499999 - Subtotals	1,001,125	408,385	781,190	497,133	84,018	2,771,851
0599999 - Unreported claims and other claim reserves						34,644,544
0799999 - Total claims unpaid						37,416,495
0899999 - Accrued medical incentive pool and bonus amounts						48,000

UNDERWRITING AND INVESTMENT EXHIBIT

ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid Year to Date		Liability End of Current Quarter		5 Claims Incurred in Prior Years (Columns 1 plus 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	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		
1. Comprehensive (hospital and medical)						
2. Medicare Supplement						
3. Dental only						
4. Vision only						
5. Federal Employees Health Benefits Plan						
6. Title XVIII - Medicare	7,307,628	44,144,253	125,918	37,230,577	7,433,546	7,433,546
7. Title XIX - Medicaid						
8. Other health						
9. Health subtotal (Line 1 to Line 8)	7,307,628	44,144,253	125,918	37,230,577	7,433,546	7,433,546
10. Healthcare receivables (a)						
11. Other non-health						
12. Medical incentive pools and bonus amounts						
13. Totals	7,307,628	44,144,253	125,918	37,230,577	7,433,546	7,433,546

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

NOTES TO FINANCIAL STATEMENTS**Note 1 - Summary of Significant Accounting Policies****Organization**

MD Medicare Choice, Inc. (the Company), was incorporated in the State of Florida on February 11, 2005. During 2005 the Company applied for and was issued a Certificate of Authority by the Florida Office of Insurance Regulation to operate as a health maintenance organization in the state of Florida commencing January 1, 2006. On September 20, 2007, the shareholders of the Company sold a controlling share of Company stock to Caribe Equity Group, Inc., a Commonwealth of Puerto Rico corporation. Contemporaneously with the closing of the stock purchase agreement governing the purchase and sale of the Company stock, the board of directors approved the Amended and Restated Articles of Incorporation. On September 30, 2007 the Company changed its name from PartnerCare Health Plan, Inc., to MD Medicare Choice, Inc.

Nature of Business

Since January 1, 2006, the Company has operated as a health maintenance organization in several counties in Florida providing services to the general public through contracts with various government agencies. The Company provides services primarily to Medicare beneficiaries requiring long-term care.

A. Accounting Practices**Basis of Financial Statement Presentation**

The Company, domiciled in the State of Florida, prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Florida Department of Financial Services. Prescribed statutory accounting practices (SAP) include the NAIC Accounting Practices and Procedures Manual (NAIC SAP) and other publications of the National Association of Insurance Commissioners (NAIC), as well as the state laws, regulations and administrative rules of the Florida Office of Insurance Regulation. Statutory accounting and reporting varies from accounting principles generally accepted in the United States (GAAP). The more significant differences from GAAP are as follows:

Policy Acquisition Costs – NAIC SAP requires the costs of acquiring and renewing business be expensed when incurred. Under GAAP, such costs, to the extent recoverable, are deferred and amortized over the effective period of the related insurance policies.

Non-Admitted Assets – NAIC SAP excludes certain assets not available for the payment of claims such as past due unpaid premiums, prepaid expenses and furniture and equipment. GAAP records all assets owned by the Company at cost or recoverable amounts.

Reinsurance – NAIC SAP requires that a liability for reinsurance balances be provided for unsecured unearned premiums and unpaid losses ceded to reinsurers unauthorized to assume such business and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

NAIC SAP reports reserves for losses, loss adjustment expenses and unearned premiums ceded to reinsurers as reductions of the related reserves rather than as assets as required by GAAP.

Deferred Income Taxes - NAIC SAP recognizes all deferred tax liabilities and only deferred tax assets that will be realized within one year. GAAP recognizes deferred income taxes on temporary timing differences between GAAP and tax accounting with a valuation allowance against deferred tax assets that may not be recoverable.

The NAIC Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Florida.

B. Accounting Policy**Cash and Short-term Investments**

For purposes of the statement of cash flows, NAIC SAP considers all debt instruments with a maturity of one year or less at date of purchase to be short-term investments. Short-term investments are stated at amortized cost. Investment income represents earnings on short-term investments which consist of money market and similar instruments.

NOTES TO FINANCIAL STATEMENTS**Accrued Medicare Premiums**

Insurance premium revenue is recorded on accrual basis of accounting and are recognized as revenues in the period enrolled members are entitled to receive health care services. The services are reported at the estimated net realizable amount of the contracted value of services with CMS. Revenue under third party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third party payor settlements are provided in the period related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Pharmaceutical Rebates

The Company accrues the pharmaceutical rebate due from its pharmacy benefit manager in the year the benefits are rendered to the Company's members. The related revenue is offset against claims expense.

Medical Service Cost

Medical services costs are accrued as services are rendered, including an estimate for claims incurred but not yet reported which is determined using certain actuarial reports. Management estimates and other statistics. The liability for claims payable includes claims in process and an estimate for incurred but not yet reported claims (IBNR). Although the degree of variability inherent in the estimates of IBNR is significant and subject to change in the near term, management believes that the estimate is adequate. The IBNR and other expense payments are developed using actuarial methods and assumptions based upon payment patterns, medical costs inflation, historical development and other relevant factors. Estimates of future payments related to services incurred in the current and prior periods are continually reviewed and as adjustments to the reserve become necessary, such adjustments are reflected in current operations. The Company retained the services of a licensed actuary firm to certify the reasonability of the IBNR.

Reinsurance

The Company has an agreement with an insurance company to provide reinsurance for members' claims. The reinsurance has a \$100,000 attachment point per member. Eligible expense limitations for covered acute care are limited to an average daily maximum of \$5,000 per day. The cost of reinsurance is included with claims and claims adjustment expense. The reinsurance ceded amounted \$413,598 for the year ended June 30, 2008.

C. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of admitted assets and liabilities, and revenues and expenses. Actual results could differ from those estimates. Such estimates include the recognition of premium revenue and the accrual for medical claims.

D. Reclassifications

Certain reclassifications have been made to the 2006 statutory financial statements to conform to the 2007 statutory financial statements presentation.

Note 2 – Accounting Changes and Corrections of Errors**A. Material Changes in Accounting Principles and/or Correction of Errors**

There were no material changes in accounting principles and/or corrections of errors during the accounting period.

Note 3 – Business Combinations and Goodwill**A. Statutory Purchase Method**

Not applicable

B. Statutory Merger

Not applicable

C. Assumption Reinsurance

Not applicable

NOTES TO FINANCIAL STATEMENTS

D. Impairment Loss

Not applicable

Note 4- Discontinued Operations

Not applicable

Note 5 -- Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

Not applicable

B. Debt Restructuring

Not applicable

C. Reverse Mortgages

Not applicable

D. Loan Backed Securities

Not applicable

E. Repurchase Agreements

Not applicable

F. Real Estate

Not applicable

Note 6 -- Joint Ventures, Partnerships and Limited Liability Companies

Not applicable

Note 7 -- Investment Income

Investment income represents earnings on short-term investments which consist of money market and similar instruments.

Deposit with the Insurance Commissioner

The Company also has \$310,000 on deposit with regulatory authorities at June 30, 2008.

Note 8 -- Derivative Instruments

Not applicable

Note 9 - Income Taxes

Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Such differences relate primarily to the net operating losses incurred during 2007 and 2006 and deferral of start-up costs incurred in 2005 for income tax purposes. For statutory accounting purposes, start-up costs are required to be expensed as incurred. NAIC SAP allows deferred income tax assets to be recognized to the extent they can be used within one year from the balance sheet date.

The potential amounts of the total deferred tax assets related to these timing differences have not been reported in the accompanying financial statements because they do not meet the above definition of an admitted asset.

The components of the Company's deferred tax asset as December 31, 2007 and 2006 were as

NOTES TO FINANCIAL STATEMENTS

follows:

	2007	2006
Gross deferred tax assets	\$ 2,850,000	2,850,000
Deferred tax asset nonadmitted	(2,850,000)	(2,850,000)
Net deferred tax asset	\$ -	-
Increase (decrease) in nonadmitted asset	\$ -	-

At December 31, 2007, the Company had available net operating losses and deferred startup costs of approximately \$11,000,000 and \$1,300,000, which originated and expires as follows:

Origination year	Expiration year	Amount
2005	2025	\$1,301,765
2006	2026	5,948,547
2007	2027	5,077,827
		<u>\$12,328,139</u>

Note 10 – Information Concerning Parent, Subsidiaries and Affiliates

During 2007, the Company entered into a six year operating lease with an affiliated company for a new main office building. Rent for the construction period is \$12,495 per month and approximately \$15,000 per month thereafter depending on actual square footage occupied. In addition, the Company has various operating leases covering the offices and equipment, with non related party, expiring in various dates throughout 2013.

Note 11 – Debt

Not applicable

Note 12 – Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans**A. Defined Benefit Plans**

Not applicable

B. Defined Contribution Plans

The Company adopted a 401(k) retirement plan effective September 1, 2006. This plan covers all employees who are at least 18 years of age with three or more months of service. The Company may contribute a matching contribution equal to 50% of an employee's elective contribution not to exceed 3% of an employee's compensation.

C. Multiemployer Plans

Not applicable

D. Consolidated/Holding Company Plans

Not applicable

E. Post-Employment Benefits and Compensated Absences**Note 13 – Capital and Surplus, Shareholder's Dividend restrictions and Quasi-Reorganizations****A. Stockholders' Equity (Deficit)**

The payment of dividends by the Company to its shareholders is limited and cannot be made except in accordance with Florida Statutes 628.371. The Company cannot pay dividends without prior approval of the Florida Office of Insurance Regulation.

NOTES TO FINANCIAL STATEMENTS

The Company is authorized to issue two classes of common stock, Class A (voting) and Class B (nonvoting). No shares of Class B common stock were issued or outstanding at December 31, 2006.

On September 20, 2007, the shareholders of the Company sold a controlling share of Company stock to Caribe Equity Group, Inc., a Commonwealth of Puerto Rico corporation. Contemporaneously with the closing of the stock purchase agreement governing the purchase and sale of the Company stock, the board of directors approved the Amended and Restated Articles of Incorporation. The Company filed the articles on November 13, 2007. Pursuant to the Amended and Restated Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of Class A Common Stock, par value \$0.01 per share; 2,000,000 shares of Series A Preferred Stock, par value \$0.01 per share; and 27,500,000 shares of Class B Common Stock, par value \$0.01 per share.

B. Stock Options and Warrants

Prior to and including June 30, 2008 the Company granted nonqualified incentive stock options to key employees (the "Prior Options") pursuant to its 2005 Stock Option Plan. The Prior Options provided that they were exercisable upon the attainment of certain Company performance benchmarks and entitled the holder to purchase Class A common stock from the Company at prices ranging from \$1 per share to \$5.50 per share. 540,000 shares of stock had been reserved for these Prior Options. The Company had also established an employee stock option plan and reserved 475,000 shares of Class A common stock for that plan. During the month of September 2007 the Company entered into various Agreements for Waiver and Release of Prior Stock Options and Substitution by New Restricted Shares and Replacement Options (the "Replacement Options Agreements") with certain holders of Prior Options. Each of the Replacement Options Agreements became effective as of August 31, 2007. Pursuant to the Replacement Options Agreements, the Prior Options were canceled in exchange for the issuance of new restricted shares of Company stock and new replacement options to the pertinent Prior Options holders. Despite the Company's entry into the Replacement Options Agreements, as of September 30, 2007 no Prior Options were vested and exercisable.

As of June 30, 2008 the Company has commitments to issue up to 2,060,000 shares of Class B Common Stock at par value (\$0.01) to certain employees and certain third parties as partial compensation for their employment and services respectively. The aforesaid shares of Class B Common Stock remain committed for the stated purpose and have not been issued as of December 31, 2007.

Additionally, the Company has committed itself to deliver option agreements (the "New Options") for the purchase of up to 1,920,000 shares of Class B Common Stock at a price per share of \$1.00 to a limited number of Company employees and certain third party providers of services to the Company as partial compensation for their employment and services. As of December 31, 2007, the Company has not delivered the New Options to those persons entitled thereto.

Under Statement of Statutory Accounting Principle No. 13, the Company is required to recognize compensation expense for options granted in 2006 and thereafter. The Company has elected to use the calculated value method to account for the options issued in 2006 prior to the Replacement Option Agreement. Management has determined that it is not possible to reasonably estimate the grant-date fair value of the options. Instead, management determined that the New York Stock Exchange Healthcare Index is representative of the Company's size and industry and has used the historical closing return values of that index to estimate volatility. Using the Black-Scholes-Merton option pricing model, management has determined that the options issued in 2006 prior to the replacement option agreement had a calculated value of \$.38 per share. The assumptions used and the weighted average calculated values of the prior options are as follows for the year ended December 31, 2007:

Risk-free interest rate	4.6%
Expected dividend yield	0.0%
Expected volatility	55.0%
Expected life in years	5
Expected service period in years	3
Weighted average calculated value of options granted	\$.38

As of November 30, 2007, there is an outstanding Warrant exercisable for the issuance of 235,600 shares of any class of stock of the Company other than Class A common stock or Series A Preferred stock. The warrant price is \$1 per share and the warrant expires in 2012.

NOTES TO FINANCIAL STATEMENTS**Note 14 – Contingencies****A. Commitments**

The Company had entered into employment agreements with its president and medical directors in the normal course of business. The Company has also entered into agreements with outside parties as follows:

A management services agreement with a third-party administrator expiring December 31, 2008. The agreement provides for a fixed payment of \$2,800,000 per year. Management entered into an agreement with an Information Systems Technology Provider to buy a new Integrated Systems for the overall management of the Company. The agreement provides for a payment of \$1,300,000 in three annual installments and a maintenance fee based on membership with a minimum of \$15,000 per month.

B. Assessments

Not applicable

C. Gain Contingencies

Not applicable

D. All Other Contingencies

Not applicable

Note 15 – Leases

A. Offices leases expiring in various dates throughout 2012 with future minimum lease payments follow:

Year Ending December 31:	
2008	\$ 252,065
2009	256,022
2010	120,606
2011	61,988
2012	18,747
Total	\$ 709,428

Total rent expense for the year and period ended December 31, 2007 and 2006, respectively was \$238,796 and \$152,796, respectively. As of June 30, 2008 the total rent expense was \$330,968.

B. Lessor Leases

Not applicable

Note 16 – Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk**A. Concentration Of Credit Risk**

The Company maintains cash balances at a commercial bank. From time to time the Company's cash balances deposited in the bank are in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). The Company also has cash and short-term investments held by a major brokerage firm. Such balances are covered by Securities Investor Protection Corporation (SIPC). The total held by the brokerage firm at December 31, 2007 and 2006 was \$385,269 and \$366,512, respectively. As of June 30, 2008 the total held was \$390,953.

B. Liquidity

The Company has incurred net losses of \$8,967,881 and \$5,963,275 for the years ended December 31, 2007 and 2006, respectively. Stockholders have made \$7,592,141 and \$5,100,000 in 2007 and

NOTES TO FINANCIAL STATEMENTS

2006 respectively in Capital Infusions to cover those losses.

Note 17 – Sale, Transfer and Servicing of Financial Asset and Extinguishments of Liabilities

A. Transfers of Receivables Reported as Sales

Not applicable

B. Transfer and Servicing of Financial Assets

Not applicable

C. Wash Sales

Not applicable

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

A. ASO Plans

Not applicable

B. ASC Plans

Not applicable

C. Medicare or Similarly Structured Cost Based Reimbursement Contracts

Not applicable

Note 19 – Direct Premium Written/ Produced by Managing General Agents/Third Party Administrators

Not applicable

Note 20 – Other Items

A. Extraordinary Items

Not applicable

B. Troubled Debt Restructuring: Debtors

Not applicable

C. Other Disclosures

Examination by Florida Office of Insurance Regulation

As discussed in Note 1, the Company has only recently been granted a Certificate of Authority by the Florida Office of Insurance Regulation to operate as a health maintenance organization in the state of Florida commencing January 1, 2006. On January 29, 2008, the Company received notification from the Florida Office of Insurance Regulation that an examination will be performed for the period from October 7, 2005 up to December 31, 2007.

Not applicable

D. Uncollectible Assets, Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts due from Agents and Brokers, Uninsured Plans and Retrospectively Rated Contracts.

Not applicable

E. Business Interruption Insurance Recoveries

NOTES TO FINANCIAL STATEMENTS

Not applicable

Note 21 – Events Subsequent

The Company received additional capital contribution amounting to \$2,503,057 during July 2008 and August 2008 to comply with the capital requirement established by the State of Florida.

Note 22 – Reinsurance

Not applicable

Note 23 – Retrospectively Rated Contracts & Contracts Subject to Redetermination

Not applicable

Note 24 – Changes in Incurred Claims and Claims Adjustment expenses

Activity in the liability for medical claims payable for 2007 and 2006 is summarized as follows:

As a results of changes in estimates of insured events in prior years, the provision for unpaid losses and allocated loss adjustment expense decreased by \$515,929. As of June 30, 2008 the claim liability was \$37,644,495.

Note 25 – Intercompany Pooling Arrangements

Not applicable

Note 26 – Structured Settlements

Not applicable

Note 27 – Health Care Receivables

A. Pharmacy Rebate Receivables

As June 30, 2008 the Company reported an estimated balance of pharmacy rebates receivable of \$735,056.

Note 28 – Participating Policies

Not applicable

Note 29 – Premium Deficiency Reserves

Not applicable

Note 30 – Anticipated Salvage and Subrogation

Not applicable

Note 31 – Name Change

On November 12, 2007 the Company changed it's name from PartnerCare Health Plan, Inc. to MD Medicare Choice, Inc.

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes () No (X)
- 1.2 If yes, has the report been filed with the domiciliary state? Yes () No ()
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes () No (X)
- 2.2 If yes, date of change:
3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes () No (X)
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes () No (X)
- 4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile
.....
.....
.....

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes () No () N/A (X)
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made.
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).
- 6.4 By what department or departments?
.....
- 6.5 Have any financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes () No () N/A (X)
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes () No () N/A (X)
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes () No (X)
- 7.2 If yes, give full information
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes () No (X)
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes () No (X)
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
.....
.....
.....

GENERAL INTERROGATORIES (continued)

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted.)

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?
 (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
 (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
 (c) Compliance with applicable governmental laws, rules and regulations;
 (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
 (e) Accountability for adherence to the code. Yes (X) No ()
- 9.11 If the response to 9.1 is No, please explain:

- 9.2 Has the code of ethics for senior managers been amended? Yes () No (X)
- 9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes () No (X)
- 9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes () No (X)
- 10.2 If yes, indicate the amounts receivable from parent included in the Page 2 amount: \$

INVESTMENT

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes () No (X)
- 11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$
13. Amount of real estate and mortgages held in short-term investments: \$
- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes () No (X)
- 14.2 If yes, please complete the following:
- | | 1
Prior Year-End Book/
Adjusted Carrying Value | 2
Current Quarter Book/
Adjusted Carrying Value |
|---|--|---|
| 14.21 Bonds | \$ | \$ |
| 14.22 Preferred Stock | \$ | \$ |
| 14.23 Common Stock | \$ | \$ |
| 14.24 Short-Term Investments | \$ | \$ |
| 14.25 Mortgage Loans on Real Estate | \$ | \$ |
| 14.26 All Other | \$ | \$ |
| 14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Line 14.21 to Line 14.26) | \$ | \$ |
| 14.28 Total Investment in Parent included in Line 14.21 to Line 14.26 above | \$ | \$ |

- 15.1 Has the reporting entity entered into any hedging transactions reported on schedule DB? Yes () No (X)
- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes () No ()
- If no, attach a description with this statement.

GENERAL INTERROGATORIES (continued)

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted.)

16. 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 Section 3, III Conducting Examinations, G-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes () No (X)

- 16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

¹ Name of Custodian(s)	² Custodian Address
Fidelity Investments	PO Box 770001, Cincinnati, OH 45277-0045
Florida Bank	3065 34th Street N St. Petersburg, FL 33713
.....

- 16.2 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)
.....
.....
.....
.....

- 16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter?

Yes () No (X)

- 16.4 If yes, give full and complete information relating thereto:

¹ Old Custodian	² New Custodian	³ Date of Change	⁴ Reason
.....
.....
.....

- 16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/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	² Name(s)	³ Address
.....
.....
.....

- 17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes (X) No ()

- 17.2 If no, list exceptions:

.....

.....

SCHEDULE S - CEDED REINSURANCE

Showing All New Reinsurance Treaties - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Reinsurer	5 Location	6 Type of Reinsurance Ceded	7 Is Insurer Authorized? (Yes or No)
0199998 - Life and Annuity - Affiliates						
0299998 - Life and Annuity - Non-Affiliates						
0399998 - Accident and Health - Affiliates						
Accident and Health - Non-Affiliates						
9271	35-1817054	01/01/2008	HCC LIFE INSURANCE COMPANY	300 SOUTH HIGHWAY 169 MINNEAPOLIS, MINNES	SSL/A/I	Yes
0499998 - Accident and Health - Non-Affiliates						
0599998 - Property/Casualty - Affiliates						
0699998 - Property/Casualty - Non-Affiliates						

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Current Year to Date - Allocated by States and Territories

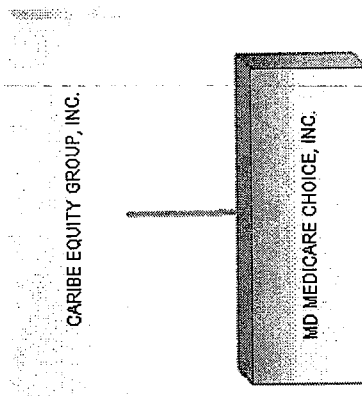
1 States, Etc.	Active Status	Direct Business Only Year to Date							
		2 Accident and Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefits Program Premiums	6 Life and Annuity Premiums and Other Considerations	7 Property/Casualty Premiums	8 Total Column 2 Through Column 7	9 Deposit-Type Contracts
1. Alabama	AL	N							
2. Alaska	AK	N							
3. Arizona	AZ	N							
4. Arkansas	AR	N							
5. California	CA	N							
6. Colorado	CO	N							
7. Connecticut	CT	N							
8. Delaware	DE	N							
9. District of Columbia	DC	N							
10. Florida	FL	Q	95,691,066					95,691,066	
11. Georgia	GA	N							
12. Hawaii	HI	N							
13. Idaho	ID	N							
14. Illinois	IL	N							
15. Indiana	IN	N							
16. Iowa	IA	N							
17. Kansas	KS	N							
18. Kentucky	KY	N							
19. Louisiana	LA	N							
20. Maine	ME	N							
21. Maryland	MD	N							
22. Massachusetts	MA	N							
23. Michigan	MI	N							
24. Minnesota	MN	N							
25. Mississippi	MS	N							
26. Missouri	MO	N							
27. Montana	MT	N							
28. Nebraska	NE	N							
29. Nevada	NV	N							
30. New Hampshire	NH	N							
31. New Jersey	NJ	N							
32. New Mexico	NM	N							
33. New York	NY	N							
34. North Carolina	NC	N							
35. North Dakota	ND	N							
36. Ohio	OH	N							
37. Oklahoma	OK	N							
38. Oregon	OR	N							
39. Pennsylvania	PA	N							
40. Rhode Island	RI	N							
41. South Carolina	SC	N							
42. South Dakota	SD	N							
43. Tennessee	TN	N							
44. Texas	TX	N							
45. Utah	UT	N							
46. Vermont	VT	N							
47. Virginia	VA	N							
48. Washington	WA	N							
49. West Virginia	WV	N							
50. Wisconsin	WI	N							
51. Wyoming	WY	N							
52. American Samoa	AS	N							
53. Guam	GU	N							
54. Puerto Rico	PR	N							
55. U.S. Virgin Islands	VI	N							
56. Northern Mariana Islands	MP	N							
57. Canada	CN	N							
58. Aggregate Other Alien	OT	XXX							
59. Subtotal		XXX	95,691,066					95,691,066	
60. Reporting entity contributions for Employee Benefit Plans		XXX							
61. Total (Direct Business)	(a)		95,691,066					95,691,066	
DETAILS OF WRITE-INS									
5801.									
5802.									
5803.									
5898. Summary of remaining write-ins for Line 58 from overflow page									
5899. Total (Line 5801 through Line 5803 plus Line 5898) (Line 58 above)									

(a) Insert the number of "L" responses except for Canada and Other Alien.

STATEMENT AS OF JUNE 30, 2008 OF THE MD Medicare Choice, Inc

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES
OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

PART 1 - ORGANIZATIONAL CHART



SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATIONS and provide an explanation following the interrogatory questions.

RESPONSE

1. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?

NO

EXPLANATIONS:

Not Required

BAR CODE:

Document Identifier 365:

Page SI01

Schedule A, Verification

NONE

Schedule B, Verification

NONE

Schedule BA, Verification

NONE

Schedule D, Verification

NONE

Page SI02

Schedule D, Part 1B

NONE

SCHEDULE DA - PART 1

Short-Term Investments Owned End of Current Quarter

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
8299999 Totals	1,041,226	XXX	1,041,226	5,957	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book / adjusted carrying value, December 31 of prior year	385,269	366,510
2. Cost of short-term investments acquired	655,957	18,759
3. Accrual of discount		
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals		
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Line 1 + Line 2 + Line 3 + Line 4 + Line 5 - Line 6 - Line 7 + Line 8 - Line 9)	1,041,226	385,269
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	1,041,226	385,269

Page SI04

Schedule DB, Pt. F, Section 1, Replicated (Synthetic) Assets Open
NONE

Page SI05

Sch. DB, Pt. F, Sn. 2, Reconciliation Replicated (Syn.) Assets
NONE

Page SI06

Schedule E, Verification (Cash Equivalents)
NONE

Page E01

Sch. A, Pt. 2, Real Estate Acquired
NONE

Sch. A, Pt. 3, Real Estate Disposed
NONE

Page E02

Schedule B, Part 2, Mortgage Loans Acquired
NONE

Schedule B, Part 3, Mortgage Loans Disposed
NONE

Page E03

Sch. BA, Pt. 2, Other Long-Term Invested Assets Acquired
NONE

Sch. BA, Pt. 3, Other Long-Term Invested Assets Disposed
NONE

Page E04

Schedule D, Part 3, Long-Term Bonds and Stocks Acquired
NONE

Page E05

Schedule D, Part 4, Long-Term Bonds and Stocks Disposed Of
NONE

Page E06

Schedule DB, Part A, Section 1
NONE

Schedule DB, Part B, Section 1
NONE

Page E07

Schedule DB, Part C, Section 1
NONE

Schedule DB, Part D, Section 1
NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1 Depository		2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
		Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6	7	8	
Name	Location and Supplemental Information					First Month	Second Month	Third Month	
Open Depositories									
State of Florida	Tallahassee, FL		0.047			300,000	300,000	300,000	
State of Florida	Tallahassee, FL		0.047			10,000	10,000	10,000	
Florida Bank-Operating	St. Petersburg, FL					7,328,364	28,906,415	11,200,701	
Florida Bank-Claims	St. Petersburg, FL					(1,893,283)	(2,094,817)	(4,743,151)	
Florida Bank	St. Petersburg, FL						3,000		
Bank of America-Claims	Tampa, FL					(216,414)	(216,490)	(212,408)	
Bank of America-ACH	Tampa, FL					2,736	2,736	2,736	
Bank of America-Operating	Tampa, FL					1,031,916	971,339	828,098	
0199999 - TOTAL - Open Depositories						6,563,320	27,882,183	7,385,976	
0399999 - TOTAL Cash on Deposit						6,563,320	27,882,183	7,385,976	
0499999 - Cash in Company's Office						6,000	6,000	6,500	
0599999 - TOTALS						6,569,320	27,888,183	7,392,476	

Page E09
Schedule E, Part 2, Cash Equivalents
NONE