

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of UnitedHealthcare of the Midwest, Inc

### ORDER

After full consideration and review of the report of the financial examination of UnitedHealthcare of the Midwest, Inc for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 10<sup>th</sup> day of May, 2011.



A handwritten signature in black ink, appearing to read "John M. Huff".

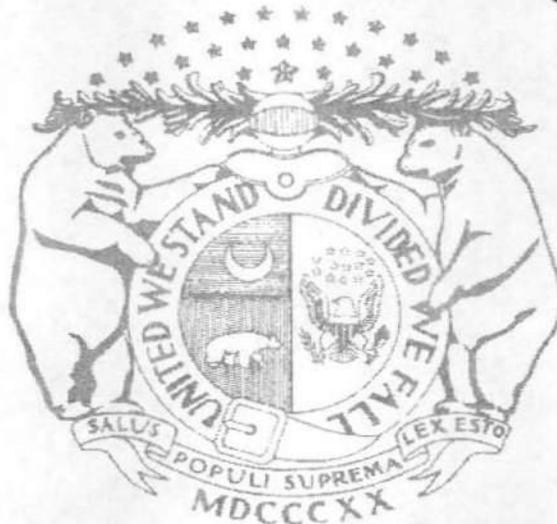
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

FINANCIAL EXAMINATION

UnitedHealthcare of the Midwest, Inc.

AS OF:  
DECEMBER 31, 2009

**FILED**  
MAY 30 2011  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 3, 2011  
Saint Louis, MO

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair of the NAIC Financial Condition (E) Committee

Honorable Mary Jo Hudson, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial Institutions  
and Professional Registration  
301 West High Street, Room 530  
Jefferson City, MO 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**UnitedHealthcare of the Midwest, Inc.**

also referred to as "the Company." The examination was conducted at the Company's home office at 13655 Riverport Drive, Maryland Heights, MO 63043, telephone number (314) 592-7000. This examination began on August 16, 2010 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The previous examination of the Company was performed as of December 31, 2006. That examination was conducted by examiners from the state of Missouri.

The current examination covers the period from January 1, 2007 through December 31, 2009. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). No other zones participated in this examination. This examination also included material transactions or events occurring after December 31, 2009.

**Procedures**

We conducted the current examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration

(Department) or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including its corporate governance, identifying and assessing inherent risks within the Company and evaluating the system controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation, including compliance with Statutory Accounting Principles and Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. We identified the following key activities: Investments, Treasury, Premiums and Underwriting, Losses, and Intercompany.

The Company's independent auditor, Deloitte & Touche LLP, provided information and workpapers from their 2009 audit. We relied upon work performed by the independent auditor, including fraud risk analysis, internal control narratives, walk-throughs and tests of controls, when appropriate.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no comments or recommendations from the previous examination report to be addressed.

There are no significant findings to be reported from the current examination.

### **SUBSEQUENT EVENTS**

There were no events occurring subsequent to year-end, through the end of field work, that had a material effect upon the year-end financial statements.

In January 2010, the Company received a \$16 million arbitration settlement for breach of contract involving solicitation of the Company's Medicare Advantage members.

On May 10, 2010, the Department approved the Company's request to pay an extraordinary dividend in the amount of \$30 million.

### **COMPANY HISTORY**

#### **General**

On February 26, 1985, the Company incorporated as Sanus Health Plan, Inc. in the state of Missouri. On July 23, 1985, the Company received a certificate of authority to operate as a Health Maintenance Organization (HMO) under Sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). The Company began operations on August 1, 1985 under the individual practice association form of health plan. On October 8, 1985, the Company became a federally qualified health maintenance organization. The Company relinquished its federally qualified status in March 1997.

On January 3, 1995, the Company was acquired by and became a third tier subsidiary of UnitedHealth Group Inc. On October 1, 1996, Physicians Health Plan of Greater St. Louis, Inc., another subsidiary of UnitedHealth Group Inc., merged with the Company. The Company, the surviving entity, changed its name to United Healthcare of the Midwest, Inc.

On April 1, 1998, United HealthCare Services, Inc., a direct subsidiary of UnitedHealth Group, Inc., became the Company's immediate parent. On October 30, 1998, United Healthcare, Inc. was incorporated in Delaware as a wholly owned subsidiary of UnitedHealth Group Inc. On January 1, 2000, UnitedHealth Group Inc. contributed its share of common stock of United Healthcare, Inc. to United HealthCare Services, Inc.

On June 30, 2000, United HealthCare Services, Inc. contributed its ownership interest in United HealthCare of the Midwest, Inc., along with its ownership interests in 23 other HMO subsidiaries, to United Healthcare, Inc.

### **Capital Stock**

The Company is authorized to issue up to one hundred shares of \$1 par value common stock. At December 31, 2009, one share was issued and outstanding for a balance of \$1 in the Company's common capital stock account.

### **Dividends**

The Company paid the following dividends during the examination period.

<u>Year</u>	<u>Amount</u>
2007	\$ 28,700,000
2008	49,666,000
2009	52,000,000
Total	<u>\$ 130,366,000</u>

Of the \$52 million paid in 2009, \$43.7 million was classified as an adjustment to paid-in surplus.

## **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. The Company's articles of incorporation and bylaws were amended in 2008 to change the spelling of the Company's name.

The minutes of the shareholder meetings and the Board of Directors meetings were reviewed. The minutes appeared to properly support and document the major transactions and events occurring during the examination period.

The Company requires its directors and officers to complete conflict of interest disclosure statements annually. The disclosure statements for the examination period were reviewed. No material or significant conflicts were noted.

## **MANAGEMENT AND CONTROL**

At year-end 2009, the Company's board consisted of the following members:

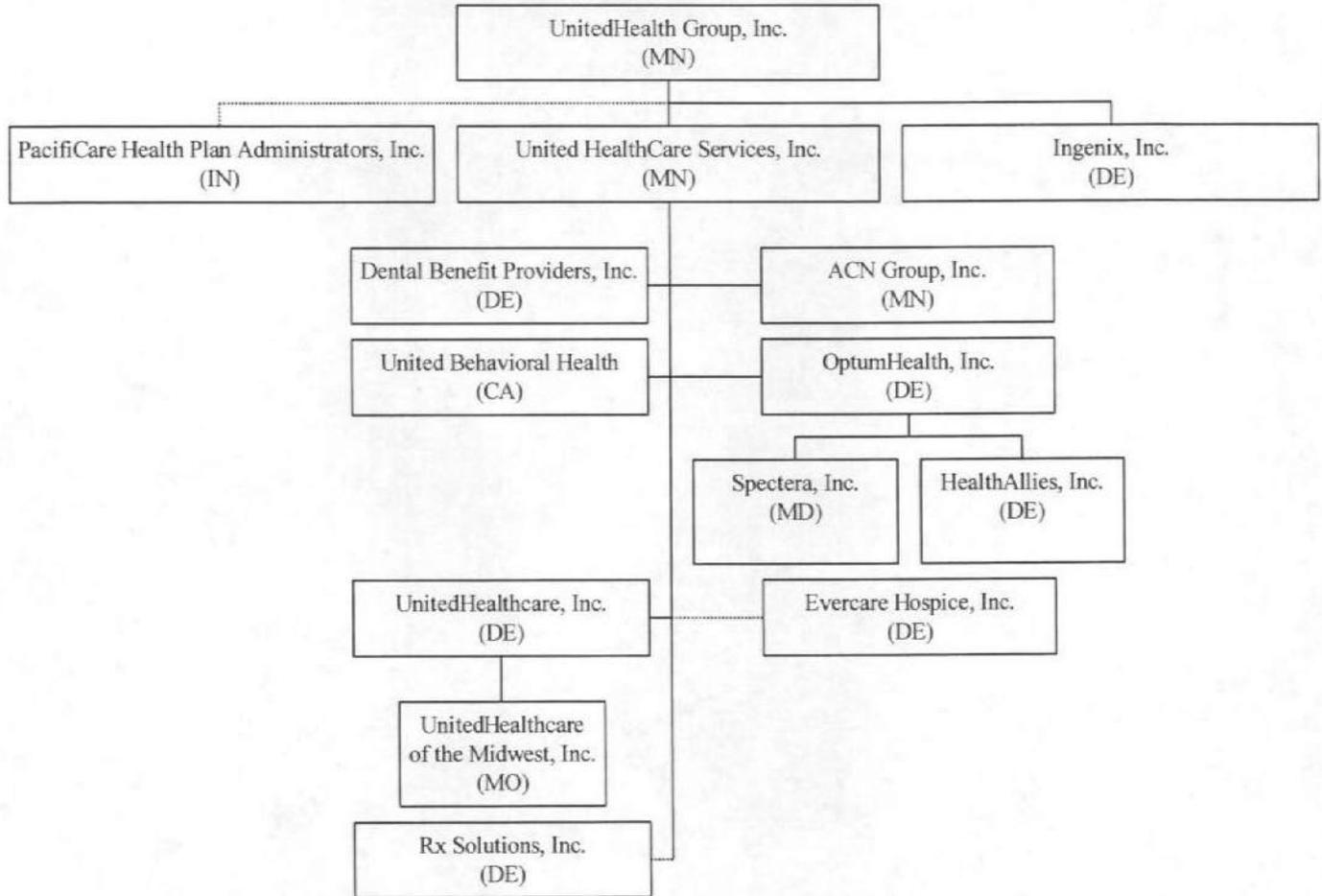
<u>Name and Address</u>	<u>Affiliation</u>
Justin Roth Minnetonka, MN	Chief Financial Officer UnitedHealthcare of the Midwest
Eric Vanderhoef Maryland Heights, MO	Chairman, President, CEO UnitedHealthcare of the Midwest
Steven Walli Maryland Heights, MO	Commercial Health Plans CEO UnitedHealthcare of the Midwest

At year-end 2009, the Company's officers consisted of the following:

Eric Vanderhoef	Chairman, President, Chief Executive Officer
Justin Roth	Chief Financial Officer
Robert Oberrender	Treasurer
Christina Palme-Krizak	Secretary
Timothy Caron	Assistant Secretary
Juanita Luis	Assistant Secretary
Michelle Huntley Dill	Assistant Secretary
John Kelly	Vice President Tax Services
N. Brent Cottingham	Vice President Regulatory Controller, Asst. Treasurer

The Company is a member of an Insurance Holding Company system as defined by Chapter 382 RSMo. The Company's immediate parent is UnitedHealthcare, Inc. (DE). The Company's ultimate parent is UnitedHealth Group Inc. (MN). The chart below depicts the members of the holding company group with which the Company has a direct relationship or transacts business.

## ORGANIZATIONAL CHART



## AFFILIATED TRANSACTIONS

At year-end 2009, the Company was party to the following intercompany agreements:

### Subordinated Revolving Credit Agreement

- Parties: The Company and United HealthCare Corporation.
- Effective: December 1, 1999, non-disapproved November 18, 1999
- Terms: The Company may borrow up to \$20 million under this short-term borrowing facility.

Rate(s): The Company will pay interest at an amount equal to LIBOR (London InterBank Offered Rate) plus 50 basis points. There were no amounts outstanding under the letter of credit at year-end 2009. No interest was paid under the line of credit in 2009.

Management Agreement and Premium Allocation Agreement

Parties: The Company and United HealthCare Services, Inc.

Effective: December 1, 1999, non-disapproved November 18, 1999

Terms: United HealthCare Services, Inc. provides administrative and management services.

Rate(s): Monthly management fees equal to 12% of gross revenues.

Tax Sharing Agreement

Parties: The Company and United HealthCare Group, Inc.

Effective: January 1, 1996, non-disapproved June 16, 2005

Terms: Federal, state and local income tax liabilities are calculated on a separate return basis.

Mental Health and Substance Abuse Services Agreement

Parties: The Company and United Behavioral Health, Inc.

Effective: January 1, 1999, non-disapproved October 31, 2008

Terms: United Behavioral Health provides mental health and substance abuse services to enrollees of the Company.

Rate(s): Fees are based on per member per month charges. Rates vary according to type of membership: Commercial HMO, Commercial HMO Plus or Medicare Advantage

Facility Participation Agreement for Specialty Pharmacy Provider Agreement

Parties: The Company, United HealthCare Insurance Company, and RxSolutions, Inc.

Effective: May 1, 2008, non-disapproved April 14, 2008

- Terms: RxSolutions provides pharmacy coverage under the Company's medical benefit plans and acts as a Specialty Pharmacy Provider.
- Rate(s): Fees are based on the lesser of (1) RxSolutions's customary charges, less any applicable member expenses, or (2) the contract rates set forth in the agreement, less any applicable member expenses.

#### Medicare Prescription Drug Benefit Administration Agreement

- Parties: The Company, United HealthCare Insurance Company, and RxSolutions, Inc.
- Effective: January 1, 2009, non-disapproved April 22, 2009
- Terms: RxSolutions serves as the pharmacy benefit manager for the Company's Medicare Advantage plans with a Part D (prescription drugs) benefit.
- Rate(s): Fees are based on per member per month charges and per prescription claim charges.

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company and its ultimate parent are insured on a \$25 million crime policy issued to UnitedHealth Group, Inc. This coverage exceeds the NAIC recommended minimum amount of coverage. This coverage also exceeds the coverage required by RSMo 354.425 (Bonding of officers who disburse or invest funds--bond requirements).

The Company is also a named insured on policies issued to UnitedHealth Group, Inc. for the following coverage: general liability, business auto, commercial umbrella liability, professional liability, executive liability, employee benefit plan fiduciary liability and property. The coverage appears to adequately protect the Company's operations.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company does not have any employees. Services are provided in accordance with the management agreement described above. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

UnitedHealth Group, Inc. provides an array of benefits to employees including: paid time off, term life insurance, short and long-term disability coverage, medical, dental and vision benefits, and flexible spending accounts. Employees are also eligible to participate in a 401(k) savings plan and an employee stock purchase plan. Expenses and liabilities associated with employee benefits appear to have been properly reported in the annual statement.

## TERRITORY AND PLAN OF OPERATIONS

The Company is licensed by the Department as an HMO under sections 354.400 through 354.636 RSMo (Health Maintenance Organizations). At year-end 2009, the Company was also licensed in Illinois and Kansas.

The Company offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company also serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug coverage under a contract with the Centers for Medicare and Medicaid Services (CMS).

## GROWTH OF COMPANY

The Company's surplus has declined over the examination period. The Company's premium to surplus ratio for the examination period is exhibited below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net Premiums Earned (000s)	523,117	497,918	557,349
Change from Prior Year	5.1%	-10.7%	2.2%
Capital and Surplus (000s)	68,796	84,782	96,581
Change from Prior Year	-18.9%	-12.2%	35.4%
Premiums:Surplus	7.6	5.9	5.8

## LOSS EXPERIENCE

The following exhibit reflects the Company's underwriting results over the examination period.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total revenues	\$ 523,117,147	\$ 497,918,215	\$ 557,348,702
Total expenses	<u>475,879,495</u>	<u>451,916,925</u>	<u>492,204,807</u>
Net underwriting gain	\$ 47,237,652	\$ 46,001,290	\$ 65,143,895
Net income	<u>\$ 36,961,308</u>	<u>\$ 35,528,470</u>	<u>\$ 51,018,727</u>

## REINSURANCE

### General

Premiums reported during the period under examination were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct premium	\$ 562,548,187	\$ 544,306,772	\$ 645,926,510
Reinsurance ceded	<u>38,144,353</u>	<u>44,015,243</u>	<u>81,816,291</u>
Net premium	<u>\$ 524,403,834</u>	<u>\$ 500,291,529</u>	<u>\$ 564,110,219</u>

**Ceded**

The Company cedes reinsurance on a quota-share basis to UnitedHealthcare Insurance Company (CT), an affiliate. Under the agreement, the Company cedes sixty percent (60%) of premiums, benefit costs, provider incentive payments and other expenses related to commercial business. The Company's Medicare business is excluded from the agreement. The agreement, which became effective July 1, 2003, was filed with the Department and approved on September 22, 2003.

**ACCOUNTS AND RECORDS****Independent Accountants**

Deloitte & Touche LLP audited the Company's 2009 financial statements. The audit workpapers were reviewed and were used in the course of the current financial examination as deemed appropriate.

**Actuarial Opinion**

Allen J. Sorbo, FSA, MAAA, President, Chief Executive Officer and Chief Actuary of UnitedHealthcare Insurance Company, provided the actuarial opinions for the years under examination. Reserves were found to be adequate for all years under review.

**Information Systems**

In conjunction with this examination, Andrew Balas, CFE, AES, CPA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. His review did not identify any significant weaknesses.

**Consulting Actuary**

The Department retained a consulting actuary, Karen Elsom, FSA, MAAA, of Lewis & Ellis, Inc. to review the adequacy of the Company's reserves and related liabilities. The Statement of Actuarial Opinion concluded that the actuarial items reviewed are computed in accordance with presently accepted actuarial standards; are based on relevant and appropriate actuarial assumptions; meet the requirements of the insurance laws and related regulations of the state of Missouri; make sufficient provision, in the aggregate, for all unpaid claims and other actuarial liabilities; are computed on the basis of assumptions consistent with those used in the prior year; and, include appropriate provision, in the aggregate, for all actuarial items which ought to be established.

**STATUTORY DEPOSITS****Deposits with the State of Missouri**

The funds on deposit with the Department as of December 31, 2009, as reflected below, were sufficient in par and market value to meet the \$300,000 minimum deposit requirement in accordance with Section 354.410 RSMo (Certificate issued, when—annual deposit requirements).

	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$ 330,000	\$ 349,388	\$ 346,357

### FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Comments on the Financial Statements" which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

## ASSETS

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 105,357,182	\$ -	\$ 105,357,182
Cash and short-term investments	36,840,417	-	36,840,417
Investment income due and accrued	1,220,921	-	1,220,921
Uncollected premiums	7,907,137	135,972	7,771,165
Amounts recoverable from reinsurers	3,626,544	-	3,626,544
Other amounts receivable under reinsurance contracts	352,788	-	352,788
Amounts receivable relating to uninsured plans	791,216	-	791,216
Current federal income tax recoverable	1,597,335	-	1,597,335
Net deferred tax asset	1,874,309	-	1,874,309
Guaranty funds receivable or on deposit	169,904	169,904	-
Health care and other amounts receivable	4,110,595	361,870	3,748,725
Prepaid advances	424,189	424,189	-
Totals	<u>\$ 164,272,537</u>	<u>\$ 1,091,935</u>	<u>\$ 163,180,602</u>

## LIABILITIES, CAPITAL AND SURPLUS

	<u>Total</u>
Claims unpaid	\$ 50,926,803
Accrued medical incentive pool and bonus amounts	32,062,750
Unpaid claims adjustment expenses	964,430
Aggregate health policy reserves	3,089,134
Aggregate health claim reserves	309,410
Premiums received in advance	119,288
General expenses due or accrued	407,249
Ceded reinsurance premiums payable	3,273,756
Remittances and items not allocated	1,066,782
Amounts due to parent; subsidiaries and affiliates	871,485
Liability for amounts held under uninsured plans	1,142,981
Unclaimed property	<u>150,252</u>
Total liabilities	\$ 94,384,320
Common capital stock	\$ 1
Gross paid in and contributed surplus	32,788,535
Unassigned funds (surplus)	<u>36,007,746</u>
Total capital and surplus	\$ 68,796,282
Total liabilities, capital and surplus	<u>\$ 163,180,602</u>

## STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$ 524,403,834
Change in unearned premium reserves and reserve for rate credits	<u>(1,286,687)</u>
Total revenues	523,117,147
Hospital/medical benefits	340,048,950
Other professional services	5,993,261
Prescription drugs	44,280,126
Incentive pool, withhold adjustments and bonus amounts	50,490,189
Net reinsurance recoveries	<u>(35,370,303)</u>
Total hospital and medical	405,442,223
Claims adjustment expenses	9,086,019
General administrative expenses	61,351,253
Increase in reserves for life and accident and health contracts	<u>(2,249,999)</u>
Total underwriting deductions	473,629,496
Net underwriting gain	49,487,651
Net investment income earned	4,943,890
Net realized capital gains	378,902
Fines and penalties	37,184
Federal and foreign income taxes incurred	<u>(17,886,319)</u>
Net income	<u><u>\$ 36,961,308</u></u>

## CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2008	\$ 84,782,230
Net income	36,961,308
Change in net deferred income tax	(579,313)
Change in nonadmitted assets	(367,943)
Paid in surplus adjustments	(43,700,000)
Dividends to stockholders	<u>(8,300,000)</u>
Net change in capital and surplus	(15,985,948)
Capital and surplus, December 31, 2009	<u><u>\$ 68,796,282</u></u>

### **EXAMINATION CHANGES**

There are no examination changes.

### **COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on the Company's financial statements.

### **SUMMARY OF RECOMMENDATIONS**

There are no examination recommendations.

## ACKNOWLEDGMENT

The assistance and cooperation extended by UnitedHealthcare of the Midwest, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Douglas Daniels, CFE, Andrew Coppedge and Andrew T. Balas, CFE, AES, CPA, examiners for the Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

## VERIFICATION

State of Missouri )

) ss

City of St. Louis )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

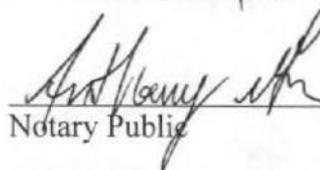


Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
Department of Insurance, Financial Institutions  
and Professional Registration

Sworn to and subscribed before me this 12 day of January, 2011.

My commission expires:

Sept 24, 2012



Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE  
Audit Manager  
Department of Insurance, Financial Institutions  
and Professional Registration

Jeremiah W. (Jay) Nixon  
Governor  
State of Missouri



Department of Insurance  
Financial Institutions  
and Professional Registration  
John M. Huff, Director

May 20, 2011

Eric Vanderhoef, President  
UnitedHealthcare of the Midwest, Inc  
13655 Riverport Dr  
PO Box 2560  
Maryland Heights, MO 63043-8560

Dear Mr. Vanderhoef

This letter is to inform you that ten days from the date of this letter, the Missouri Department of Insurance, Financial Institutions and Professional Registration (the "Department") will file a copy of the enclosed Order and Examination Report of UnitedHealthcare of the Midwest, Inc for the period ending December 31, 2009 in this office as a public document. The Department is issuing the Examination Report pursuant to section 374.205, RSMo. The Department will distribute copies of the Examination Report to all states in which your company is licensed and to the National Association of Insurance Commissioners.

As provided in the enclosed Order, you are responsible to fully implement or address each item mentioned in the General Comments and/or Recommendation section of the Examination Report and to account for the company's financial condition and affairs in a manner consistent with the Director's findings and conclusions. Verification of compliance with the items in the General Comments and/or Recommendation section must be received by the Department within ninety (90) days of the date of this letter. Failure to fully comply may result in further action by the Department and/or additional examination procedures.

Within thirty (30) days of the date of this letter, the company must file affidavits executed by each of the company's directors stating under oath that they have received copies of the Examination Report and the Order. At their next meeting the board of directors should review the Examination Report and indicate their acceptance of the Examination Report in the board meeting minutes.

An invoice for the certified copies and the expense of distributing the Examination Report will be mailed to you in the very near future.

Sincerely,  
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

A handwritten signature in cursive script that reads "Frederick G. Heese".

By: Frederick G. Heese, CPA, CFE  
Chief Financial Examiner & Division Director

JH/FH/tsr

Certified Mail  
Return Receipt Requested

cc: Michael Shadowens, Audit Manager  
Tom Cunningham, Examiner-in-Charge