EXAMINATION REPORT
of
PRIORITY HEALTH CARE, INC.
Virginia Beach, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Priority Health Care, Inc. as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 10th day of October, 2008

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 3, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

PRIORITY HEALTH CARE, INC.

Virginia Beach, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on April 30, 1984. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on July 5, 1983 as Health Plan of Virginia, Inc., a for-profit HMO. On June 1, 1985, the Corporation was federally qualified as an HMO and effective January 19, 1988, the Corporation's name was changed to Travelers Health Network of Virginia, Inc. ("THN-VA").

On May 1, 1993, the Bureau approved the purchase of 100% of the issued and outstanding shares of common stock of THN-VA by Priority Health Care, Inc., currently Priority, Inc. ("Priority"), a subsidiary of Tidewater Health Care, Inc. ("Tidewater"). On May 3, 1993, the Articles of Incorporation were amended and the Corporation's name was changed to Health First, Inc. On May 12, 1995, Blue Cross and Blue Shield of Virginia [subsequently renamed Trigon Insurance Company ("Trigon")], purchased 80% of Priority from Tidewater. Tidewater continued to own the remaining 20% of Priority. Effective July 15, 1997, Priority Health Care, Inc., an HMO formerly licensed in Virginia, merged into the Corporation, with the Corporation being the surviving entity. On the same date, the Corporation changed its name to Priority Health Care, Inc.

Effective July 1, 1998, Trigon contributed all of its stock in Priority to Trigon Administrators, Inc. On September 29, 2000, Priority purchased and retired the 20% of its outstanding shares held by Tidewater. Effective March 31, 2001, Trigon Administrators was sold and the outstanding shares of Priority were distributed to Trigon Healthcare, Inc. ("Trigon Healthcare").

On July 31, 2002, Trigon Healthcare and Anthem, Inc., a publicly traded company incorporated in Indiana, completed a merger in which Trigon Healthcare was merged into a wholly-owned subsidiary of Anthem, Inc. ("Anthem") that subsequently changed its name to Anthem Southeast, Inc. ("Anthem Southeast"). As a result, the Corporation and its immediate parent, Priority, became wholly-owned subsidiaries of Anthem Southeast.

On November 30, 2004, Anthem, the Corporation's ultimate Parent, and WellPoint Health Networks, Inc. ("WellPoint Health Networks") completed a merger in which WellPoint Health Networks and all WellPoint subsidiaries merged with and into Anthem Holding Corp., a direct and wholly-owned subsidiary of Anthem with Anthem Holding Corp. as the surviving entity in the merger. In connection with the merger, Anthem amended its articles of incorporation to change its name to WellPoint, Inc. ("WellPoint") At December 31, 2007, the Corporation is a wholly-owned subsidiary of Anthem Southeast.

CAPITAL AND SURPLUS

At December 31, 2007, the Corporation's capital and surplus was $49,520,080. According to the Articles of Incorporation, the Corporation has the authority to issue 3,000 shares of common stock with a par value of $1,000 per share. At December 31, 2007, 768 shares were outstanding, with gross paid in and contributed surplus of $14,515,939, surplus notes of $10,697,153 and unassigned funds (surplus) of $23,538,988. The Corporation's surplus notes are with its parent, Priority. At December 31, 2007, accrued interest on these loans equaled $3,783,615

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than $600,000, up to a maximum of $4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2007 was $4,205,734, the Corporation's minimum net worth requirement at December 31, 2007 was $4,000,000.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the affairs of the Corporation shall be managed by a board of not fewer than three and not more than six directors. A majority of the directors shall constitute a quorum for the transaction of business.

The bylaws also provide that the board may designate two directors to constitute an Executive Committee. The Executive Committee shall have and may exercise all the authority of the board of directors except to approve an amendment of the bylaws of the Corporation or plan of merger or consolidation. Additionally, the Executive Committee may designate any other committees as may be deemed desirable.

The officers of the Corporation shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time deem necessary. The Chairman of the Board shall preside at all meetings of the Board and of the Executive Committee. The President shall be the Chief Executive Officer and shall have general supervision and control of the other officers of the Corporation. At December 31, 2007, the Board of Directors and the Officers of the Corporation were as follows:

Directors	Principal Occupation
Thomas R. Byrd	President and Chief Executive Officer Anthem Southeast, Inc. Richmond, Virginia
Wayne S. DeVeydt	Executive Vice President and Chief Financial Officer WellPoint, Inc. Indianapolis, Indiana

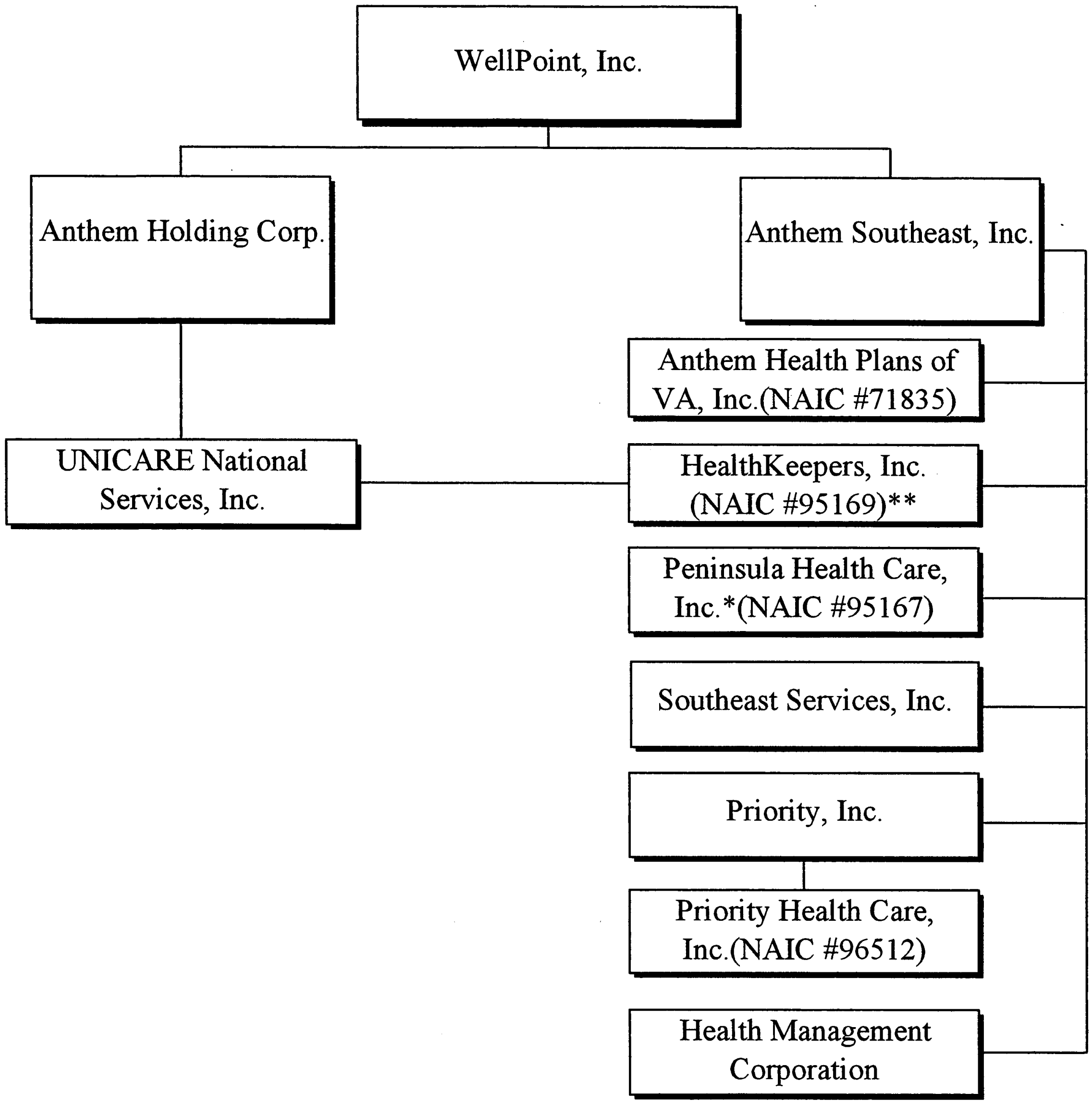
Sandra H. Miller	Senior Vice President and Deputy General Counsel WellPoint, Inc. Indianapolis, Indiana

Officers

Thomas R. Byrd	President
Colin S. Drozdowski	Vice President-Provider Network Management
Carter V. Reid	Vice President-Operations
Nancy L. Purcell	Secretary
S. Owen Hunt	Assistant Secretary
Robert D. Kretschmer	Treasurer

AFFILIATED COMPANIES

At December 31, 2007, Priority owned 100% of the Corporation's outstanding common stock. Priority is a wholly-owned subsidiary of Anthem Southeast which is a wholly-owned subsidiary of WellPoint. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2007.



* Peninsula Health Care, Inc. is 51% owned by Anthem Southeast, Inc. and 49% owned by Riverside Healthcare Association, Inc.

** HealthKeepers, Inc. is 88.89% owned by Anthem Southeast, Inc. and 11.11% owned by UNICARE National Services, Inc.

TRANSACTIONS WITH AFFILIATES

Master Administrative Services Agreement

Effective January 1, 2006, the Corporation entered into a Master Administrative Services Agreement with WellPoint and its subsidiaries and affiliates (collectively referred to as the "affiliates"). According to the agreement, each affiliate that is party to the agreement may provide certain administrative, consulting and support services to another affiliate upon request. The affiliate rendering services shall be reimbursed for the direct and indirect costs and expenses incurred in providing such services and reimbursement is due within 30 days upon receipt of a statement for the services rendered. The term of the agreement is one year and shall be automatically renewed for additional one-year periods unless terminated upon 90 days written notice. The Corporation incurred $9,853,429 in fees related to the agreement in 2007.

Accounts Payable Agreement

Effective October 8, 2004, the Corporation entered into an Accounts Payable Agreement with and among Anthem, Inc. (currently WellPoint, Inc.), Anthem Insurance Companies, Inc., The Anthem Companies, Inc., Anthem Services, Inc., Anthem Health Plans of Virginia, Inc. ("AHPVA"), Peninsula Health Care, Inc. and HealthKeepers, Inc. According to the agreement, in order to achieve administrative efficiencies each of the above parties can act as a transfer agent for any of the other parties. As such, the transfer agent takes on the responsibility for transmitting or receiving payment with respect to an account receivable owed by or to another party, affiliate or non-affiliate. The transfer agent agrees to transmit any payment it receives on behalf of a party with respect to an account receivable within the month following the date payment is received by the transfer agent. Likewise, a party for whom a transfer agent has made payment of an account receivable on its behalf will reimburse the transfer agent within the month following the payment. No service fee will be charged and the transfer agent will bear its own cost in performing its services pursuant to the agreement. The initial term of the agreement is one year and it shall renew automatically for one-year terms. A party may terminate its participation in the agreement by giving written notice to all other parties six months in advance.

Excess Medical Stop Loss Agreement

Effective January 1, 2000, the Corporation entered into an Excess Medical Stop Loss Agreement with Trigon Insurance Company (currently AHPVA). Pursuant to the agreement, AHPVA shall reimburse the Corporation 100% of the losses paid during the twelve-month policy period ending December 31, 2007 in excess of the following deductibles:

1. $500,000 for losses paid for each person enrolled under non-Medicaid contracts.

2. $500,000 for losses paid for each person enrolled under Medicaid contracts.

For the purposes of this policy, losses are defined as amounts that are actually paid by the Corporation for medical expenses covered under the contract; in settlement of claims for medical expenses covered under the contracts; or in satisfaction of judgments for medical expenses covered under the contracts. Medical expenses are defined as covered charges for inpatient services rendered by hospitals, rehabilitation and skilled nursing facilities to persons enrolled under contracts and transplant services fees charged by transplant service providers. For hospital, rehabilitation, skilled nursing facility or transplant services expenses, each expense shall be deemed to be incurred upon the date of admission to the hospital, rehabilitation or skilled nursing facility.

This agreement contains a provision that requires the Corporation to pay AHPVA up to a maximum of 30% of the initial premium in the event that the paid losses exceed 85% of the initial premium. Conversely, AHPVA is required to return to the Corporation up to 30% of the initial premium when paid losses are less than 85% of the initial premium.

The maximum lifetime excess insurance indemnity payable under this agreement for any one member shall not exceed $2,000,000. The agreement includes a continuation of coverage clause and a benefits conversion clause in the event of the Corporation's insolvency. Premiums and claims ceded to AHPVA related to this agreement during 2007 were $731,960 and $70,516, respectively.

Consolidated Federal Income Tax Agreement

Effective December 31, 2005, the Corporation became a party to a Consolidated Federal Income Tax Agreement with WellPoint and selected subsidiaries. The agreement establishes methods for allocating the consolidated federal income tax liability of the consolidated group among its members, for reimbursing WellPoint for payment of such tax liability, for compensating any member for use of its tax losses or tax credits and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. In accordance with the agreement, for each consolidated federal return year each member shall pay WellPoint an amount equal to the federal income tax payments it would incur if it were filing a separate federal income tax return. Such payments shall be made to WellPoint no later than 30 days after these payments would be due to the federal government if the subsidiary were filing a separate return. For each consolidated federal return year, WellPoint shall pay each member an amount equal to the reduction in the federal income tax liability of the consolidated group, if any, resulting from the use in any taxable year of tax benefits attributable to such member, including the use of net operating losses or tax credits. In the event of a refund, WellPoint shall pay each member its proportional share within 30 days after the refund is received.

Solvency Guarantee Agreement

The Corporation's performance, obligations, and solvency are guaranteed by AHPVA through a solvency guarantee agreement effective January 1, 1996. This agreement remains in effect until prior written notice has been given by either party to the other of its intent to terminate the agreement. In the event the Corporation ceases operations for any reason, AHPVA coverage will be offered to all of the Corporation's members without exclusions, limitations, or conditions based on health reasons.

Pharmaceutical Service Agreement

Effective January 1, 2004, the Corporation entered into a Pharmaceutical Service Agreement with Anthem Prescription Management, LLC ("APM") to provide covered pharmacy services to the Corporation's members. As compensation for these services, the Corporation shall pay APM an ingredient cost and a dispensing fee per covered pharmaceutical, which is dependent on whether the pharmaceutical is a brand or generic pharmaceutical and whether it is dispensed through APM's national network of participating retail pharmacies, through APM's network of participating retail pharmacies in Virginia or through APM's mail order pharmacy. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred $0 in fees related to the agreement in 2007.

Services Agreement with Health Management Corporation

Effective January 1, 2002, the Corporation entered into a Services Agreement with Health Management Corporation ("HMC") to administer its Family Health Program. The Family Health Program includes a 24-hour toll free nurse line, the Corporation's Baby Benefits Maternity Management and Chronic Disease Management products. As compensation, the Corporation pays a predetermined per member, per month amount to HMC. The agreement had an initial term of one year and renews automatically for one-year terms thereafter. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred $225,278 in fees related to the agreement in 2007.

Management Agreement with Priority, Inc.

Effective February 1, 2005, the Corporation entered into a Management Agreement with Priority, Inc. ("Priority") whereby Priority shall provide those services that are deemed necessary for the financial stability and the competent and efficient management of the Corporation. During 2007, Priority provided management, marketing, claims processing, medical management, enrollment and customer service support to the Corporation. For these services, the Corporation reimburses Priority all costs incurred in carrying out the agreement determined through a mutually agreed upon allocation formula. Expenses incurred by the Corporation pursuant to this agreement during 2007 were $1,290,695.

Services Agreement with Anthem Health Plans of Virginia, Inc.

Effective January 1, 1996, the Corporation entered into a Services Agreement with AHPVA whereby AHPVA shall provide certain services outlined in the agreement. During 2007, AHPVA provided marketing, underwriting, actuarial, management, accounting, legal and information systems support to the Corporation. For these services, the Corporation shall pay all direct costs and indirect allocable costs monthly. Expenses incurred by the Corporation pursuant to this agreement during 2007 were $1,257,546.

Operating Agreement with HealthKeepers, Inc.

Effective January 1, 1996, the Corporation entered an Operating Agreement with HealthKeepers, Inc. ("HealthKeepers") whereby HealthKeepers shall provide or arrange to provide certain administrative and management services required by the Corporation. During 2007, HealthKeepers provided claims processing, enrollment and customer service support to the Corporation. For these services, the Corporation shall pay all direct costs and indirect allocable costs monthly. Expenses incurred by the Corporation pursuant to this agreement during 2007 were $225,418.

Information Technology Services Agreement with Anthem Insurance Companies, Inc.

Effective January 1, 2005, the Corporation entered into an Information Technology Services Agreement with Anthem Insurance Companies, Inc. ("AICI"). Pursuant to the agreement, AICI shall provide information technology services for desktop applications, security and disaster recovery, user support, applications maintenance and support, voice and data networks, internet infrastructure and eBusiness support, specific project programming, data center and data warehouse storage. For theses services, the Corporation shall pay the actual monthly costs incurred by AICI that are allocated to the

Corporation based on employee headcount or direct use percentage. The Corporation incurred $1,742,340 in fees related to the agreement in 2007.

Inter-Company Service Agreement with Community Insurance Company

Effective September 1, 2005, the Corporation entered into an Inter-Company Service Agreement with Community Insurance Company ("CIC") whereby CIC shall provide certain administrative and benefit management services to support the Corporation's offering of Medicare Advantage health benefit plans to its covered members. For these services, the Corporation shall reimburse CIC a monthly fixed cost and a variable cost based on projected administrative expenses per covered member per month. Within 90 days after the end of the calendar year, a review of CIC's actual expenses incurred to support the Corporation shall be conducted. If the Corporation's monthly fixed and variable cost fees for the calendar year exceed CIC's actual costs then CIC shall refund the excess to the Corporation. If CIC's actual costs exceed the Corporation's monthly fixed and variable cost fees for the calendar year then the Corporation shall pay CIC the difference. The Corporation incurred $0 in fees related to the agreement in 2007.

Dividends

The Corporation paid cash dividends of $5,035,197 and $18,003,770 to Priority in 2005 and 2006, respectively. On August 24, 2007, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $40,000,000 to Priority. The Bureau approved the Corporation's request on September 11, 2007 and the dividend was paid on September 25, 2007.

CONFLICT OF INTEREST

The Corporation has adopted WellPoint's corporate conflict of interest policy. The policy states that directors, officers and associates must discharge their business responsibilities in a manner that furthers the interests of the Corporation and must not compromise the interests of the Corporation because of a conflict of interest with their other business or personal interests. Directors, officers and certain employees are required to complete a conflict of interest disclosure form in order to disclose business and personal interests that could be adverse to the interests of the Corporation. The objective of the disclosure is to protect the interests of the Corporation and alert its directors, officers and its responsible employees to business decisions and activities for which they must exercise special care or in which they should not participate.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, the Corporation was listed as a named insured on WellPoint's financial institution bond with a $10,000,000 limit of liability, subject to a $750,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. In addition, the Corporation was listed as a named insured on a commercial property insurance policy, a general liability policy, a business automobile liability policy, an umbrella liability policy, a workers compensation and employers liability policy, a directors and officers liability policy, a fiduciary liability policy, a managed care professional liability policy and a financial institution electronic and computer crime policy.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Corporation's service area, as reported in its 2007 Annual Statement, included the Virginia cities of Alexandria, Bedford, Buena Vista, Charlottesville, Chesapeake, Colonial Heights, Danville, Emporia, Fairfax, Falls Church, Franklin, Fredericksburg, Hampton, Hopewell, Lexington, Manassas, Manassas Park, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Radford, Richmond, Roanoke, Salem, South Boston, Suffolk, Virginia Beach and Williamsburg and the Virginia counties of Accomack, Albemarle, Amelia, Arlington, Bedford, Botetourt, Brunswick, Buckingham, Caroline, Charles City, Charlotte, Chesterfield, Clarke, Craig, Cumberland, Dinwiddie, Essex, Fairfax, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Giles, Gloucester, Goochland, Greene, Greensville, Halifax, Hanover, Henrico, Isle of Wright, James City, King and Queen, King George, King William, Lancaster, Loudoun, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Pittsylvania, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Shenandoah, Southampton, Spotsylvania, Stafford, Surry, Sussex, Tazewell, Warren, Westmoreland, Winchester, Wythe and York.

Medical services are provided by physicians in independent practice within the Corporation's service area. Each member chooses a primary care physician ("PCP") from a list of the Corporation's primary providers. The PCP is responsible for coordinating all of the member's health care needs. Except in emergencies, a member must obtain services only from, or prearranged by, their PCP. Specialty physicians are available only with a referral from a PCP. All hospital admissions must be arranged by the member's PCP and approved in advance by the Corporation. In addition, the Corporation offers a point of service option which allows a member to receive services from outside of the Corporation's participating network of providers.

At December 31, 2007, the Corporation had a contract with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid enrollees which comprised 37% of its premium revenue in 2007.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to enrollees. The Corporation compensates participating physicians either on a capitated basis or a fee-for-service arrangement. Additionally, PCPs participate in an incentive program based on qualitative measures such as quality of care, as well as service and resource management.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its enrollees. The Corporation compensates participating hospitals on either a case/admission rate basis or a per diem rate basis.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide mental health services, pharmacy services, home health care, physical therapy, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each contract.

CONTRACT FORMS

Group Contracts

The group contracts generally cover the following services provided by PCPs, specialty care physicians, and other participating providers:

1. Primary care physician services
2. Specialist physician services
3. Hospital services
4. Early intervention services
5. Diagnostic services
6. Maternity care services
7. Skilled nursing facilities services
8. Hospice care services
9. Mental health and substance abuse services
10. Home health care services
11. Durable medical equipment
12. Prescription drug services
13. Therapy services
14. Wellness services
15. Emergency and urgent care services
16. Ambulance services

Exclusions generally include benefits related to a non-covered service, cosmetic procedures, dental services, experimental procedures, family planning services, genetic testing and routine foot care.

The above are general summaries of coverages and exclusions and the provisions in each individual group contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2007. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

Year	Total Admitted Assets	Total Liabilities	Total Capital and Surplus
1998	$28,956,954	$22,495,793	$6,461,161
1999	32,922,198	21,970,164	10,952,034
2000	47,650,840	26,816,100	20,834,740
2001	58,530,907	29,568,659	28,962,248
2002	65,647,238	29,155,084	36,492,154
2003	71,515,303	28,721,394	42,793,909
2004	86,607,617	36,255,649	50,351,968
2005	103,921,365	40,288,190	63,633,175
2006	104,637,737	35,488,096	69,149,641
2007	87,991,887	38,471,807	49,520,080

Year	Total Revenue	Net Investment Gain	Medical & Hospital Expenses	Administrative & Other Expenses	Pre-Tax Income (Loss)
1998	$120,106,693		$102,486,173	$14,210,099	$3,410,421
1999	122,734,270		103,671,693	13,812,373	5,250,204
2000	132,327,506		103,042,850	14,853,387	14,431,269
2001*	147,244,924	$3,167,541	122,161,562	15,569,261	12,681,642
2002	176,015,366	4,027,818	142,498,519	21,361,282	16,183,383
2003	171,198,942	2,404,889	133,152,023	25,768,068	14,683,740
2004	192,169,647	2,940,117	154,485,283	22,744,874	17,879,607
2005	207,454,847	3,370,907	159,685,508	24,039,748	27,100,498
2006	227,205,740	3,831,962	172,100,114	22,314,332	36,623,256
2007	229,653,320	4,468,892	185,678,600	18,075,955	30,367,657

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Corporation's enrollment data at year-end is illustrated as follows:

Year	Number of Members
1998	71,042
1999	75,187
2000	74,964
2001	78,735
2002	85,770
2003	76,648
2004	76,200
2005	75,517
2006	77,002
2007	71,142

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Bureau required that the Corporation maintain a minimum of $800,000 on deposit with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Transactions with Affiliates
Conflicts of Interest
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Provider Agreements
Contract Forms
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$74,739,998		$74,739,998
Cash and short-term investments	6,875,913		6,875,913
Subtotals, cash and invested assets	$81,615,911	$0	$81,615,911
Investment income due and accrued	799,558		799,558
Uncollected premiums and agents' balances in the course of collection	1,451,157	126,183	1,324,974
Amounts recoverable from reinsurers	241,742		241,742
Amounts receivable relating to uninsured plans	1,157,056		1,157,056
Net deferred tax asset	727,883	181,038	546,845
Receivables from parent, subsidiaries and affiliates	977,031		977,031
Health care and other amounts receivable	2,238,613	909,843	1,328,770
Miscellaneous receivable	2,950	2,950	0
Total assets	$89,211,901	$1,220,014	$87,991,887

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$17,942,573	$287,555	$18,230,128
Accrued medical incentive pool and bonus amounts	985,405		985,405
Unpaid claims adjustment expenses		726,808	726,808
Aggregate health policy reserves		294,307	294,307
Aggregate health claim reserves		4,684	4,684
Premiums received in advance		2,588,262	2,588,262
General expenses due or accrued		2,322,109	2,322,109
Current federal income tax payable and interest thereon		1,420,306	1,420,306
Ceded reinsurance premiums payable		64,364	64,364
Remittances and items not allocated		45,041	45,041
Amounts due to parent, subsidiaries and affiliates		4,443,015	4,443,015
Liability for amounts held under uninsured plans		7,347,357	7,347,357
Unclaimed property		21	21
Total liabilities	$18,927,978	$19,543,829	$38,471,807
Common capital stock			$768,000
Gross paid in and contributed surplus			14,515,939
Surplus notes			10,697,153
Unassigned funds (surplus)			23,538,988
Total capital and surplus			$49,520,080
Total liabilities, capital and surplus			$87,991,887

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Net premium income	XXX	$229,947,627
Change in unearned premium reserves and reserve for rate credits	XXX	(294,307)
Total revenues	XXX	$229,653,320
Hospital and Medical		
Hospital/medical benefits	$1,811,074	$86,745,638
Emergency room and out-of-area	90,363	5,500,772
Prescription drugs	559,327	35,459,639
Aggregate write-ins for other hospital and medical	496,996	57,208,557
Incentive pool, withhold adjustments and bonus amounts		834,510
Subtotal	$2,957,760	$185,749,116
Less:		
Net reinsurance recoveries	70,516	70,516
Total hospital and medical	$2,887,244	$185,678,600
Claims adjustment expenses		7,187,360
General administrative expenses		10,895,467
Total underwriting deductions	$2,887,244	$203,761,427
Net underwriting gain	XXX	$25,891,893
Net investment income earned		$4,631,387
Net realized capital gains or (losses)		(162,495)
Net investment gains		$4,468,892
Miscellaneous income		$6,872
Net income before federal income taxes	XXX	$30,367,657
Federal income taxes incurred	XXX	10,153,476
Net income	XXX	$20,214,181

RECONCILIATION OF CAPITAL AND SURPLUS

	2005	2006	2007
Capital and surplus prior reporting year	$50,351,968	$63,633,175	$69,149,641
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	$18,003,770	$24,727,880	$20,214,181
Change in net unrealized capital gains and (losses)		(3,298)	(18,043)
Change in net deferred income tax	277,257	23,568	123,399
Change in nonadmitted assets	35,377	(1,227,914)	50,901
Dividends to stockholders	(5,035,197)	(18,003,770)	(40,000,000)
Net change in capital and surplus	$13,281,207	$5,516,466	($19,629,562)
Capital and surplus end of reporting year	$63,633,175	$69,149,641	$49,520,079

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	$232,778,034
Net investment income	5,188,236
Total	$237,966,270
Benefit and loss related payments	$185,465,660
Commissions, expenses paid and aggregate write-ins for deductions	17,813,947
Federal income taxes paid	9,601,942
Total	$212,881,549
Net cash from operations	$25,084,721

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$50,968,089
Total investment proceeds	$50,968,089
Cost of investments acquired (long-term only):	
Bonds	$40,009,915
Total investment acquired	$40,009,915
Net cash from investments	$10,958,174

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($40,000,000)
Other cash applied	(744,398)
Net cash from financing and miscellaneous sources	($40,744,398)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	($4,701,503)
Cash and short-term investments:	
Beginning of the year	11,577,416
End of the year	$6,875,913

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin Bailey, CFE, Cliff Lewis, CFE, George Morgan, CFE, and LeShan Smith participated in the work of the examination.

Respectfully submitted,

Kenneth G. Campbell

Kenneth G. Campbell, CFE
Assistant Chief Examiner

C. Burke King
President
Virginia Market

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September 25, 2008

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
Tyler Building, 6th Floor
1300 Main Street
Richmond, VA 23219

RE: Priority Health Care, Inc. Financial Examination Report
as of December 31, 2007

Dear Mr. Smith:

This letter is to confirm receipt of the above report. We noted there are no recommendations of corrective action to address. Thank you for the cooperation extended by your team during this examination.

Sincerely,

C. Burke King
President
Virginia Market