



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

CLEAR CHOICE HEALTH PLANS, INC.
BEND, OREGON

AS OF

MAY 26, 2006

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May 26, 2006

Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and pursuant to the provisions of Oregon Revised Statute (ORS) 731.402, we have examined the business affairs and financial condition of

CLEAR CHOICE HEALTH PLANS, INC.
2650 NE Courtney Drive
Bend, Oregon 97701

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination was conducted to determine if Clear Choice Health Plans, Inc., is qualified to obtain a certificate of authority to conduct business as an insurer pursuant to Chapter 732 of the Oregon Insurance Code (ORS 732).

The following matters were reviewed, in addition to a verification of financial position.

Company description	Management and control
Accounts and records	Corporate records
Fidelity bond and other insurance protection	Reinsurance

The examination was conducted in compliance with the Oregon Insurance Code as well as in accordance with procedures promulgated by the National Association of Insurance Commissioners.

COMPANY HISTORY

Clear Choice Health Plans, Inc. (“the Company”), is a newly formed, wholly owned subsidiary of Central Oregon Independent Health Services, Inc., dba Clear Choice Health Plans (“Clear Choice”).

The Company was incorporated in Oregon on December 12, 2005, as a for-profit stock corporation. It was formed to facilitate the conversion of Clear Choice from a health care service contractor authorized to transact health insurance pursuant to ORS Chapter 750 to an insurer authorized to transact health insurance under ORS Chapter 732. The conversion will be accomplished through the merger of Clear Choice with and into the Company, with the Company being the surviving company (“the Merger”). The Company has submitted a Form A filing and Merger Agreement (“Merger Documents”) with the division that are currently being reviewed by division staff. The division has requested several items that are still outstanding as of the date this report was written. Upon consummation of the Merger, Clear

Choice will surrender its Certificate of Authority as a health care service contractor and the Company will operate as a life and health insurer.

AFFILIATED COMPANIES

Clear Choice – is an Oregon domiciled for-profit stock health care service contractor (NAIC #47087) authorized under Certificate of Authority #155 on April 24, 1998 to write health insurance in Oregon pursuant to ORS Chapter 750 and is the Company's parent.

Central Oregon Independent Practice Association (“COIPA”) – COIPA is an Oregon non-profit organization whose members own approximately 77% of the outstanding shares of the Class I common stock of Clear Choice. COIPA members include primary and specialty care providers that operate in the same service area that Clear Choice operates. COIPA contracts with Clear Choice for the provision of health care services to members.

Central Oregon Hospital Network (CONet) – CONet is a nonprofit entity that owns 23% of the outstanding shares of the Class I common stock of Clear Choice. CONet is comprised of eight hospitals covering the same service area as Clear Choice. CONet provides health care services to Clear Choice's members under the terms of a provider contract.

Central Oregon Individual Health Solutions (COIHS) – COIHS is a wholly owned subsidiary formed to service Medicaid business. Effective January 1, 2004, Clear Choice transferred all of its Medicaid business to COIHS.

CAPITALIZATION

The Company has issued 100 shares of common stock to Clear Choice. The Company's initial capitalization of approximately \$3 million was made by Clear Choice, under authorization by the Board of Directors, for the purpose of meeting the minimum required capital and surplus pursuant to ORS 731.554(1) and (5). As included in the Merger

Documents, all the assets and liabilities of Clear Choice will be transferred to the Company upon consummation of the Merger and ownership of the Company after the Merger will be identical to the ownership of Clear Choice prior to the merger. As of December 31, 2005, Clear Choice reports it has authorized 5,000,000 shares of Class 1 common stock, of which 1,498,725 have been issued.

MANAGEMENT AND CONTROL

Board of Directors

Section 3 of the Company's Bylaws vest the management and control in a Board of Directors consisting of no fewer than five members, as determined by resolution by the Board. The directors will be divided into three classes, and elected to service one-, two- or three-year terms. Following is the initial Board of Directors:

<u>Name</u>	<u>Affiliation</u>
Michael McFadden Kendrick, MD* 2275 NE Doctors Drive Bend, OR	Neurosurgeon The Orthopedic & Neurological Center of the Cascades
Frederick Peter Boehm, MD 2200 NE Professional Court Bend, OR	Pediatrician Central Oregon Pediatric Associates
Jeffrey Drutman, MD 1460 NE Medical Center Drive Bend, OR	Radiologist Central Oregon Radiology Associates
Robert Volney Pinnick, MD 1501 NE Medical Center Drive Bend, OR	Nephrologist Bend Memorial Clinic
Michel Adeodat Boileau, MD 2090 Wyatt Court, Suite 101 Bend, OR	Urologist Bend Urology
Stuart Gardner Garrett, MD 1501 NE Medical Center Drive Bend, OR	Family Practice Bend Memorial Clinic

Name

Affiliation

Eric Willis Alexander
2500 NE Neff Road
Bend, OR

CONet Executive Vice President
St. Charles Medical Center

Jerol Eugene Andres
PO Box 1215
Redmond, OR

Chief Executive Officer
Eagle Crest, Inc.

Neal Richard Bryant
591 SW Mill View Way
Bend, OR

Attorney
Bryant, Lovlien & Jarvis, P.C.

James Anthony Diegel
2500 NE Neff Road
Bend, OR

Senior Vice President
Cascade Healthcare Community

Gary David Fish
901 SW Simpson Avenue
Bend, OR

President
Deschutes Brewery, Inc.

Duane Wilford Francis
1700 East 19th Street
The Dalles, OR

President
Mid-Columbia Medical Center

Craig William Moore
2440 NE 4th Street
Bend, OR

President
Pepsi Bend, Inc.

Patricia Louise Moss
1100 NW Wall
Bend, OR

Chief Executive Officer
Bank of the Cascades

*Chairman

Officers

Executive officers are as follows:

Patricia J. Gibford
P. Gunnar Hansen, Jr.

President and Chief Executive Officer
Chief Financial Officer, Secretary

Administrative Services Agreements

As a result of the Merger, the Company will become party to two administrative service agreements currently in place, the first between Clear Choice and COIPA and the second between Clear Choice and COIHS.

Effective January 1, 2003, Clear Choice signed an administrative services agreement with COIPA, whereby Clear Choice furnishes administrative services and rents office space to COIPA. For these services, COIPA pays Clear Choice a set monthly fee for administration services plus monthly rent for space used.

Effective January 1, 2004, Clear Choice signed an administrative agreement with COIHS, whereby Clear Choice will provide technical and administrative support services, including accounting and financial reporting functions and information systems support. In exchange, COIHS will pay all direct expenses incurred and an allocated portion of administrative overhead. There is a provision in the agreement for Clear Choice to pay COIHS an allocated portion of its investment income, which shall be considered as interest payment on a promissory note owned by COIHS dated December 31, 2003.

See the Subsequent Event section of this report for information regarding the Company's administrative service agreement.

CONFLICT OF INTEREST

A resolution of the Board of Directors requires that any officer, director, or responsible employee disclose to the Board of Directors any material interest or affiliation which conflicts with the duties of such person on behalf of the Company. Completed conflict of interest statements for Board members were reviewed and no conflicts were noted.

CORPORATE RECORDS

The Insurance Division of the Oregon Department of Consumer and Business Services issued the Company a Permit to Organize an Insurance Corporation with Capital Stock on November 4, 2005, pursuant to ORS 732.055.

The Articles of Incorporation were filed with the Oregon Insurance Division. Upon review, they were approved pursuant to ORS 732.115 and a duplicate original was endorsed on December 12, 2005.

Both the Articles of Incorporation and the Bylaws were in compliance with the Oregon Insurance Code.

At an organizational meeting of the Board of Directors, held on April 10, 2006, the Articles and Bylaws were amended to adopt the name of the Company as “Clear Choice Health Plans, Inc.” This amendment was submitted to DCBS on April 7, 2006.

FIDELITY BONDS

The examination of insurance coverages included a review of adequacy of limits and retentions. The Company provided evidence of a current policy that covers employees of Clear Choice for fidelity and company coverage in the amount of \$750,000, which would exceed the minimum coverage recommended by the NAIC Financial Condition Examiners Handbook, based on the financial condition of Clear Choice.

See the Subsequent Event section of this report for information regarding the Company’s administrative service agreement.

REINSURANCE

Clear Choice has an excess of loss reinsurance contract in effect with Reliastar Life Insurance Company that provides coverage for 90% of eligible health care expenses, as defined by the contract, after retention of \$125,000 per member per contract year for Medicaid and Medicare and retention of \$75,000 for commercial. Commercial members have a lifetime aggregate limitation of \$2,000,000 per member, and Medicare members have a lifetime aggregate limit of \$1,000,000 per member.

See the Subsequent Event section of this report for information regarding the Company's reinsurance.

Insolvency Clause

The reinsurance agreement's insolvency clause agrees to make payment to a statutory successor without diminution in accordance with the provisions of ORS 731.508.

Risk Retention

The Company will not retain risk on any one subject in excess of 10% of its surplus to policyholders as required by the provisions of ORS 731.504, based on the financial condition of Clear Choice.

ACCOUNTS AND RECORDS

A general ledger system is in place. Books and records were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170.

CLEAR CHOICE HEALTH PLANS, INC.
BALANCE SHEET
AS OF MAY 26, 2006

<u>ASSETS</u>	<u>Per Company</u>	<u>Per Examination</u>
Bonds (Note 1)	\$ 511,000	\$ 511,000
Cash on deposit (Note 1)	<u>2,501,000</u>	<u>2,501,000</u>
Total Admitted Assets	<u>\$3,012,000</u>	<u>\$3,012,000</u>
 <u>LIABILITIES</u>		
Total Liabilities	\$ <u>0</u>	\$ <u>0</u>
 <u>CAPITAL AND SURPLUS</u>		
Common capital stock	1,000	1,000
Gross paid in and contributed surplus	3,011,000	3,011,000
Unassigned funds	<u>0</u>	<u>0</u>
Total Capital and Surplus (Note 2)	<u>3,012,000</u>	<u>3,012,000</u>
Total Liabilities, Capital and Surplus	<u>\$ 3,012,000</u>	<u>\$ 3,012,000</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

A US Treasury Note with a par value of \$511,000 was confirmed as on deposit at US Bank, NA, pursuant to ORS 731.604(2), with the Department of Consumer and Business Services. An additional \$2,501,000 was confirmed as on deposit in an account with Bank of the Cascades in Bend, Oregon.

The Company is exploring investment strategies to comply with the required capitalization of ORS 733.580 and limitations on investments of ORS 733.770. See Subsequent Event comment below.

Note 2 – Gross Paid in and Contributed Surplus

The NAIC Accounting Practices and Procedures manual, in SSAP No. 72, paragraph 3, requires that: “when no par value is set forth, the reporting entity shall declare a "stated value" and record such amount in the capital stock account.” The Company’s Board of Directors will need to set the stated value per share.

SUBSEQUENT EVENT

Subsequent to completion of fieldwork, on June 2, 2006, the Company took steps to comply with ORS 733.580 and 733.770 by purchasing a U.S. Treasury Bill with a par value of \$2,405,000.

On June 12, 2006, the Company entered into an administrative services agreement with Clear Choice whereby Clear Choice will provide the Company management, operation, and staffing needs for the purpose of administering its health care insurance products. The Company will reimburse Clear Choice for a percentage of the total administrative expenses incurred by Clear Choice on its behalf.

On June 15, 2006, the reinsurance arrangement described on page 10 of this report was amended to include the Company.

Upon completion of a proposed acquisition and merger, the Company will acquire the assets and liabilities of Clear Choice. In the 2005 Annual Statement filed with the Oregon Insurance Division, Clear Choice reported the following financial information:

Total Admitted Assets	\$ 83,603,805
Total Liabilities	45,314,284
Surplus to Policyholders	38,289,521
Premiums	89,379,355
Net Income	5,740,855

CONCLUSION

Clear Choice Health Plans, Inc., has capital and surplus in the amount of \$3,012,000. Pursuant to ORS 731.554(1) and (5), an insurer seeking its initial certificate of authority would be required to have \$3,000,000 minimum in capital and surplus to qualify for authority to transact as an insurer in Oregon. The Company meets this minimum.

The Company has completed its application and satisfies the requirements of the Oregon Insurance Code to possess a Certificate of Authority. I recommend the Company be issued a Certificate of Authority as a life and health insurer regulated by Chapter 732 of the Oregon Insurance Code.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON))
County of Marion) ss

Greg A. Lathrop, CFE, being duly sworn, deposes and says the preceding report of financial examination as of May 26, 2006, of Clear Choice Health Plans, Inc., Bend, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 2006.

Notary Public for the State of Oregon