REPORT ON EXAMINATION

OF

BRAVO HEALTH INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

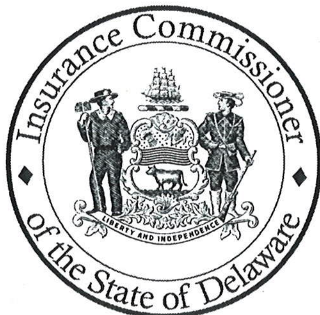
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

BRAVO HEALTH INSURANCE COMPANY, INC.

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 16 September 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 16th day of September 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 ◆ www.delawareinsurance.gov
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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

BRAVO HEALTH INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2008

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 16th day of September, 2010

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May 27, 2010

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Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
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Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.044, an examination has been made of the affairs, financial condition and management of the

BRAVO HEALTH INSURANCE COMPANY, INC.

hereinafter referred to as “Company” or “BHIC”, incorporated under the laws of the State of Delaware as a stock insurance company. The examination was conducted at the main administrative office of the Company, located at 3601 O’Donnell Street, Baltimore, Maryland 21224.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

In conjunction with the Company's application for a domestic Certificate of Authority, an organizational examination was conducted as of April 19, 2006. This financial examination covered the subsequent period through December 31, 2008, and encompasses a general review of the Company's business policies and practices, as well as management, and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2008. Transactions subsequent to the examination date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The examination is in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that the examination evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also assessed the principles used, and significant estimates made, by management; evaluated the overall financial statement presentation; and evaluated management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial

solvency of the Company as of December 31, 2008. Transactions subsequent to year-end were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the Risk Focused Examination process.

The Company was audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for calendar years 2006 through 2008. The examiners reviewed the work papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2008 and utilized the work papers to the fullest extent possible.

HISTORY

The Company was incorporated on May 2, 2006 as Elder Health Insurance Company, Inc. under the laws of the State of Delaware. The Company was granted a Certificate of Authority to operate as an accident and health insurance company on September 22, 2006 and began operations effective January 1, 2007. The Company is a wholly-owned subsidiary of Bravo Health, Inc. (the Parent), a Delaware corporation with headquarters in Baltimore, MD. In 2007, the Parent's Board of Directors approved changing the Company's name to Bravo Health Insurance Company, Inc.

The Company operates as a health insurance company participating in the Federal Medicare Advantage program. Medicare participation is through a contract with the United States Centers for Medicare and Medicaid Services (CMS). On January 1, 2007, the Company began participating in the Federal Medicare Part D Prescription Drug Plan (PDP).

Effective September 1, 2008, the Company received approximately 39,000 PDP members along with the related assets and liabilities of the PDP lines of business from two affiliates, Bravo Health Mid-Atlantic, Inc. (BHMA) and Bravo Health Texas, Inc. (BHTX). The transaction was approved by Delaware, Maryland and Texas Insurance Departments and consolidated all of the Bravo organization's PDP business under one CMS contract and under one legal entity. The transfer of net assets of stand-alone prescription drug business increased surplus by $1,692,719.

The Company's Business Plan is designed to primarily serve Medicare stand-alone Prescription Drug Program (PDP) members as well as members in the Private Fee-for-Service (PFFS) plans. The Company serves Medicare beneficiaries in 31 states in which it is licensed and in 16 other states under CMS waiver.

CORPORATE RECORDS

The examiners reviewed the minutes of the meetings of the Board of Directors for the period under examination. Based on this review, except as noted below, it appeared that the minutes documented the Company's significant transactions and events and that the Board of Directors approved those transactions and events. The minutes did not document the Board's review of its investment transactions as required by 18 Del.C. §1304.

It is recommended that the Company's Board of Directors approve investment transactions in accordance with 18 Del.C. §1304.

MANAGEMENT AND CONTROL

The Company's bylaws, as most recently amended, state that the business affairs and corporate activities shall be managed by a Board of Directors consisting of such number as the Board may determine. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the Directors to be stockholders.

The bylaws provide that the Board, by resolution passed by a majority, designate one or more committees that shall consist of one or more Directors. No committees have been designated by the Board.

The Board of Directors duly elected in accordance with the bylaws and serving as of December 31, 2008, is as follows:

Name of Director	Principal Business Affiliation
Jeffrey M. Folick	Chairman and CEO; Bravo Health Inc.
Scott M. Tabakin	Executive Vice President and CFO; Bravo Health Inc.
Frances A. Woodward	Senior Vice President and General Counsel; Bravo Health Inc.

The bylaws, as amended, state that the officers of the Company shall be a President, a Secretary, a Treasurer and such other officers, if any, as the Board of Directors may elect or appoint. The Board of Directors may also appoint a Chairman, one or more Vice Presidents and a Controller.

The following persons were elected by unanimous vote of the Board of Directors, as the key officers of the Company and were serving as such at December 31, 2008:

Officer	Title
Jeffrey M. Folick	President
Joseph F. Wagner	Treasurer
Frances A. Woodward	Secretary

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined under Chapter 50, "Insurance Holding Companies" of the Delaware Insurance Code. The ultimate parent of the system is Bravo Health Inc. ("BHI") a Delaware Corporation. The Bravo group of companies' primary focus is the operation of Medicare Advantage health plans and stand-alone Medicare prescription drug plans through its wholly-owned subsidiaries.

Investors who hold the Parent's issued common stock and convertible preferred stock own the Company. The following significant investment groups each have one or more individuals that are elected and serve on the Parent's Board of Directors.

	Percentage of Stock Owned	
	12/08	6/09
New Enterprises Associates 11, LP (a venture capital firm)	14.09%	14.27%
Conning Capital Partners, VI, LP	15.54%	15.53%
Frasier Healthcare, LP	12.54%	12.70%
Salix Ventures II, LP	8.93%	

As of December 31, 2008, the ultimate parent reported the following financial data:

Total Assets	$ 431,686,000
Total Revenues	962,438,000
Net Operating Income	2,049,000
Shareholders' Equity	129,267,000

In compliance with Regulation 13 and Chapter 50 of the Delaware Insurance Code, the Insurance Holding Company System Registration Statement was filed with the State of Delaware Insurance Department during each year under review.

The BHI holding company structure as of December 31, 2008, is depicted in the following chart:

	Domiciliary Jurisdiction
Bravo Health, Inc. (Parent and Holding Company)	Delaware
Bravo Health Insurance Company. (Insurer) – 100%	Delaware
Bravo Health Mid-Atlantic, Inc. (Insurer) – 100%	Maryland
Bravo Health Pennsylvania, Inc. (Insurer) – 100%	Pennsylvania
Bravo Health Texas, Inc. (Insurer) – 100%	Texas
Bravo Health California, Inc. (Insurer) – 100%	California

CORPORATE GOVERNANCE

The Company is party to an Administrative Services Agreement with the Parent whereby corporate management, legal development, strategic planning, research and general contracting activities are provided. The agreement also provides the Company with specified administrative services, including budget, accounting, finance, data collection and reporting, system

maintenance, human resources and facility services. Activities of the Parent under this agreement are subject to the supervision of the Company's Board of Directors which is comprised of three members from senior management of the Company's Parent.

Through the above administrative services agreement the Parent provides the Company with its Audit Committee, Compensation, Nomination and Governance (CNG) Committee, and Quality Improvement Committee that services and fulfills those functions for the Company.

Membership on the Audit Committee, Compensation Committee, and Nomination and Governance Committee is limited to independent directors (i.e., not Company management). Committees receive authority through the Parent's delegation, bylaws, resolutions and respective charters. Responsibilities are documented and communicated. Members of the Board of Directors and committees thereof are appropriately qualified and actively participate in governance and oversight. The Parent has an organization in place to encourage communication and committees have been established both by the Board and management to ensure oversight. The Board of Directors and active board committees routinely meet with management to address concerns and receive monthly status updates regarding the Parent's subsidiary operations. The Parent's Board has strategic plans for its subsidiaries, and prepares budgets that are compared to actual experience on a regular basis.

Overall, the examination assesses the Company's corporate governance as being "Moderate." The examination noted that the Company is organized in a manner that facilitates information to management the Company's Board and/or the Parent's Board. The examination also determined that the Parent's Board meets quarterly to monitor the affairs of the Company.

For the period under review, the Company did not have an internal audit function. See Subsequent Events Section of this report, "Enterprise Wide Risk Management" (ERM).

MANAGEMENT AND SERVICE AGREEMENTS

The following agreements were in effect at December 31, 2008.

Administrative Services Agreement

The Parent (BHI) provides most services to the Company under the terms of an Administrative Services Agreement whereby BHI provides certain services to the Company, including corporate management support, accounting and finance, claims processing, data collection and reporting, legal and systems consulting and support. In exchange for these services, the Company paid BHI a monthly administration fee, an amount that approximates the actual cost of those services. The fees are calculated through the specific identification of those costs directly related to the provision of the administrative services and the apportionment of additional costs using pertinent factors or ratios. See the "Subsequent Events" section of this report for comments on a new administrative services agreement effective January 29, 2009.

Federal Income Tax Allocation Agreement

During the examination period, the Company's federal income tax return was consolidated with its Parent's return. The Company entered into a tax sharing agreement effective April 11, 2007 where all subsidiaries participate in a consolidated tax return and allow the Parent to act as the agent for all the subsidiaries. The agreement allows for each subsidiary to calculate the tax liability as if it were to file a separate return, creating the separate tax basis for the individual subsidiary. The tax sharing agreement requires the subsidiaries to calculate and make payment to the Parent within 90 days of the quarterly payment. If a subsidiary records a stand-alone basis tax

loss, the Parent shall reimburse the subsidiary only if the loss serves to reduce the affiliated group tax liability.

Investment Advisory Agreement

Effective May 22, 2007, the Company entered into an investment management agreement with Evergreen Investment Management Company LLC ("Investment Manager"). The Investment Manager agrees to invest and manage the Company's assets in exchange for a fee as structured in the agreement. Transaction reporting is monthly, portfolio valuation is provided quarterly and all activities are in accordance the Company's approved Investment Policy.

Custodial Agreement between BHIC and U.S. Bank National Association

In a safekeeping services agreement, effective May 22, 2007, BHIC entered into a Custody Agreement with U.S. Bank National Association. U.S. Bank National Association agrees to act as custodian over the Company's assets in exchange for a fee, as structured in the agreement. Review of the terms of the custodial agreement indicates that the agreement failed to meets the standards as set forth in the "NAIC Financial Condition Examiners Handbook." The deficiencies in the custodial agreement were resolved subsequent to the date of the examination and therefore no examination recommendation will be made. See the "Subsequent Events" section of this report for further comments.

TERRITORY AND PLAN OF OPERATION

The Company's Business Plan is designed to primarily serve Medicare standalone Prescription Drug Program (PDP) members as well as members in the Private Fee-for-Service

(PFFS) plans. The Company serves Medicare beneficiaries in 31 states in which it is licensed and 16 other states under a CMS waiver.

The Company has been awarded contracts by CMS to offer Part D plans in the regions in which it is licensed, in accordance with guidelines established by CMS. Effective September 1, 2008, the Company was party to a notation of PDP membership from its affiliates. The transaction consolidated all of the Bravo organization's PDP business under one annual CMS contract and under one legal entity.

Payments from CMS under these contracts include amounts for premiums, amounts for risk corridor adjustments and amounts for reinsurance and low-income subsidies. For additional information, see "Notes to the Financial Statements, #2 Health Care Receivable."

Substantially all of the Company's 2008 revenue was earned under a contract with CMS. The current contract expires on December 31, 2010 and is renewable annually at the option of the Company. The failure of the Company to renew this contract on terms similar to the current contract would have a material impact on the Company's financial position, results of operations, and cash flow.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

Year	Admitted Assets	Capital & Surplus	Net Premium Income	Net Gain (Losses) Pre Tax	Net Income
2006	7,644,712	7,644,712	-0-	144,712	144,712
2007	19,231,540	7,638,502	11,965,101	625,183	328,039
2008	$ 53,144,757	$13,886,918	$122,869,730	$(5,726,573)	$(3,822,181)

During 2008, 79% of the Company's total direct business written ($122.8 million) was in the States of California ($52.1 million), New York ($28.7million) and the Texas ($15.5 million).

Admitted assets increased $45,500,045 or 86% from 2006 to 2008. Pre-tax income dropped from $144,712 in 2006 to $(5,726,573) in 2008 due to an unfavorable Medicare Part D loss ratio. Capital and surplus increased $6,242,206 or 45% due to capital contributions from the Parent, BHI. Net premium income increased to $122,869,730 from 2006 to 2008. This increase is a direct result of entry into new markets, obtaining membership through CMS auto enrollment and new membership obtained from affiliated companies.

The Company reported net income of $ (3,822,181) at year-end 2008 primarily due to medical care ratio ("MCR") increase, as a result of unfavorable drug cost trends in various Medicare PDP markets.

REINSURANCE

Assumed Reinsurance:

As of December 31, 2008, the Company had no assumed reinsurance contracts.

Ceded Reinsurance:

The Company is a named participant in several ceded reinsurance contracts that reinsure the entire Bravo Group. Because the Company primarily writes the Prescription Drug Business, no ceded reinsurance premium was reported for 2008. The Bravo Group entered into the following treaties in 2008:

- Effective December 1, 2008 the Bravo Group entered into an reinsurance agreement with One Beacon Professional Partners whereby the reinsurer will

reimburse the Bravo company for 90% of the costs of each member's annual eligible covered services in excess of a $275,000 deductible, up to an annual limitation of $1,000,000 per member.

- Effective August 1, 2008 the Bravo Group entered into an insurance agreement with Humana Insurance Company providing 100% coverage for behavioral health services.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. The examination review of the accounts and records of the Company included a reconciliation of the Trial Balance to the Annual Statement; review of certain examination questionnaires, internal audit reports, claim, premium, accounting, and other operational and organizational processing flow charts, along with a review of applicable external audit work papers. The examination review did not note any significant deficiencies in these records.

The examination's accounts and records review included an evaluation of the Company's operational and organizational controls. The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key activity, processes were reviewed, risks were identified, operational and organizational controls were identified and tested, and the Company's methodology for assessing the effectiveness of the established mitigation factors were evaluated.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2008, as determined by this examination:

Balance Sheet:
Analysis of Assets
Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Capital and Surplus Account

The accompanying "Notes to the Financial Statements" are an integral part of these Financial Statements.

Analysis of Assets
December 31, 2008

	Ledger Assets	Non Admitted Assets	Net Admitted Assets	Note
Bonds	$ 7,316,594	$ -	$ 7,316,594	1
Cash and Short-term investments	1,315,983	-	1,315,983	
Investment income due and accrued	50,285		50,285	
Uncollected premiums and agents' balances in the course of collection	2,156		2,156	
Net deferred tax asset	2,712,222	1,449,775	1,262,447	
Health care receivable	52,298,235	9,100,943	43,197,292	2
Total Assets	$ 63,695,475	$ 10,550,718	$ 53,144,757	

Liabilities, Capital, Surplus and Other Funds
December 31, 2008

		Note
Claims Unpaid	$ 25,502,727	3
Unpaid claims adjustment expenses	862,658	3
Aggregate health policy reserves	470,710	3
General expenses due or accrued	3,856	
Payable to parent, subsidiaries and affiliates	5,375,233	
Liability for amounts held under uninsured plans	5,458,400	
Medicare Part D related liabilities	1,584,255	3
Total Liabilities	$ 39,257,839	
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	22,692,719	4
Unassigned funds (surplus)	(11,305,801)	
Total Capital and Surplus	$ 13,886,918	
Total Liabilities, Surplus and Other Funds	$ 53,144,757	

Statement of Revenue and Expenses
December 31, 2008

Net premium income	$ 122,869,730
Total revenue	$ 122,869,730
Medical benefits	$ 5,502,817
Outside referral benefits	463,763
Prescription drug benefits	104,832,346
Claims adjustment expenses	8,012,287
General administrative expenses	10,647,807
Total underwriting deductions	$ 129,459,020
Net underwriting loss	$ (6,589,290)
Net investment income earned	$ 810,880
Net realized capital gain less capital gains tax	51,837
Net investment gain	$ 862,717
Net loss after capital gains tax and before federal income tax	$ (5 ,726,573)
Federal income taxes incurred	1,904,392
Net Income (loss)	$ (3,822,181)

Capital and Surplus Account
December 31, 2007_ to December 31, 2008

Capital and Surplus, December 31, 2007	$	7,638,502
Net Income		(3,822,181)
Change in net unrealized capital gains		(117,875)
Change in net deferred income tax		2,625,153
Change in non-admitted assets		(9,629,400)
Surplus paid in		17,192,719
Net change in capital and surplus for the year	$	6,248,416
Capital and Surplus, December 31, 2008	$	13,886,918

SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination will make no financial adjustments.

NOTES TO THE FINANCIAL STATEMENTS

1. Bonds $7,316,594

Procedures were performed to confirm the existence and ownership of the investments reported in Schedule D, Part 1. These procedures were performed without exception. The Company primarily invests in bonds that are rated "1" or "2" by the SVO, with maturity dates consistent with the Company's expected reserve payout.

2. Health Care Receivable $43,197,292

Health care receivable as of December 31, 2008 consists primarily of amounts due from CMS and other health plans related to the Part D program.

Bravo Health Insurance Company's Medicare Part D program, (representing 94% of the Company's total premium) provides beneficiaries access to prescription drug coverage. Under

the Part D program, participants are responsible for claims ranging from $2,510 to $5,726. Incurred costs up to $2,510 are 100% covered by insurers, while claims over $5,726 are 80% reinsured to the insurer by CMS (this program is known as the "reinsurance subsidy"). CMS may also provide subsidies for low-income members to cover co-pays and deductibles (known as low-income cost sharing or "LICS"). Payments for the reinsurance subsidy, LICS, and basic premium are paid by CMS to the insurer on a monthly basis. In addition, Part D includes a risk-share component that is settled annually, whereby CMS reimburses claims costs that exceed 105% or the insurer repays CMS if actual claims costs are less than 95%

The Health Care receivable also includes Medicare Part D net pharmaceutical rebate receivable of $9,210,222 due from the Company's pharmacy benefit manager.

3. Claims Unpaid	**$25,502,727**
Unpaid Claims Adjustment Expenses	**$ 862,658**
Aggregate Health Policy Reserves	**$470,710**
Medicare Part D Liabilities	**$1,584,255**

Athanasios Rousseas, ASA, MAAA of INS Consultants, Inc. (INS- the examination's contractual actuarial firm), analyzed the reserves of the Company.

Reserves were reviewed for compliance with standard valuation laws, applicable National Association of Insurance Commissioner (NAIC) Actuarial Guidelines and Model Regulations.

Actuarial Liability Analysis

The claims unpaid liability is established for claims incurred on or before, but not paid as of December 31, 2008. This liability includes future claim payments for known claims and for incurred but unreported claims. INS reviewed accounting balances supporting the Part D

liability and independently calculated the Part C liability for incurred but unreported claims (based on claim triangles provided by management).

The Company incorrectly reported the claims payable-Part D liabilities on a gross rather than -net of CMS subsidies basis. In addition, a corresponding error was made in the Health care receivables asset discussed in Note #2. The difference between gross and net amounts is approximately $17.4 million. The net effect on capital and surplus from these errors is zero. A review of the 2009 Annual Statement and discussions with management indicate that these amounts have been subsequently reported on a net basis. The Company did not restate the liabilities and assets items found in error for year end 2008.

INS reviewed the Company's unpaid claims adjustment expenses associated with administering future unpaid claims. Based on this review, INS concluded that the Company has made adequate provision for these liabilities.

INS reviewed the Company's liability for Aggregate Health Policy Reserves and Aggregate Write-ins for Other Liabilities. The write-ins are for settlements due the Centers for Medicare and Medicaid Services as a result of transactions made during 2008 for benefits provided by the Company's contracts providing Medicare Part D prescription drug coverage. Based on this review, INS concluded that the Company has made adequate provision for these liabilities.

4. Capital Contributions to the Company in 2008: $17,192,719

To order to improve liquidity the parent made the following capital and surplus contributions to the Company in 2008.

May, 2008	$1,500,000
August, 2008	$1,500,000
November, 2008	$12,500,000
Transfer of Net PDP Assets	$ 1,692,719

SUMMARY OF RECOMMENDATIONS

The Company's attention is directed to the following item:

1. It is recommended that the Company's Board of Directors approve investment transactions in accordance with 18 Del.C. §1304. (See Corporate Records, page 4.)

CONCLUSION

As a result of this examination, the financial condition of Bravo Health Insurance Company as of December 31, 2008 as compared to December 31, 2006 was determined to be as follows:

Description	December 31, 2008	December 31, 2006	Increase/(Decrease)
Admitted Assets	$ 53,144,757	$ 7,644,712	$ 45,500,045
Liabilities	$ 39,257,839	$ -0-	$ 39,257,839
Capital and Surplus	$ 13,886,918	$ 7,644,712	$ 6,242,206
Totals	$ 53,144,757	$ 7,644,712	$45,500,045

In addition to the undersigned, James Blair, Jr., CFE, CPA (Examination Supervisor) participated in the examination along with the actuarial firm of INS Consultants, Inc.

Respectfully Submitted,

Frederick C Doran Jr., CIE, CFE
Examiner In-Charge
State of Delaware

SUBSEQUENT EVENTS

Intercompany Agreements

Effective January 29, 2009, the Company entered into a new administrative services agreement with its parent, Bravo Health, Inc. (BHI). This agreement is similar to the previous agreement in which BHI provided all services needed to operate the Company (e.g., corporate management, marketing, accounting and finance, systems maintenance and support, human resources, data collection and reporting, etc.) in exchange for a monthly administration fee in an amount that approximates the actual cost of those services. One of the primary reasons for the new agreement was to specifically state that the Company's Board of Directors will remain ultimately responsible for the development and approval of the overall quality improvement program, the appointment of the Quality Improvement Committee, and approval of the annual quality improvement plan.

On February 19, 2009, BHI formed Managed Care Services, LLC (MCS, LLC), a Delaware limited liability company. The purpose of MCS, LLC is to serve as a management company for certain health care center alternatives for the members of BHI subsidiaries, including the Company.

Effective March 4, 2009, BHI entered into a service agreement with MCS, LLC. Under the agreement, BHI provides management of the business and affairs of MCS, LLC and the agreement limits BHI's liability. As of the date of this agreement, MCS, LLC is not providing any services to BHI or its subsidiaries, including the Company.

Enterprise Wide Risk Management (ERM)

In 2009 the BHI made a commitment to formalize and improve its risk management and internal control activities. Management established a framework for enterprise wide risk management (ERM), focused on providing accurate financial information and identifying risk throughout the organization. BHI has hired a Director of Internal Audit to lead creation of the ERM framework and ensure that the right controls are in place for NAIC's Model Audit Rule (MAR) compliance. BHI has engaged PriceswaterhouseCoopers, LLC (PwC) to provide staff and expertise for risk assessment, process documentation, risk and control identification, and testing.

Change in Management

Effective December 31, 2009, David Jensen resigned as a member of the Board and the Audit Committee of the Company's parent, Bravo Health, Inc.

Custodial Agreement between BHIC and The Bank of New York Mellon

In a safekeeping services agreement, effective May 21, 2010, BHIC entered into a Liquidity Services and Related Custodial Services Agreement with The Bank of New York Mellon. The Bank of New York Mellon agrees to act as custodian over the Company's assets in

exchange for a fee as structured in the agreement. Review of the terms of the custodial agreement indicates that the agreement contained the proper indemnification clause as set forth in the "NAIC Financial Condition Examiners Handbook."

Custodial Agreement between BHIC and U.S. Bank National Association

In a safekeeping services agreement, effective May 18, 2010, BHIC entered into a Custody Agreement with U.S. Bank National Association. U.S. Bank National Association agrees to act as custodian over the Company's assets in exchange for a fee as structured in the agreement. Review of the terms of the custodial agreement indicates that the agreement contained the proper indemnification clause as set forth in the NAIC Financial Condition Examiners Handbook.

Amendment of Audit Committee Charter

During April 2010, the Board of Directors of BHI by unanimous written consent amended the Audit Committee Charter. The Charter amendment decreases the required number of independent members of the Board from three to two. In addition the consent authorized the appointment of Edmund Bujalski to fill the vacancy that was created upon the resignation of a committee member as of December 31, 2009.

Capital Contributions

BHI made the following capital contributions to the Company during 2009.

March 2009	$5,600,000
June 2009	$6,500,000