

**REPORT ON ORGANIZATIONAL EXAMINATION**  
**OF THE**  
**DELAWARE PHYSICIANS CARE-MEDICARE INCORPORATED**  
**AS OF**  
**JUNE 16, 2006**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL REPORT ON EXAMINATION, made as of JUNE 16, 2006 of the

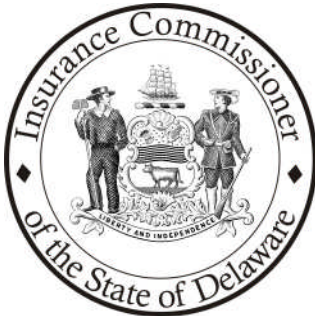
**DELAWARE PHYSICIANS CARE-MEDICARE, INC.**

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

ATTEST BY: *Annette Handy*

DATE: 30 JANUARY 2007

*In witness Whereof,* I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF JANUARY 2007.



*Matthew Denn*  
*Insurance Commissioner*

**REPORT ON ORGANIZATIONAL EXAMINATION**  
OF THE  
**DELAWARE PHYSICIANS CARE-MEDICARE, INC.**  
AS OF  
**JUNE 16, 2006**

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

Consideration has duly been 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.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 30TH day of JANUARY, 2007.

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**SALUTATION**

August 30, 2006

Honorable Mathew Denn  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 6.025, an organizational examination has been made of the affairs, financial condition and management of the

**DELAWARE PHYSICIANS CARE-MEDICARE, INCORPORATED**

hereinafter referred to as "DPCM" or "Company", incorporated under the laws of the State of Delaware as a stock company with an administrative office located at 252 Chapman Road, Suite 250, Newark, Delaware.

The report of such examination is respectfully submitted herewith.

### **SCOPE OF EXAMINATION**

DPCM has applied for a Certificate of Authority to write insurance as a managed care organization in the State of Delaware. The organizational examination will primarily focus on assessing whether the Company meets the minimum capital and surplus requirements of the Delaware Insurance Code. The organizational examination will also review compliance with other sections of the Delaware Insurance Code, and compliance with statutory accounting principals.

The examination was conducted as of June 16, 2006.

### **HISTORY**

DPCM was incorporated in the State of Delaware on February 28, 2006. The purpose of the Company is to engage in any lawful activity for which corporations may be organized under the General Corporation Law of Delaware.

The incorporator of DPCM was George Danneman.

DPCM is authorized to issue three thousand (3,000) shares of common stock, having a par value of \$.01 per share.

On February 28, 2006, the Company accepted a Subscription Offer from Schaller Anderson Inc. and issued 1,000 shares of its common stock to Schaller Anderson for a consideration of \$450,000.

### **HOLDING COMPANY SYSTEM**

As noted above, DPCM is a wholly-owned subsidiary of Schaller Anderson Inc., a twenty year old, Arizona domiciled company that specializes in administering and managing Medicaid and Medicare health plans across the United States. Currently, Schaller Anderson manages plans

Delaware Physicians Care-Medicare Incorporated

in six states: Arizona, California, Maryland, Missouri, Delaware and Texas, serving 1.3 million members. Schaller Anderson also provides behavioral health benefit and employer assistance programs for individuals covered by public programs, commercial health plans or employers.

### **MANAGEMENT AND CONTROL**

By Consent of the Incorporator on February 28, 2006, the following members were elected to the Board of Directors:

Joseph P. Anderson  
Arthur L. Pelberg, M.D.  
Dan L. Crippen

Also on February 28, 2006, the Board of Directors elected the following officers:

<u>Name</u>	<u>Title</u>
Dan L. Crippen	Chairman
Joseph P. Anderson	President
Arthur L. Pelberg, M.D.	Secretary
Yon Jorden	Treasurer

### **TERRITORY AND PLAN OF OPERATIONS**

Currently, an affiliate of DPCM, Delaware Physicians Care, Incorporated, administers the Medicaid health insurance program in the State of Delaware. Funding for this program is provided by the Delaware Department of Health and Social Services.

Certain citizens of Delaware currently enrolled in the Medicaid program are also eligible for the federal Medicare program. DPCM's Plan of Operation will be to act as a managed care organization for these "dual eligible" citizens. Section 9102(7)(a) of Title 16 of the Delaware

Code defines managed care organization as a private or public organization which provides or otherwise makes available to enrolled participants health care service.

### **INTER-COMPANY AGREEMENTS**

Effective March 1, 2006, DPCM entered into a Plan Management Services Agreement with an affiliate, Schaller Anderson of Delaware Inc. (Manager). Under this agreement, the Manager will perform or provide all the services for the Company, including managing the day to day operations, arranging and compensating all personnel, and acting as primary liaison with all governmental agencies, including the Center for Medicare Services (CMS). Compensation to the manager has not been finalized at this time.

**It is recommended that the method to compensate Schaller Anderson of Delaware Inc. for performing management services for DPCM be detailed in the Plan Management Service Agreement.**

Article 5 of the Agreement states that DPCM “may” reimburse the Manager for all costs incurred in starting up the Company. Management of Company and Schaller Anderson of Delaware Inc. told the examiner that all start-up costs will be absorbed by the Manager. As noted in the Notes to Financial Statements of this report, DPCM is capitalized with the minimum capital and surplus amount permitted by the Delaware Insurance Code. Incurring any costs at this time would cause the Company’s Capital and Surplus to fall below the minimum level required.

**It is recommended that the responsibility for Start-Up costs for DPCM be resolved by the Company and Schaller Anderson of Delaware.**



**FINANCIAL STATEMENTS**

The Company's financial position on June 16, 2006, is as follows

**ASSETS**

		<u>Note</u>
Cash	<u>\$450,000</u>	1
Total Assets	<u>\$450,000</u>	

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Liabilities	<u>\$ 0</u>	
Total Liabilities	<u>\$ 0</u>	3
Common Capital Stock	\$10	2
Gross Paid in and Contributed Surplus	449,900	
Unassigned Funds	<u>0</u>	
Capital and Surplus	<u>\$450,000</u>	

**NOTES TO THE FINANCIAL STATEMENTS**

**Note #1 Cash**

All of the Company's assets are cash accounts maintained by two banks: \$100,000 in Wilmington Trust Company and \$350,000 held by the Bank of America in Arizona. The deposit held at Wilmington Trust is the statutory deposit required by Section 513 (f) of the Delaware Insurance Code.

### **Notes #2 Capital and Surplus**

As noted in the Financial Statement provided in this report, DPCM reports Common Capital stock of \$10 and Gross Paid In and Contributed Surplus of \$499,990. Under Chapter 64 of the Delaware Insurance Code, managed care companies are considered health insurers for purposes of the minimum capital and surplus requirements.

As presently configured, the Company's capital and surplus is not in compliance with Section 511 of the Delaware Insurance Code which requires a health insurer to have and maintain \$300,000 in capital and \$150,000 in free or contributed surplus. As also noted in the History section of this report, the par value of the Company's stock is \$.01 per share. With such a minuscule par value per share, DPCM is not presently authorized to issue sufficient stock shares to satisfy the minimum capital requirements of the Insurance Code.

**It is recommended that DPCM amend its Certificate of Incorporation to provide a capital structure that can satisfy the minimum capital and surplus requirements provided in Section 511 of the Delaware Insurance Code.**

### **Note #3 Liabilities**

In forming any new company and obtaining a certificate of authority, start-up costs are incurred. Based on verbal assurances from management of the Company that Schaller Anderson of Delaware Inc. would absorb all the Company's start-up costs, the examination has accrued no start-up cost liabilities on the financial statement of this report. The examination has recommended that the issue of responsibility for starting costs be resolved between the Company and its manager.

### **RECOMMENDATIONS**

The Company's attention is directed to the following:

It is recommended the method to compensate Schaller Anderson of Delaware Inc. for performing management services for DPCM be detailed in the Plan Management Service Agreement. p.4

It is recommended that the responsibility for Start-Up costs for DPCM be resolved by the Company and Schaller Anderson of Delaware. p.4

For the above two recommendations, see the Inter-Company Agreements section of this report.

It is recommended that DPCM amend its Certificate of Incorporation to provide a capital structure that can satisfy the minimum capital and surplus requirements of the Delaware Insurance Code. p. 6

### **SUMMARY COMMENTS**

DPCM has applied for a Certificate of Authority to act as a managed care organization in Delaware for certain citizens that are eligible for both Medicaid and Medicare Services.

## CONCLUSION

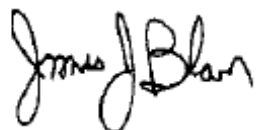
As per the results of the organizational examination as of June 16, 2006, the financial condition of DPCM was found to be:

### Description

Assets	\$450,000
Liabilities	0
Capital and Surplus	\$450,000

As presently configured, the Company's capital and surplus amounts do not meet the requirements of Section 511 of the Delaware Insurance Code.

Respectfully submitted,



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James J. Blair Jr., CPA, CFE  
Examination Supervisor  
Insurance Department  
State of Delaware