REPORT ON EXAMINATION

Of

HEALTH 1·2·3, INC.

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Dept. of Commerce & Insurance
Company Examinations

NASHVILLE, TENNESSEE

as of

DECEMBER 31, 2007

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

Nashville, Tennessee
June 16, 2009

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws, Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of:

HEALTH 1-2-3, INC.
BRENTWOOD, TENNESSEE 37027

hereinafter and generally referred to as the "HMO", and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on November 26, 2008. The examination was conducted under the

association plan of the NAIC by a duly authorized representative of "The Department of Commerce and Insurance", State of Tennessee ("TDCI").

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 2003, the date of the last previous examination, to the close of business on December 31, 2007, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2007. The financial condition of the Company and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation (includes inforce/premium by state)
Market Conduct Activities (includes privacy statement)
Excess Loss Agreement
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Agreements with Parent, Subsidiaries and Affiliates
Pecuniary Interest - Tenn. Code Ann. § 56-3-103
Commission Equity
Dividends or Distributions
Litigation
Subsequent Events
Financial Statement

The previous examination was originally conducted as of December 31, 2004, by authorized representatives of the TDCI. The last previous examination resulted in no change in surplus and made no recommendations. There were no Department requirements arising as a result of such examination.

COMPANY HISTORY

The HMO was incorporated on June 9, 1994, as a for profit corporation pursuant to the provisions of the Tennessee General Corporation Act, under the name of "HealthOne, Inc.". An amendment to the Charter dated June 23, 1994 changed the name of the HMO to "Health 1·2·3, Inc." and was filed with the Secretary of State on November 2, 1994. Effective December 30, 1994, the HMO was issued a Certificate of Authority by the TDCI to transact the business of Health Maintenance. The HMO provided delivery of HMO (health maintenance) and PPO (preferred provider) products to the group health market in Middle Tennessee.

Effective May 13, 1998, TriPoint Health Plan, Inc. was merged with the HMO. The Surviving Corporation is Health 1·2·3, Inc. TriPoint was licensed in Arkansas and Kentucky. In January, 1999, the Certificate of Authority for Arkansas was surrendered. TriPoint had no members in Kentucky at the time of the merger.

TriPoint Health Plan was incorporated on February 8, 1995, as a for profit corporation pursuant to the provisions of the Tennessee General Corporation Act, under the name of "TriPoint Health Plan, Inc.". Effective November 16, 1995, the Company was issued a Certificate of Authority by TDCI, to operate a health maintenance organization pursuant to Tenn. Code Ann. § 56-32-204. Effective July 2, 1996, the Company was issued a Certificate of Authority to operate as a health maintenance organization in the state of Arkansas. Effective October 14, 1996, the Company was issued a Certificate of Authority to operate a health maintenance organization in the state of Kentucky. The Company provides delivery of HMO (health maintenance) and PPO (preferred provider) products to the group health market in West and East Tennessee and selected counties in Kentucky. At December 31, 1997, the Company had no members in Arkansas.

TriPoint was wholly owned by Vanderbilt Management Services, Inc. (formerly THG Management Services, Inc.), which was a subsidiary of Health 1·2·3, Inc. The ultimate parent was Vanderbilt University.

The surviving HMO (Health 1·2·3, Inc.) is currently 100% owned by Vanderbilt Health Services, Inc. which is 100% owned by Vanderbilt University.

In June 2000, the HMO notified the Healthcare Financing Administration (HCFA) that effective January 1, 2001, the HMO would no longer participate in the Medicare Choice Program. The HMO had zero Medicare members by January 2001, a drop of approximately 9400 members from December 2000. In August 2000, the HMO announced its intention to exit its Commercial HMO operations. In January 2001, it had only 2400 commercial

members a drop from approximately 34,000 members, in December 2000. All memberships expired by April 1, 2001.

Based upon a Stock Purchase Agreement dated November 1, 2000, between Health Plan Holding Corporation and Vanderbilt Health Services, Inc., the HMO ultimately became 100% owned by Vanderbilt Health Services, Inc. In previous years, Vanderbilt Health Plans Inc. had owned 92% of the stock and Vanderbilt Management Services, Inc. owned 8% of the stock. These two entities were both owned by Vanderbilt Health Services, Inc. The Stock Purchase Agreement did not require TDCI approval since ultimate control (Vanderbilt University) never changed and the HMO was merely dividended to Vanderbilt Health Services, Inc.

At December 31, 2007, the HMO was licensed in one state, Tennessee.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the HMO since the previous examination, according to annual statements filed with TDCI.

Date	Net Premium Income	Medical & Hospital Expenses	Admitted Assets	Liabilities	Net Worth
2004	$0	($36,175)	$1,816,376	$640	$1,815,736
2005	$0	($22,098)	$1,865,849	$640	$1,865,209
2006	$0	($32,363)	$1,952,841	$640	$1,952,201
2007	$0	($2,662)	$2,016,376	$640	$2,015,736

The negative amount of medical and hospital expenses is due to the favorable development of claim reserves as claims pay out from the business runoff. As of April 1, 2001, the HMO had no members. Net worth increased due to an increase of cash and cash equivalents.

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was filed and recorded with the Tennessee Secretary of State on June 9, 1994. Said Charter establishes the Company as a for profit corporation. It does not state that the corporation has a perpetual existence. The objects and purposes for which the said corporation is organized, and the natures of its powers and of the business to be carried on by it, are as follows:

(a) To transact the business of a health maintenance organization, as defined in Tennessee Code Annotated, Title 56, Chapter 32.

(b) To do all things which the Board of Directors determines to be necessary or appropriate in connection or associated therewith.

(c) To engage in any lawful business.

The Charter was first amended June 23, 1994, at which time the name of the corporation was changed from "HealthOne, Inc." to "Health 1·2·3, Inc." The second amendment was on July 27, 1994 at which time the par value of the 1,000,000 shares of authorized common stock was changed from $0 par to $1 par value per share and additional language was added to Part 8 to add "however, nothing contained in this charter shall exempt an officer or director from any provision of Title 56, TCA as it may be amended, supplemented or superceded".

An Amended and Restated Charter was filed and recorded on November 2, 1994 with the Tennessee Secretary of State which effected the above changes and changed the number of authorized shares of common stock from 1,000,000 to 100,000 shares. On March 31, 1995, Application For Registration Of Assumed Corporate Name was filed and recorded with the Tennessee Secretary of State which added the assumed corporate name of Health 1·2·3 Platinum.

An Amended and Restated Charter was filed and recorded with the Tennessee Secretary of State on August 22, 1997 and the Register of Davidson County, Tennessee on August 27, 1997 which changed the principal office address to: 706 Church Street, Suite 500, Nashville, Tennessee 37203. The Amended and Restated Charter additionally changed the name of the registered agent, name of the incorporator and address of incorporator. TDCI approved said Amended and Restated Charter on July 16, 1997.

Articles of Amendment to the Charter dated April 6, 2000 were approved by TDCI on April 27, 2000 which changed Article Six to state:

> "6. The number of shares of stock the corporation is authorized to issue is One Hundred Eight Thousand, Six Hundred Ninety Five (108,695) shares of Common Stock, par value of One Dollar ($1.00) per share."

Bylaws:

The Amended and Restated Bylaws of the Company in effect at December 31, 2003 were adopted by the unanimous consent of the shareholder on November 30, 1995 in order to increase the number of directors to 15. The original Bylaws were filed and recorded with the Tennessee Secretary of State on June 9, 1994. Such Bylaws may be amended, altered, repealed or restated, and new Bylaws adopted by the affirmative vote of a majority of the stock represented at such

meeting, or by the affirmative vote of a majority of the members of the Board of Directors who are present at any regular or special meeting.

The Bylaws state that the Company may have offices, either within or without the State of Tennessee, as the Board of Directors may designate or as the business of the Company may require.

An annual meeting of shareholders shall be held on such date and place as may be determined by the Board of Directors. Special meetings of the shareholders may be called by the Board of Directors or holders of at least ten percent (10%) of all the votes.

A Board of Directors of at least three (3) and not more than fifteen (15) members shall be elected by the shareholders at the annual meeting. Regular meetings of the Board of Directors may be held with or without notice; however, special meetings require notice of at least twenty-four (24) hours.

The Officers of the Company shall be chosen by the Board of Directors and include President, Secretary and such other officers as may be appointed.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the HMO managed under the direction of the Board of Directors consisting of at least three (3) and not more than fifteen (15) persons. Board members are elected by the shareholders. As of December 31, 2007, the Board of Directors of the Company was composed of the following:

Harry R. Jacobson, MD
J. Richard Wagers, Jr.
Karen Nanney
C. Wright Pinson, MD

As of December 31, 2007, the following persons held office in the Company:

C. Wright Pinson, MD	President
J. Richard Wagers, Jr.	Secretary

The administrative and executive functions of the HMO are performed by staff provided by Windsor Management Services, Inc. under recitals of a service agreement. The relationship with the mentioned firm is discussed under the heading "Agreements with Parent, Subsidiaries and Affiliates". Certain services were purchased in past years from outside contractors if needed and

were not available from in house personnel. Such services included actuarial analysis and independent audit. TDCI exempted the independent audit report and actuarial analysis for 2007 due to the HMO now being only a shell company with no members since April 1, 2001 and having no active open claims. Further discussion is contained under the caption "Accounts and Records".

Control:

The HMO is 100% owned by Vanderbilt Health Services, Inc. which is 100% owned by Vanderbilt University, and is subject to the "Insurance Holding Company System Act of 1986," set forth in Tenn. Code Ann. §§ 56-11-201, *et seq.*

A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

Minutes of meetings of the shareholders and Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

Tenn. Code Ann. § 56-3-301(b)(1) states "No investment or loan, except policy loans, shall be made by any such life insurance company unless the same first has been authorized by the board of directors or by a committee appointed by such board and charged with the duty of supervising such investment or loan". The Board of Directors has delegated this authority to Windsor Management Services, Inc. which currently manages the HMO under recitals of a service agreement. This is due to the fact that the only security owned by the HMO is a FNMA bond which is pledged as a trust deposit to the TDCI. The HMO is in runoff with no active enrollees since April 1, 2001. Reviews of financial statements of the HMO are made monthly by the Board of Directors of Vanderbilt Health Services (parent company).

FIDEILITY BOND AND OTHER INSURANCE

Officers and directors of the HMO are covered by a policy with named insured, Vanderbilt University, which lists the HMO under Medical Center (wholly owned or controlled entities). The following is a schedule of the enumerated coverage's held at the current examination:

Type of Coverage	Coverage Limits
1. Employee Dishonesty	$10,000,000
2. Premises Coverage	$10,000,000
3. Transit Coverage	$10,000,000

The coverage is underwritten by Federal Insurance Company, which is licensed in Tennessee as a "Foreign Property and Casualty Insurer".

The HMO's fidelity bond coverage exceeds the suggested minimum as exhibited in the NAIC Financial Condition Examiners Handbook and complies with Tenn. Code Ann. § 56-32-206(b). The HMO has no employees.

TERRITORY

As of December 31, 2007, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

The Company's service area in Tennessee consists of the following counties:

Fayette	Henry	Shelby	Coffee
Hickman	Robertson	Williamson	Claiborne
Jefferson	Roane	Haywood	McNairy
Bedford	Franklin	Maury	Trousdale
Campbell	Hamilton	Monroe	Unicoi
Henderson	Perry	Cheatham	Giles
Montgomery	Warren	Carter	Hawkins
Morgan	Washington	Hardin	Madison
Weakley	Dickson	Marshall	Sumner
Blount	Hamblen	McMinn	Sullivan
Gibson	Houston	Stewart	Davidson
Lawrence	Rutherford	Wilson	Fentress
Knox	Scott	Hardeman	Humphreys
Wayne	DeKalb	Lewis	Smith
Anderson	Greene	Loudon	Sevier

PLAN OF OPERATION

The Company was incorporated as a Health Maintenance Organization to provide managed healthcare services to businesses in Nashville and the surrounding areas. Monthly premium payments were made for rendering or arranging necessary medical service for the employees of the employer groups with which the Company contracts. The Company additionally provided managed care services to residents of Tennessee participating in the Medicare program under the name of "Health 1 2 3 Platinum." Under this program, a monthly-prepaid capitalized payment from the Health Care Financing Administration (HCFA) is paid in return for rendering or arranging medical services for the enrolled Medicare participants.

The HMO currently plans to write no premium and provide no medical care coverage. The trust deposits and assets associated with them have been maintained as income producing investments in compliance with Tenn. Code Ann. § 56-32-212 in order for the HMO to maintain its certificate of authority. As of April 1, 2001, the HMO had no enrolled members.

During 2007, the Company wrote no direct premium.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of TDCI, a market conduct review was made of the Company as of December 31, 2007 in conjunction with this examination; however, the review is a moot issue due to the fact that the HMO has no market activities and writes no business. The following items were addressed:

Policy Forms

The HMO has no active policy forms and has not issued a policy since 2001. All memberships had expired by April 1, 2001. The HMO is aware of the filing responsibility for various forms, agreements, etc., as well as "hold harmless" requirements for provider contracts pursuant to Tenn. Code Ann. § 56-32-105(c) in the event the HMO becomes active in the future.

Rating and Underwriting Practices

The HMO has not written any business since 2001 and does not intend to do so. No rating or underwriting manuals are maintained due to the HMO's inactive status.

Advertising

The Company does not participate in advertisement due to its inactive status.

Claims Review:

The HMO has no active or contingent claims. All claims were fully developed. The Company exhibited negative dollar (redundant) claim development during the calendar years 2004 to 2007 as reserves were released after all claims and recoveries were settled.

Prompt Payment - Tenn. Code Ann. § 56-7-109

Review of "Prompt Payment Standards" pursuant to Tenn. Code Ann. § 56-7-105 is a moot issue. All claims were fully developed and paid as of the close of the 2001 calendar year. No business has been written since 2001 and no active claims exist. The HMO is subject to Tenn. Code Ann. § 56-32-226 which references the above statute and is therefore in compliance.

Privacy Policy:

The HMO writes no business and has no enrollees; therefore, a privacy statement pursuant to Tenn. Comp. R. & Regs. 0780-01-72 would not apply.

Policyholder Complaints

Inquiries made to the various sections within "The Division of Insurance" indicated no concerns or complaints with the HMO during the period under examination.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Any services performed on behalf of the HMO are provided by employees of Windsor Management Services, Inc. under recitals of a service agreement.

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with TDCI, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

Year	Losses Incurred	Premiums Earned	Loss Ratio
2004	**($36,175)**	**$0**	**n/a**
2005	**($22,098)**	**$0**	**n/a**
2006	**($32,363)**	**$0**	**n/a**
2007	**($2,662)**	**$0**	**n/a**
Total	**($93,298)**	**$0**	**n/a**

The negative incurred loss through the period beginning 2004 to the end of 2007 is related to the redundant development of past outstanding claim reserves as all claims subsequently paid after the HMO ceased writing new business and the cancellation of all membership contracts.

ACCOUNTS & RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2004 thru 2007.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the HMO at the date of examination.

The HMO does not file a Risk Based Capital Report due to its inactive status. It does compute the risk based capital amount in compliance with annual statement instructions. TDCI has exempted the HMO from filing an actuarial opinion as indicated in its email dated January 2, 2007. The Company does not meet the threshold requirements of Tenn. Comp. R. & Regs. 0780-01-65.-02(2) and therefore is not required to file an annual audit report prepared by an independent accounting firm.

Books and records of the Company are kept at the home office location:

7100 Commerce Way, Suite 285

Brentwood, TN 37027

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions as of December 31, 2007:

State	Description	Par Value	Statement Value	Market Value
TN	**FNMA 5.75%, due 02/15/2008**	**905,000**	**905,735**	**905,735**

Securities deposited with the State of Tennessee designated as "Other Deposits" are held for the protection of all policyholders of the Company. The $905,735 statement value of the Tennessee statutory deposit at December 31, 2007 exceeds the $900,000 required by Tenn. Code Ann. § 56-32-212(b)(1).

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The HMO meets the definition of a holding company pursuant to Tenn. Code Ann. § 56-11-201(b)(5), which specifically defines a "health maintenance organization holding company system".

The HMO is managed by Windsor Management Services [Victory Management Services, Inc. (VMS)], formerly known as Vanderbilt Management Services Inc. (used same synonym VMS). A Management Services Agreement between Vanderbilt Management Services, Inc. (VMS) and the HMO effective December 21, 2000 was approved by TDCI on November 21, 2000. The parties intend that VMS manage the HMO as its business operations wind-down and the HMO becomes inactive in the market place. Vanderbilt Health Services, Inc. the parent of the HMO paid VMS a final fixed management fee of $5,500,000.

The original management agreement dated June 9, 1994 provided for a base fee contingent on the number of enrollees in the HMO, plus an incentive fee based on certain performance measures. After the number of enrollees reaches a specified level, the agreement provides for a fee based on a percentage of revenue. The agreement was not submitted to the Commissioner for approval until May 7, 1996. Formal approval was granted July 3, 1996. This original agreement was between THG Management Services, Inc. and the HMO. On March 12, 1997, the HMO purchased one hundred percent of the issued and outstanding stock of THG Management Services, Inc. for $8,615,000 and changed the name to Vanderbilt Management Services, Inc.

Claims handling services are handled under a Managed Care Agreement with Perot Systems formerly known as Shared Medical Systems Corporation. By virtue of an amendment made as of September 30, 2000, this agreement added the assignor "Vanderbilt Management Services, Inc." The original agreement was made as of February 12, 1999 with Vanderbilt Health Plans, Inc. The cost is on a fee per member basis. Perot handled the claims through runoff and continues to provide lag reports to the HMO. This agreement has never been between the HMO and Shared Medical Services. It does not require approval of TDCI.

PECUNIARY INTEREST - TENN. CODE § 56-3-103

The HMO has no employees, only five members of the Board of Directors and two officers who are also board members. No salary or fee is paid by the HMO to any officer or director or employee. These same individuals would also be party to any conflict of interest policy which is in place for employees and officers of Vanderbilt University.

Additionally, Tenn. Code Ann. § 56-32-221(a) states "Except as otherwise provided in this part, provisions of the insurance law, and provisions of hospital or medical service corporation laws

are not applicable to any health maintenance organization granted a certificate of authority under this part".

COMMISSION EQUITY

No excess of loss agreements were in effect during the period of examination from January 1, 2004 to December 31, 2007; therefore, no commission equity could exist in ceded unearned premium. In this scenario, there would be no ceded unearned premium.

DIVIDENDS OR DISTRIBUTIONS

In January 2003 and April 2003, the Company paid cash dividends to VHS totaling $11,262,500 ($7,262,500 and $4,000,000 respectively). The cash dividend payments were made in conjunction to the winding down of business. The dividend payment met the definition so stated in Tenn. Code Ann. § 56-11-206(b).

There were no dividends paid during this examination period. It appears that a misclassification of dividends paid in 2001 was recorded in the Annual Statements covering this examination period on Page 3 of the Liabilities Page as an Aggregate write-in for other than special surplus funds in the amount of $15,633,500.

LITIGATION

As of December 31, 2007, the Company had no pending litigation which would adversely affect the financial condition of the Company.

SUBSEQUENT EVENTS

NONE

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2007 together with a reconciliation of capital and surplus for the period under review, as established by this examination.

Assets
As of December 31, 2007

	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$905,735			$905,735
Cash and short-term investments	1,088,329			1,088,329
Investment income due and accrued	21,682			21,682
Receivables from parent, subsidiaries, affiliates	630			630
Totals	$2,016,376			$2,016,376

LIABILITIES, SURPLUS, AND OTHER FUNDS
As of December 31, 2007

Claims unpaid		$0
Unpaid claim adjustment expenses		0
Aggregate policy reserves		0
Aggregate claim reserves		0
General expenses due or accrued		640
Total Liabilities		640
Common capital stock	$108,695	
Gross paid in and contributed surplus	93,686,074	
Aggregate write-ins for other than surplus funds (dividend to Vanderbilt)	(15,633,500)	
Unassigned funds (surplus)	(76,145,533)	
Total capital and surplus		2,015,736
Total liabilities, capital and surplus		$2,016,376

STATEMENT OF REVENUE AND EXPENSES
For the Period Ended December 31, 2007

	Uncovered	Total
Member months	0	0
Net premium income	0	0
Total revenues	0	0
MEDICAL AND HOSPITAL		
Hospital/medical benefits	(2,662)	(2,662)
Other professional services	0	0
Outside referrals	0	0
Emergency room and out of area	0	0
Aggregate write-ins for other medical and hospital	0	0
Subtotal	(2,662)	(2,662)
LESS		
Net reinsurance recoveries	$0	$0
Total medical and hospital	0	0
Claims adjustment expenses	0	0
General administrative expenses	653	653
Increase in reserves for accident and health contracts	0	0
Total underwriting deductions	(2,009)	(2,009)
Total underwriting gain or loss	0	2009
Net Investment income earned	61,526	61,526
Net realized capital gains or losses	0	0
Net investment gains or losses	61,526	61,526

Net income or (loss) before income taxes	63,535
Federal income taxes incurred	0
Net income	$63,535

Capital and Surplus Account

	2004	2005	2006	2007
Total capital and surplus, December 31, previous year	$1,762,435	$1,815,736	$1,865,209	$1,952,201
Net income	53,301	49,473	86,992	63,535
Change in net unrealized capital gains (losses)				
Change in net deferred income tax				
Change in non-admitted assets				
Change in liability for reinsurance in unauthorized companies				
Change in asset valuation reserve				
Cumulative effect of change in accounting principles				
Change in paid in capital				
Change in paid in surplus				
Change in surplus as a result of Reinsurance				
Dividends to stockholders				
Adjustments to prior year FIT and related interest				
Litigation Settlement				
Net change for the year	53,301	49,473	86,992	63,535
Total capital and surplus, December 31, current year	$1,815,736	$1,865,209	$1,952,201	$2,015,736

Analysis Of Changes In Financial Statement And Comments Resulting From Examination

Item	Amount
Cash and short-term investments	**$1,088,329**

This above amount includes $1,080,000 which was on deposit at December 31, 2007 with Regions Bank as "Repurchase Transactions." The Company classified these assets as Cash.

According to the NAIC Accounting Practices and Procedures Manual SSAP No. 2 (10) Short-Term Investments include repurchase transactions. Therefore these repurchase transaction assets should have been classified as short-term investments by the Company.

The Company has not been able to furnish a copy of the Repurchase Agreements to the Examiner as required by Tennessee Code Annotated § 56-3-303(a)(18)(A). In addition, according to the Company, the Company receives a daily confirmation from Regions Bank of the overnight repurchase transactions which includes confirmations of the collateral. On a monthly basis, after the master account is reconciled and the period is closed, all daily confirmations are shredded.

According to Tennessee Code Annotated Section§ 56-3-303(a)(18)(D), the amount of collateral required for securities lending, repurchase and reverse repurchase transactions is the amount required pursuant to the provisions of the Purposes and Procedures Manual of the Securities Valuation Office of the NAIC or, if it is no longer being published, the successor publication thereto.

According to the NAIC Accounting Practices and Procedures Manual SSAP No. 91 (71) for repurchase transactions, the reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for securities. As a result the Examiner was unable to determine that the repurchase transaction assets at December 31, 2007 were covered by repurchase agreements with Regions Bank as required by Tennessee Code Annotated 56-3-303 § (a) (18) (A)and were secured by collateral as required by Tennessee Code Annotated § 56-3-303 (a) (18) (D). The $1,080,000 for the repurchase of the repurchase transaction assets together with $8,329 interest was received by the Company from Regions Bank on January 3, 2008. Therefore the entire $1,080,000 repurchase transaction asset has been admitted for purposes of this examination.

COMMENTS AND RECOMMENDATIONS

COMMENTS

A decision has not been made by management whether to ultimately surrender the Certificate of Authority or market the authority to another qualified party. The HMO presently plans to remain inactive. No enrollees have been in the organization since April 1, 2001. No active claims remain open.

The HMO has not updated the Custodial Agreement with Regions Bank as of this Examination period.

It appears that a misclassification of dividends paid in 2001 was recorded in the Annual Statement covering this examination period on Page 3 of the Liabilities Page as an Aggregate write-in for other than special surplus funds in the amount of 15,633,500.
It is recommended that the Company only record current dividends in Annual Statements.

The HMO has not amended the Charter to reflect the 2005 change of address.
It is further recommended that the HMO amend the Charter as required by Tenn. Code Ann § 48-15-102.

RECOMMENDATIONS

- Assets totaling $1,080,000 consisting of repurchase transactions assets were incorrectly classified as cash rather than as short-term investments in accordance with NAIC Accounting Practices and Procedures Manual SSAP No. 2 (10).

  It is recommended that the Company properly classify repurchase transaction assets as short-term investments.

- The HMO could not provide written agreements covering these repurchase transactions assets or confirmation of the collateral securing these assets as required by Tenn. Code Ann § 56-3-303(a)(18)(A).
  It is recommended that the Company enter into written agreements with Regions Bank covering these repurchase transactions; and it is further recommended that the Company retain the collateral confirmation provided by Regions Bank.

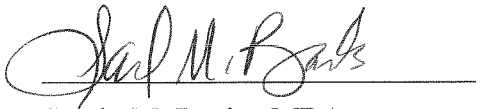
CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Health 123, Inc.

In such manner, it was determined that, as of December 31, 2007, the Company had admitted assets of $2,016,376 and liabilities, exclusive of capital and surplus, of $640. Thus, there existed for the additional protection of the policyholders, the amount of $2,015,736 in the form of common capital stock, gross paid-in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



Sandy M. Banks, MBA

Insurance Examiner

Tennessee Department of Commerce and Insurance

EXAMINATION AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Health 123, Inc. dated June 16, 2009 and made as of December 31, 2007, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

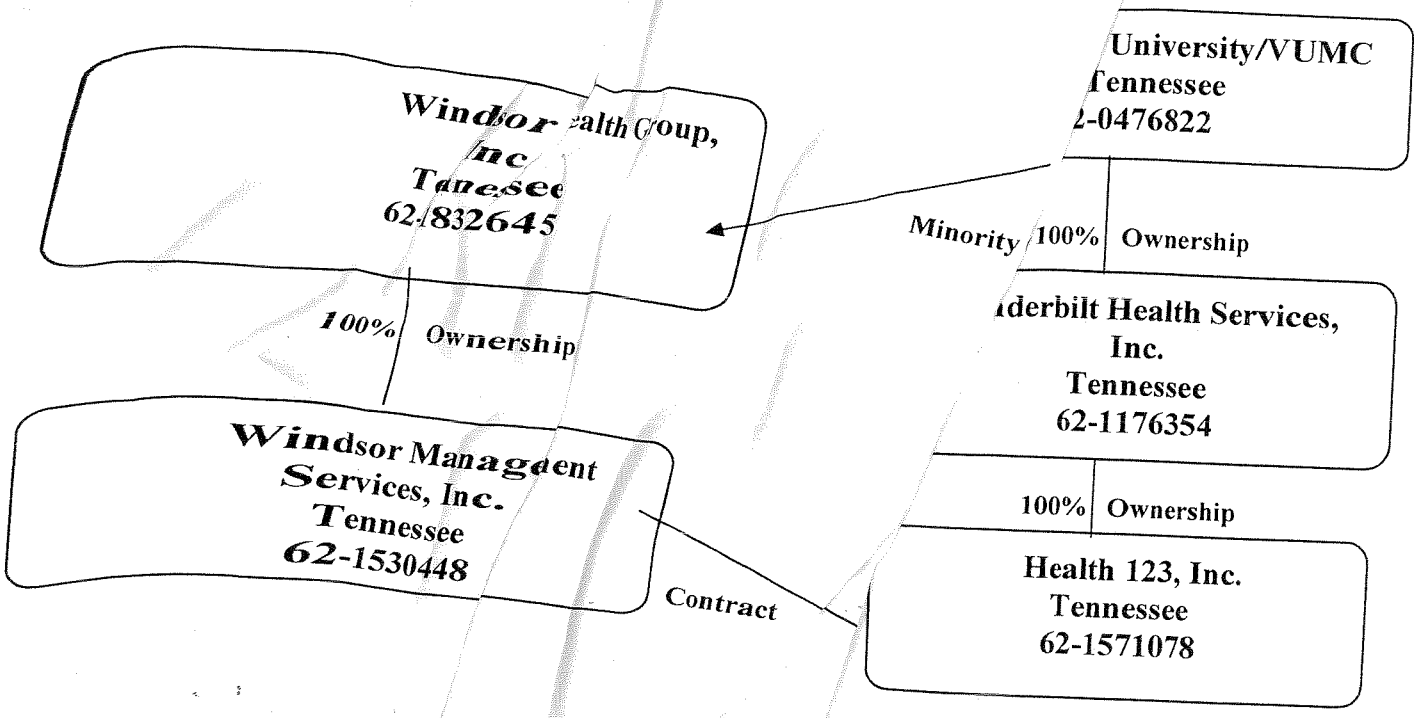
Sandy M. Banks, MBA
Insurance Examiner
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 16th day of
June, 2009.

(Notary)

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

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