REPORT ON EXAMINATION

of the

CARITEN INSURANCE COMPANY
1420 CENTERPOINT BLVD.
KNOXVILLE, TENNESSEE

as of

DECEMBER 31, 2005

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT

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Nashville, Tennessee
June 11, 2007

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 the

CARITEN INSURANCE COMPANY
1420 CENTERPOINT BOULEVARD
KNOXVILLE, TENNESSEE

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

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance, State of Tennessee ("Commissioner") and commenced on April 18, 2006. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("Department").

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 2001, the date of the previous examination, to the close of business on December 31, 2005, 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 NAIC Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2005. 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)
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
Dividends or Distributions
Litigation
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2001, by authorized representatives of the Department.

Four (4) recommendations were made to the company from the last exam.

1. The Company should submit its Service Agreement and its Tax Allocation Agreement to the Department for the stamp approval of the Commissioner pursuant to the Tenn. Code Ann. § 56-11-206(2)(D). These agreements were submitted by the Company in the 2002 Holding Company Registration Statement and approved by the Department on September 23, 2003.
2. A review of the Company's claims payment system revealed that the Company is not in compliance with Tenn. Code Ann § 56-7-109(b), which states that ninety-five percent (95%) of clean claims submitted on paper must be paid within thirty (30) days of receipt. During the Post On-Site Examination Review on September 15, 2003, the Department notes the Company had updated its claims software, which reduced claims processing times to acceptable levels.

3. A premium deficiency analysis should continue to be reviewed and considered in analyzing the Liability for Loss Contract reserve block of business as a going concern. During the Post On-Site Examination Review, the Department noted the Company had sought assistance from its actuary in this matter.
4. The Company should develop and implement controls and procedures to adhere to the instructions for preparation of the annual statement. By adding additional training for employees in 2003, the Company seemed to have made efforts to correct and address this issue.

COMPANY HISTORY

The Company was incorporated as the National Burial Insurance Company, Memphis, Tennessee, on August 28, 1964, under the laws of the State of Tennessee. Its charter authorized capital of three hundred thousand dollars ($300,000) divided into thirty thousand (30,000) shares with a par value of ten dollars ($10) each.

On September 12, 1977, the total outstanding shares of the Company were purchased by Southern Affiliated Services, Inc., Knoxville, Tennessee, a Tennessee corporation. Southern Affiliated Services, Inc. subsequently changed its name to Bankers' Affiliated Services, Inc. on October 13, 1977.

Following the purchase of the National Burial Insurance Company, the Company's name and principal office were changed by charter amendment effective October 13, 1977, to The Bankers' Service Life Insurance Company, Knoxville, Tennessee.

In 1984 Bankers' Affiliated Services, Inc. changed its name to Financial Technology Corporation. Financial Technology Corporation liquidated in 1985 and Ralph E. Newman, Jr. received the thirty thousand (30,000) shares of the Company. The shares were not transferred on the Company's books until April 25, 1989.

On April 17, 1989, Millard V. Oakley and Somerset Holdings, Inc. purchased all of the issued and outstanding capital stock of the Company which consisted of thirty thousand (30,000) shares of Class A common stock with a par value of ten dollars ($10) per share for a total purchase price of three hundred thousand dollars ($300,000).

At a shareholders meeting on August 4, 1989, an amendment was adopted to change the principal office location to Nashville, Tennessee. This amendment was approved by the Commissioner on June 1, 1990. The amendment was filed with the Secretary of State, State of Tennesseee on June 4, 1990.

On February 17, 1994, Methodist Medical Center of Oak Ridge, Inc. and Fort Sanders Alliance, Inc. entered into a Stock Purchase Agreement to purchase all the outstanding shares of stock in The Bankers' Service Life Insurance Company from Millard V. Oakley and Somerset Holdings, Inc.

Fort Sanders Alliance, Inc. and Methodist Medical Center of Oak Ridge, Inc. filed a plan of acquisition with the Department on February 24, 1994. On April 12, 1994, the Commissioner approved the acquisition of the Company by the two entities.

At the shareholders meeting on February 2, 1994, an amendment was adopted to change the name from The Bankers' Service Life Insurance Company to Future Health Insurance Company of America. This amendment was approved by the Commissioner on May 2, 1994. The amendment was recorded with the Secretary of State, State of Tennesseee on May 3, 1994. It appears the amendment was not recorded with the Register of Deeds of Davidson County.

On May 6, 1994, Fort Sanders Alliance, Inc. and Methodist Medical Center of Oak Ridge, Inc. became owners of the Company. Each party owned fifteen thousand (15,000) shares of the thirty thousand (30,000) issued and outstanding shares of the Company.

At the May 6, 1994 shareholders meeting, the amendments to move the principal office of the Company to Knox County and to designate a new registered agent were approved. The Commissioner approved the amendments on May 6, 1994. The amendments were recorded with the Secretary of State, State of Tennesseee on May 9, 1994.

The shareholders consented to amend its charter on September 28, 1995. Effective October 5, 1995, the total number of shares authorized for issuance was one hundred thousand (100,000) with a par value of ten dollars ($10.00) per share. Effective as of the same date, the outstanding shares of stock totaling thirty thousand (30,000) were exchanged for the one hundred thousand (100,000) shares of stock authorized by the amendment. This amendment was approved by the Commissioner on October 3, 1995 and recorded with the Secretary of State, State of Tennesseee on October 5, 1995.

On November 20, 1996, the sole shareholder adopted an amendment to change the name of the Company to Cariten Insurance Company. This amendment was approved by the Commissioner on November 27, 1996. The amendment was recorded with the Secretary of State, State of Tennesseee.

At December 31, 2005, the Company was licensed to transact business only in the State of Tennessee. The Company engages in the sale of health insurance products, including preferred provider organization and point-of-service products primarily in the East Tennessee area.

A summary of the Company's paid in funding provided by the parent corporation since the prior examination is as follows:

Statement Date	Paid in surplus	Paid in capital
December 31, 2002	$0	$0
December 31, 2003	$16,227,959	$0
December 31, 2004	$0	$0
December 31, 2005	$0	$0
Total	$16,227,959	$0

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the Department:

Date	Net Premium	Net Investment Income	Medical & Hospital Expenses	Claims & Admin. Expenses	Net Income/ (Loss)	Net Assets	Net Worth
12/31/01	$64,571,791	$1,525,010	$53,008,392	$13,506,640	$1,396,934	$32,535,142	$12,898,152
12/31/02	$121,432,907	$1,518,941	$109,513,635	$19,084,375	$(5,460,452)	$37,308,883	$7,409,215
12/31/03	$156,575,929	$1,823,311	$142,354,627	$20,906,163	$(4,811,624)	$46,670,194	$18,857,995
12/31/04	$122,427,175	$1,859,541	$97,936,996	$17,505,190	$9,102,986	$51,275,334	$27,959,274
12/31/05	$118,725,615	$2,226,228	$96,691,965	$15,741,916	$7,325,536	$57,764,987	$33,175,508

CHARTER AND BYLAWS

Charter:

The original charter of National Burial Insurance Company dated August 28, 1964, was filed and recorded with the Secretary of State, State of Tennessee on August 31, 1964, after having been approved by the Department on August 27, 1964. The objectives and purposes for which the said Company is organized, and the natures of its powers and of the business to be carried on by it, are as follows:

(1) The name of the corporation is National Burial Insurance Company.

(2) The corporation authorized issuance of thirty thousand (30,000) shares of common stock, with each share to have a par value of ten dollars ($10.00).

(3) The nature of the corporation is to operate generally as a life insurance company including the authority to write all types of insurance policy contracts insuring the lives of individuals from all type injuries, sickness, accidents, hospitalization, hazards of any nature, and death including but not limited to those classes of insurance generally referred to as life, health, accident, sickness, hospitalization, disability, annuity and endowment contract and all forms of insurance written on the lives of individuals and to further do any and all things necessary, germane or pertinent thereto .

(4) The corporation shall be perpetual.

(5) The street address of the principal office of the corporation is 2701 Union Avenue, Memphis, Tennessee, 38111.

The original charter established the general powers set forth for the corporation. Charter amendments were discussed under the caption "Company History". The charter has not been amended since the previous exam date of December 31, 2001.

Bylaws:

The Bylaws of the Company in effect at December 31, 2005, were last amended October 13, 1977. Such bylaws are still those of Bankers' Service Life Insurance Company. The Company has not amended or adopted new bylaws to reflect its present name. See the "Comments and Recommendations Section" below.

Bylaws may be amended, added to, or repealed either by the shareholders or the board of directors as provided by statute. Any change in the bylaws made by the board of directors, however, may be amended or repealed by the shareholders.

An annual meeting of shareholders shall be held at such time and place, either within or without this State, as may be designated from time to time by the directors. Special meetings of the shareholders may be called by the President, a majority of the Board of Directors, or by the holders of at least ten percent (10%) of all the shares entitled to vote as such meeting.

The number of members on the Board of Directors shall be fixed from time to time by either the shareholders or by the board of directors. Directors need not be shareholders or residents of this State. They shall be elected by a plurality of the votes. Each director shall hold office until the expiration of the term for which the director is elected, and thereafter until a successor has been elected and qualified. Regular meetings of the Board of Directors may be held without notice. Special meetings may be called by the chairman of the board, president or any two (2) Directors.

The Officers of the Company shall be elected by the Board and include President and Secretary and such other officers as may be appointed. The same individual may simultaneously hold more than one office except for the office of President and Secretary.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide all corporate powers shall be exercised by or under the authority of and the business and affairs of the Company managed under the direction of the Board of Directors. Board members are elected by the shareholders. As of December 31, 2005, the Board of Directors of the Company was composed of the following:

Kenneth T. Creed
Michael M. Dudley
Randolph M. Lowry
Sandra L. Mathy
Michael E. Mitchell
Francis H. Olmstead
Dean M. Turner
Thomas R. Bell
Daniel J. David
Marvin H. Eichorn
Kenneth F. Luckmann
Cletus J. McMahon
David A. Nowiski
Anthony L Spezia

As of December 31, 2005, the following persons held office in the Company:

Lance K. Hunsinger	President
Jeff Collake	Secretary
Jeff Collake	Chief Financial Officer

The administrative and executive functions of the Company are performed by staff provided by PHP Companies, Inc. under recitals of a management 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 independent audit.

Control:

The Company is one hundred percent (100%) owned by PHP Companies, Inc. (PHP), a holding company domiciled in the State of Tennessee. Covenant Health (Covenant), a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code, is the majority stockholder of PHP, owning ninety-eight percent (98%) of the stock with the remaining two percent (2%) owned by Mountain States Health Alliance.

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. There was no indication adequate approval and support was given for Company transactions and events, primarily investment transactions, pursuant to Tenn. Code Ann. § 56-3-408(b)(1). See the "Comments and Recommendations Section" below.

FIDELITY BOND AND OTHER INSURANCE

The following is a schedule of the enumerated coverages at December 31, 2005:

Type of Coverage	Coverage Limits
A. Employee Dishonesty Coverage	$1,000,000

Retention on the policy is ten thousand dollars ($10,000). Coverage is underwritten by Travelers Casualty and Surety Company of America which is licensed in Tennessee as a "Foreign Property and Casualty Insurer". This policy is issued to PHP. The Company has no employees.

The Company's fidelity bond coverage exceeds the suggested minimum as exhibited in the NAIC Financial Condition Examiners Handbook.

B. Directors, Officers and Private Company Liability Coverage	$10,000,000

Retention on the policy is two hundred fifty thousand dollars ($250,000). Coverage is underwritten by National Union Fire Insurance Company of Pittsburgh, Pa. which is licensed in Tennessee as a "Foreign Property and Casualty Insurer". This policy is issued to PHP and includes subsidiary coverage.

C. Managed Care Organization Errors and Omissions Liability Coverage — $ 5,000.000

Retention on the policy is five hundred thousand dollars ($500,000). Coverage is underwritten by Darwin Select Insurance Company, which is not licensed in Tennessee but qualifies as a surplus lines insurer pursuant to Tennessee statutes (Tenn. Code ann. 56-14-108). This policy is issued to PHP and includes the Company as an insured.

TERRITORY

As of December 31, 2005, the Company was licensed to transact business only in the State of Tennessee. The Tennessee Certificate of Authority was reviewed.

As of December 31, 2005, the Company had written direct premium as follows:

State	Accident and Health	Medicare Title XVIII
Tennessee	$118,453,554	$272,061
Total	$118,453,554	$272,061

PLAN OF OPERATION

The Company was formed for the purpose of providing all types of insurance policy contracts insuring the lives of individuals from all types of injuries, sickness, accidents, hospitalization, hazards of any nature, and death including but not limited to those classes of insurance generally referred to as life, health, accident, sickness, hospitalization, disability, annuity and endowment contracts and all forms of insurance written on the lives of individuals. Effective October 13, 1977, the charter was amended to include the writing of credit life insurance and credit accident and health insurance.

The Company is engaged in the sale of commercial health insurance products, including insured preferred provider organization and point-of-service products.

The Company contracts with healthcare professionals, healthcare facilities and group providers.

- Agreements with healthcare professionals reimburse providers through a fee-for-service basis for covered services at the lesser of the provider's billed charges or the most current appropriate point of service and preferred provider benefit program fee schedule.

- Healthcare facilities agreements compensate providers for inpatient services, outpatient services and emergency services, to be reimbursed at the lesser of billed charges or the scheduled rates included in the agreement.
- Group Provider agreements reimburse providers through a fee-for-service basis for covered services at the lesser of the provider's billed charges or the most current appropriate point of service and preferred provider benefit program fee schedule.
- Pharmacy benefits are serviced through a single prescription benefits manager who administers the claims processing program.

The Company's target market consists of both small employer groups consisting of three (3) to twenty-five (25) employees and large employer groups consisting of twenty-six (26) or more employees. The Company utilizes a network of brokers to market its fully funded products and a licensed sales staff for onsite or offsite Medicare seminars.

Pharmacy costs develop through a services agreement with ProCare Rx. ProCare Rx provides consultation on prescription benefit programs, claims processing capabilities, offers pharmacy provider retail and mail service networks, and maintains a drug formulary. Before December 29, 2004, pharmacy benefits were contracted through Express Scripts.

The Client Services Agreement with ProCare Rx was not submitted to the Department as required by Tenn. Code Ann. § 56-32-203 (b)(4) and (c)(1).

Enrollment History:

Year	Total members	Group	Title XVIII Medicare
2001	41,886	41,886	0
2002	66,475	66475	0
2003	49,298	49,274	24
2004	43,804	43,775	29
2005	43,111	43,069	42

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2005, in conjunction with this examination. The following items were addressed:

Filing and Approval of Policy Forms:

The Company 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. § 56-2-124. During the period of this examination, the last approved rate filing was filed with The Division of Insurance – Life and Health Actuarial Section on May 31, 2005.

Inquiries were made to the Department regarding any issues with current filings. The compliance area advised of needed updates to the Company's Physicians' manual and provider contracts. See "Comments and Recommendations" section below.

The various other filings with the Actuarial Section made by the Company during 2005 and 2006 were reviewed and no deficiencies were noted.

Underwriting:

The Company has posted its Group Underwriting forms on its website www.cariten.com. The Company maintains basic underwriting eligibility requirements for commercial groups and medicare advantage customers.

Advertising:

The Company does no advertising. All advertising is provided by PHP through the services agreement. Such advertising consists of direct mail, television spots, newspaper ads, member newsletters, and employer brochures, as well as the Company website www.cariten.com.

Claims Review:

Commercial products are subject to Tenn. Code Ann. § 56-7-109. A sample of commercial claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

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

Following the prior examination of December 31, 2001, a prompt pay examination was performed by the Department. This exam covered the period of January 1, 2004 to December 31, 2004. Testing was performed during the review, in accordance with Tenn. Code Ann. § 56-7-109(b), and provided a credible basis for the findings and recommendations. Such examination showed the Company's changes to its claims

Tenn. Code Ann. § 56-7-109(b), and provided a credible basis for the findings and recommendations. Such examination showed the Company's changes to its claims handling system has allowed the reporting of clean claim dates.

At the Department's request, the Company stratified the commercial claim population for the year, 2005, into clean claims by month in order to measure timeliness of payment. Tenn. Code Ann. § 56-7-109 requires payment within twenty-one (21) days for electronic clean claims and thirty (30) days for paper clean claims. The results of this commercial medical claim stratification are as follows:

Electronic medical claims = EDI	21 day requirement
Paper claims which are scanned for entry = OCR	30 day requirement

	Jan	**Feb**	**Mar**	**Apr**
Claims Received	40,138	41,557	46,414	41,839
EDI	26,475	27,515	31,211	28,608
OCR	13,663	14,042	15,203	13,231
$ of Claims paid	$5,002,974	$6,172,469	$7,913,098	$6,080,756
Average Turn Around Time (# of days to check date)				
% of claims within 7 days	63.97%	62.17%	60.14%	69.47%
% of claims within 14 days	83.86%	86.55%	90.44%	93.01%
% of claims within 21 days	95.68%	96.62%	96.89%	95.26%
% of claims within 30 days	97.36%	98.50%	98.53%	96.65%
% of claims within 60 days	99.39%	99.27%	99.40%	98.01%

	May	**June**	**Jul**	**Aug**
Claims Received	41,231	39,388	35,325	40,981
EDI	28,578	27,376	24,847	28,975
OCR	12,653	12,012	10,478	12,006
$ of Claims paid	$6,453,140	$7,025,148	$6,317,823	$6,434,531
Quality				
Average Turn Around Time (# of days to check date)				
% of claims within 7 days	67.56%	66.94%	68.69%	67.56%
% of claims within 14 days	93.69%	92.83%	93.37%	95.58%
% of claims within 21 days	97.24%	96.91%	98.39%	97.97%
% of claims within 30 days	98.54%	98.54%	99.32%	98.88%
% of claims within 60 days	99.03%	99.25%	99.54%	99.28%

TENNESSEE COMMERCIAL	Sept	Oct	Nov	Dec	YTD
Claims Received	39,349	38,032	39,490	40,547	484,291
EDI	28,585	27,411	29,814	29,249	338,644
OCR	10,764	10,621	9,676	11,298	145,647
$ of Claims paid	$7,013,759	$6,072,830	$4,843,997	$10,041,649	$79,372,174
Average Turn Around Time (# of days to check date)					
% of claims within 7 days	71.14%	68.99%	65.90%	50.14%	69.00%
% of claims within 14 days	96.25%	95.06%	92.00%	87.19%	94.91%
% of claims within 21 days	98.73%	98.64%	96.82%	95.89%	98.66%
% of claims within 30 days	99.34%	99.30%	98.31%	98.31%	99.09%
% of claims within 60 days	99.70%	99.68%	99.72%	99.27%	99.37%

The above numbers indicate that the Company was in compliance with Tenn. Code Ann. § 56-7-109 on commercial medical claims.

Privacy Policy:

The Company has a written privacy statement supplied to its members annually in compliance with Tenn. Comp. R. & Regs., ch. 0780-1-72. Such privacy statement is included on the Company's website www.cariten.com under the section titled "Important Member Information".

Policyholder Complaints:

The Consumer Insurance Services (CIS) section of the Department indicated a specific concern with the Company's timely responses to insured complaint inquiries during the period under examination. CIS reports the Company made initial improvements for several months to CIS inquiries but a return to untimely responses has occurred.

EXCESS LOSS AGREEMENT

Prior to October 1, 2004, the Company had a reinsurance agreement in place for commercial products. It was determined this agreement was not cost beneficial and the coverage ended. At that time, the Company established a reserve based on the monthly amount approximately equal to the per-member per-month premium rate of the prior catastrophic claim coverage.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees. All business functions are performed by PHP under recitals of a services agreement discussed under the caption, "Agreements with Parent, Subsidiaries and Affiliates". Personnel participate in Covenant's employee benefit plans which are summarized as follows:

Comprehensive Medical	Contributory for employee and dependent(s). Employees may choose from three (3) options, with varying premiums, deductibles and network restrictions. Coverage is effective after ninety (90) days of employment and covers pre-existing conditions.
Vision coverage	Contributory for all employees and dependent(s).
Dental Coverage	Contributory for all employees and dependent(s).
Short Term Disability	Contributory for employee.
Long Term Disability	Non-contributory for employee.
Term Life and Accidental Death And Dismemberment	Non-contributory for employee. Coverage equals one (1) times employee salary. Additional coverage may be purchased.
401(K)	Eligible employees may defer up to nineteen percent (19%) of bi-weekly compensation pre-tax. PHP will match one hundred (100%) up to a maximum of six percent (6%) of salary. Participants are fully vested by end of the fifth year of service. Investments are individually directed.

PHP provides a flexible paid leave program. Employees hired before July 1, 2005 earn paid time off (PTO). PTO accrues every bi-weekly pay period.

SCHEDULE OF PTO: Full-time Employees

Years of Service	Annual PTO Days
Date of Hire	18
4th Anniversary	23
7th Anniversary	24
9th Anniversary	25
11th Anniversary	26
13th Anniversary	27
15th Anniversary	28

Note: your 4th anniversary is the date you start your 5th year.

SCHEDULE OF PTO: Part-time Employees

Years of Service	Maximum Accumulation	Accrual Per Pay Period
Date of Hire	120 Hours	Base Hrs Pd X .04
5th Anniversary	128 Hours	Base Hrs Pd X .05
10th Anniversary	136 Hours	Base Hrs Pd X .06
15th Anniversary	144 Hours	Base Hrs Pd X .07

Note: Management, Senior Management and Physicians should check with HR for your accrual rate and max levels.

Employees hired after July 1, 2005 accrue Combined Time Off (CTO) per pay period. Full time employees accumulate hours based on their length of service. Part time employees build up hours based on the number of hours working during a pay period and length of service.

SCHEDULE OF CTO: Full-time Employees

Effective Date	Maximum Accumulation
Date of Hire	230 hours
5th Anniversary	336 hours
10th Anniversary	488 hours

SCHEDULE OF CTO: Part-time Employees

Effective Date	Maximum Accumulation	Pro Rated
Date of Hire	120 hours	Hours worked x .04
5th Anniversary	128 hours	Hours worked x .05
10th Anniversary	136 hours	Hours worked x .06
15th Anniversary	144 hours	Hours worked x .07

LOSS EXPERIENCE

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

Year	Medical Expenses Incurred	Net Premiums Earned	Loss Ratio
2001	$53,008,392	$64,571,791	82.1%
2002	$109,513,635	$121,432,907	90.2%
2003	$142,354,627	$156,575,929	90.9%
2004	$97,936,996	$122,427,175	80.0%
2005	$96,691,965	$118,725,616	81.4%
Total	$499,505,615	$583,733,418	85.6%

ACCOUNTS AND 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 2002, 2003, 2004, and 2005.

- 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 Company at the date of examination.

The Company files an annual Risk Based Capital Report. Total adjusted capital, post tax at December 31, 2005 was thirty-three million one hundred seventy-five thousand five hundred eight dollars ($33,175,508). This amount exceeds the authorized control level risk-based capital amount of four million two hundred forty thousand three hundred twenty-three dollars ($4,240,323). During 2002, the Company's risk-based capital fell below the Regulatory Action level risk-based capital amount. Subsequently, in 2003 the Company submitted an action plan and has maintained levels above the Company action level risk-based capital amount from 2003 to present.

The Company's Independent Auditors' Report is issued annually by the accounting firm of Pershing Yoakley & Associates.

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

1420 Centerpoint Blvd.
Knoxville, Tennessee 37932

STATORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2005:

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
FHLB 4.400%, due 12/16/2009	$200,000	$200,294	$200,294
Total deposits held for the benefit			
of all enrollees of the Company in Tennessee	**$200,000**	**$200,294**	**$200,294**
Total	**$200,000**	**$200,294**	**$200,294**

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of a holding company system as defined by Tenn. Code Ann. § 56-11-201(b)(6).

An insurance holding company System came into existence during 1995 with Covenant as the Holding Company. The Company entered into a Services Agreement with its parent, PHP effective January 1, 2000. Under this agreement, PHP provides the Company with employees, office space, equipment, supplies, information services and other services necessary to perform its operating and administrative functions, including, without limitation, claims processing and payment, marketing, compliance, network management, reporting, record keeping and other administrative services. The agreement is automatically renewed on the first day of each January for an additional one year term, unless on or before October 1 of the immediately preceding year, one party gives the other written notice of an intention not to renew. A party may terminate the Agreement with or without cause upon thirty days (30) days prior written notice to the other parties.

Payment for the items provided and services performed pursuant to the Agreement shall be made on a monthly basis. Payment shall be due by the end of the calendar month following the month in which items and services were provided. Payment amounts shall be determined by the Chief Financial Officer of PHP, and payment shall be made by appropriate entries in the books and records of PHP and of the Subsidiary.

During the last examination the services agreement did not contain the approval stamp of the Commissioner pursuant to the Tenn. Code Ann. § 56-11-206(a)(2)(D). The Company submitted the services agreement to the Department of Commerce and Insurance on July 10, 2003. Department approval was given on September 23, 2003.

The Company is a party to a consolidated Tax Allocation Agreement between PHP and its subsidiaries. The Company signed the agreement effective April 1, 1999. The tax liability of the group will be apportioned among the members of the affiliated group in accordance with a ratio, which would be attributable to each member having a taxable income. A member's portion of the tax liability is equal to the tax liability of the group multiplied by a fraction, as noted in the tax allocation agreement. In the event of a refund, PHP would allocate the refund in a manner consistent with the allocations of income, deductions and credits made after the re-computation of each member's federal income tax liability for the tax year that generated the refund. Department approval was given on September 23, 2003.

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

Directors and Executive Officers filed conflict of interest statements stating an understanding of Covenant Health Conflict of Interest policies. Such policies require the individual to disclose any potential conflict as they arise. No conflicts with regards to pecuniary interests have been disclosed.

COMMISSION EQUITY

There is no excess of loss agreement in effect at December 31, 2005. Therefore, no commission equity could exist.

DIVIDENDS OR DISTRIBUTIONS

During the period under examination, no dividend payments to shareholders were made.

LITIGATION

As of December 31, 2005, the Company was not currently involved in any legal proceeding which was deemed to be material.

SUBSEQUENT EVENTS

During the examination, the custodial agreement was found to need revisions. The Company submitted a revised custodial agreement, which was approved on December 5, 2006.

The Company's bylaws remained in a previous entity's name. Currently, the Company has implemented plans to change the bylaws with subsequent approval at the March 2007 Board of Directors meeting.

The Company's stock certificate book could not be located. Currently, the Company has taken steps to reissue stocks with subsequent approval at the March 2007 Board of Directors meeting.

Cariten Healthcare implemented a customer discount program for its members. This program gives employer groups with Cariten an opportunity to reach out to other members through product and service discounts. Involvement into the program is voluntary. Program details are provided on the Cariten website www.cariten.com.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2005, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$51,929,669			$51,929,669
Cash (cash = 1,773,309, cash equivalents = 0, short-term investments = 902,847)	2,676,156			2,676,156
Investment income due and accrued	738,322			738,322
Uncollected premiums and a gents' balances in the course of collection	2,416,391		1,672	2,414,719
Net deferred tax asset	546,149		546,149	0
Receivables from parent, subsidiaries and affiliates	2,080,764		2,074,643	6,121
Totals	$60,387,451		$2,622,464	$57,764,987

LIABILITIES, SURPLUS, AND OTHER FUNDS

	Covered	Uncovered	Total
Claims unpaid	$12,000,767	$384,467	$12,385,234
Unpaid claim adjustment expenses	304,832		304,832
Aggregate health policy reserves	2,670,466		2,670,466
Premiums received in advance	2,792,897		2,792,897
General expenses due or accrued	1,237,207		1,237,207
Amounts due to parent, subsidiaries and affiliates	49,585		49,586
Aggregate write-ins for other liabilities (including Reserve for Transplants $219,300; Other payables $38,908; Accrued Pharmacy $1,630,008; Unclaimed Property $26,208; Catastrophic Claims $3,216,459; Accrued Run Out Cost $18,374)	5,149,257		5,149,257
Total Liabilities	24,205,012	384,467	24,589,479
Common capital stock			$1,000,000
Gross paid in and contributed surplus			41,433,610
Unassigned funds (surplus)			(9,258,102)
Total capital and surplus			33,175,508
Totals			$57,764,987

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months	0	515,485
Net premium income	$0	$118,725,616
Aggregate write-ins for other health care related revenues		7,154
Total revenues	XXX	$118,732,770
MEDICAL AND HOSPITAL		
Hospital/medical benefits	$384,467	$77,715,173
Other professional services		563,474
Emergency room and out of area		3,227,871
Prescription drugs		16,121,953
Aggregate write-ins for other medical and hospital		(936,506)
Subtotal	$384,467	$96,691,965
LESS		
Total medical and hospital	$384,467	$96,691,965
Claims adjustment expenses		1,525,424
General administrative expenses		14,216,492
Total underwriting deductions	$384,467	$112,433,881
Total underwriting gain or (loss) (Total revenue less Total underwriting deductions)	XXX	$6,298,889
Net Investment income earned		$2,226,228
Net realized capital gains or losses		71,088
Net investment gains or (losses)		$2,297,316
Net income or (loss) before income taxes (Total underwriting gain or (loss) plus Net investment gains or (losses))		$8,596,205
Federal income taxes incurred		$1,270,669
Net income (Net income or (loss) before income taxes minus Federal income taxes incurred)		$7,325,536

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 prior year		$27,959,274
Net income	$7,325,536	
Change in net deferred income tax	546,149	
Change in non-admitted assets	(2,619,505)	
Aggregate write-ins for gains or (losses) in surplus (including Change in Unrealized Valuation ($35,946))	(35,946)	
Change in surplus as regards policyholders for the year		$5,216,234
Surplus as regards policyholders, December 31 current year		$33,175,508

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2001	2002	2003	2004	2005
Surplus as regards policyholders December 31, Previous Year	$9,406,431	$12,898,152	$7,409,215	$18,857,995	$27,959,274
Net Income	1,396,934	(5,460,452)	(4,811,624)	9,102,986	7,325,536
Net unrealized capital gains and (losses)	0	0	0	0	0
Change in net deferred income tax	0	0	0	0	546,149
Change in non-admitted assets	(5,215)	(28,486)	32,449	(1,707)	(2,619,505)
Cumulative effect of changes in accounting principles	0	0	0	0	0
Surplus adjustments: paid in	2,100,000	0	16,227,959	0	0
Dividends to stockholders	0	0	0	0	0
Aggregate Write ins for gains or (losses) in surplus	0	0	0	0	(35,946)
Surplus as regards to policyholders December 31 Current Year	**$12,898,150**	**$7,409,214**	**$18,857,999**	**$27,959,274**	**$33,175,508**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Item	Amount
Bonds	**($197,320)**
Cash, cash equivalents, and short-term investments	**$197,320**

The above amount reflects a reclassification of one hundred ninety-seven thousand three hundred twenty dollars ($197,320) from "Bonds" to "Cash, cash equivalents and short-term investments" in the annual statement. On December 31, 2005, the Company listed on Schedule D – Part 1 a bond named Northern Trust Money Market Fund. Such investment should be classified under "Cash, cash equivalents and short-term investments".

Under Statutory Accounting Practices and Procedures No. 2 - Cash, Drafts, and Short-term Investments, Paragraph No. 10, "Short-term investments include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements, and collateral and mortgage loans which meet the above criteria."

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

Item	Surplus Increase	Surplus Decrease
Bonds		$197,320
Cash, cash equivalents and short-term investments	$197,320	
Totals	$197,320	$197,320
Net change in surplus		$0

COMMENTS AND RECOMMENDATIONS

Comments:

- As noted in the previous examination and the "Charter and Bylaws" section above, the Company's bylaws remained in a previous entity's name. Currently, the Company has implemented plans to change the bylaws with subsequent approval at the March 2007 Board of Directors meeting.

Recommendations:

- No approval was given for Company's investment transactions in the Board of Director minutes pursuant to Tenn. Code Ann. § 56-3-408(b)(1), as noted in the "Corporate Records" section above.

- Department updates to the Company's Physicians' manual and provider contracts need to be filed as required by Tenn. Code Ann. § 56-26-114, as noted in the "Market Conduct Activities" section above.

- The Company should implement a consistent system for responding to all grievances, including Department inquiries. This system should comply with Tenn. Code Ann. § 56-51-131, as noted in the "Market Conduct Activities" section above. .

CONCLUSION

Insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Cariten Insurance Company of Knoxville, Tennessee.

In such manner, it was determined, as of December 31, 2005, the Company had admitted assets of fifty-seven million seven hundred sixty-four thousand nine hundred eighty-seven dollars ($57,764,987) and liabilities, exclusive of capital, of twenty-four million five hundred eighty-nine thousand four hundred seventy-nine dollars ($24,589,479). Thus, there existed for the additional protection of the policyholders/enrollees, the amount of thirty-three million one hundred seventy-five thousand five hundred eight dollars ($33,175,508) in the form of common capital stock, gross paid-in and contributed surplus, surplus notes and unassigned funds (surplus).

The above amount of net worth does comply with the amount required pursuant to Tenn. Code Ann. § 56-2-114. At December 31, 2005, the required net worth under the referenced statute is one million dollars ($1,000,000).

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

Respectfully submitted,

Brian H. Sewell

Brian H. Sewell, C.F.E.
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Cariten Insurance Company dated January 16, 2007, and made as of December 31, 2005, on behalf of The Department of Commerce and Insurance, State of Tennessee. 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.

Brian H. Sewell

Brian H. Sewell, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 17th day of

June, ~~2006~~ 2007

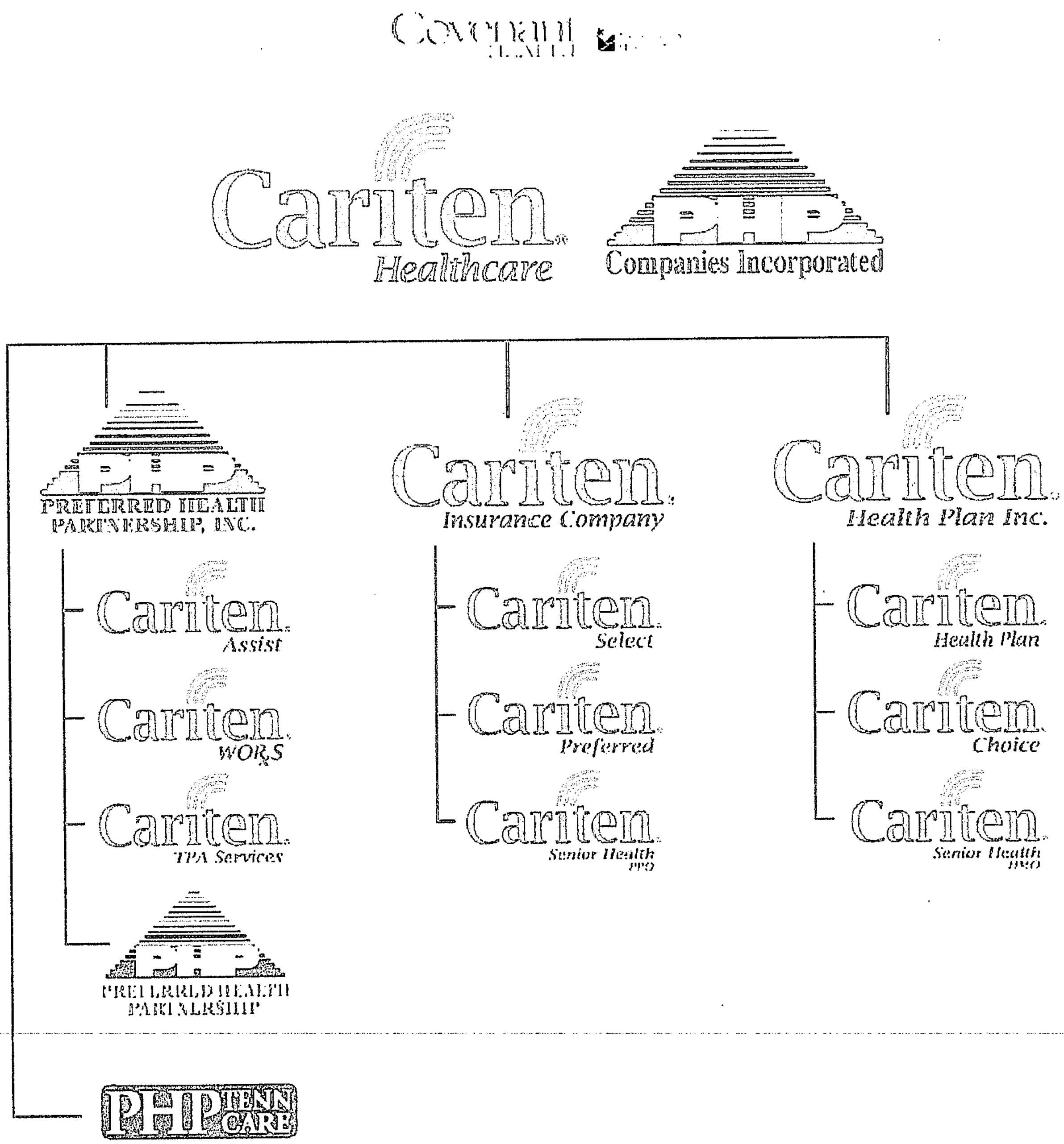
Notary Kristina D. Rust

County Davidson
State Tennessee

Commission Expires 7/19/08

KRISTINA D. RUST
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

ORGANIZATIONAL CHART



Cariten Healthcare
Someone To Lean On™

Cariten Health Plan • Cariten Insurance Company • Cariten TPA Services
HMO • POS • PPO • EAP • Workers' Compensation

June 21, 2007

State of Tennessee
Department of Commerce & Insurance
Attn: Philip Blustein, CFE
500 James Robertson Pkwy
Nashville, TN 37243

RE: Financial Condition Examination of
Cariten Insurance Company
Made as of December 31, 2005

Dear Mr. Blustein,

Enclosed you will find the response to the Financial Condition Examinations as well as supporting documentation.

- Comments, page 27 – "As noted in the last examination and the "Charter and Bylaws" section above, the Company's bylaws remained in a previous entity's name. Currently, the Company has implemented plans to change the bylaws with subsequent approval at the March 2007 Board of Directors meeting."

Cariten Insurance Company concurs that the company bylaws should be updated. Attorneys are currently in the process of updating the bylaws.

- Recommendations, page 27 – "No approval was given for the Company's investment transactions in the Board of Director minutes pursuant to Tenn. Code Ann. 56-3-408(b)(1), as noted in the "Corporate Records" section above.

Cariten Insurance Company does not agree with the assertion that the Company's financial transactions are not approved by its Board of Directors. The Board of Directors has approved a set of investment fund guidelines. The guidelines delegate authority and responsibility of investment management to PHP management through the Investment Manager and in conjunction with executive leadership of Covenant Health. State statute 56-3-408(b)(1) allows for the board to appoint a committee to approve investment transactions. The Company's management contends that the delegation of authority in the investment fund guidelines qualifies as the appointment of a committee.

- Recommendations, page 27 – "Department updates to the Company's Physicians' manual and provider contracts needs to be filed as required by Tenn. Code Ann. § 56-26-114, as noted in the "Market Conduct Activities" section above.

EXHIBIT
B

Cariten Insurance Company's commercial contracts for PPO/POS products have undergone no modifications in language that were material changes since they were approved in 2000. We are, however, preparing the contracts and the provider reference manual for submittal to the Department of Commerce and Insurance since it has been sometime since the contracts were reviewed. Our attorney has recently reviewed the contracts and the applicable state law and found no deficiencies in our contracts.

- Recommendations, page 27 - "The Company should implement a consistent system for responding to all grievances, including Department inquiries. This system should comply with Tenn. Code Ann. § 56-51-131, as noted in the "Market Conduct Activities" section above.

Cariten Insurance Company has implemented several new policies and technologies to meet the required resolution of a grievance within 10 days. Please see the enclosed policies and flowchart.

Should you have additional questions please feel free to contact me at (865) 670-7830.

Sincerely,

Kristy L. Lund

Kristy Lund
Accountant

Enclosures