

GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance



STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

March 26, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Richard J. Hale, President
HMO of Mississippi, Inc.
Post Office Box 24566
Jackson, MS 39225-4566

RE: Report of Examination as of December 31, 2005

Dear Mr. Hale:

In accordance with Miss. Code Ann. § 83-5-201 et seq. and 83-41-337(1) (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY

Handwritten signature of J. Mark Haire in cursive script.

J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF
HMO OF MISSISSIPPI, INC.**

CAUSE NO. 06-5373

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. and 83-41-337(1) (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 1999).

II.

That HMO of Mississippi, Inc. is a Mississippi-domiciled health maintenance organization ("HMO") which was certified as an HMO by the Mississippi Department of Insurance on October 1, 1995.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 1999), called for an examination of HMO of Mississippi, Inc. and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

IV.

That on or about December 19, 2006, the draft Report of Examination concerning HMO of Mississippi, Inc. for the period of January 1, 2003, through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

V.

That on or about January 26, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal in writing on or about February 23, 2007, stating no objections to the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of HMO of Mississippi, Inc., attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

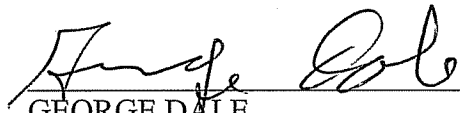
IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of

ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, HMO of Mississippi, Inc. shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that HMO of Mississippi, Inc. take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 26th day of March 2007.

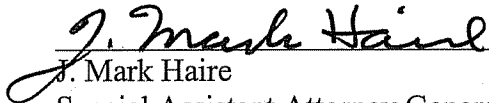


GEORGE DALE
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 26th day of March 2007, to:

**Mr. Richard J. Hale, President
HMO of Mississippi, Inc.
Post Office Box 24566
Jackson, MS 39225**



J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065



Mississippi Insurance Department

Report of Examination

of

HMO OF MISSISSIPPI, INC.

**3545 Lakeland Drive
Flowood, Mississippi 39232**

As of December 31, 2005


**NAIC Group Code 1126
NAIC Company Code 95289
NAIC ETS No. MS029-C25**

STATE OF MISSISSIPPI
COUNTY OF HINDS

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of HMO of Mississippi, Inc.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination work papers and examination report, and the examination of HMO of Mississippi, Inc. as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

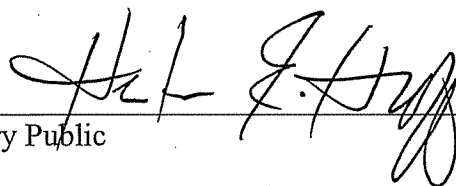
The affidavit says nothing further.



Mitch Rayborn, CFE, FLMI
Examiner

Subscribed and sworn before me this 6th day of March, 2007.

(SEAL)



Notary Public

My commission expires _____

Notary Public State of Mississippi At Large
My Commission Expires: December 9, 2009
Bonded Thru Heiden, Brooks & Garland, Inc.

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December 4, 2006

Honorable George Dale
Commissioner of Insurance
Mississippi Insurance Department
501 North West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2005, of the affairs and financial condition of:

HMO OF MISSISSIPPI, INC.
COMPANY LICENSE # 9500047
NAIC COMPANY CODE 95289
3545 Lakeland Drive
Flowood, Mississippi 39232

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered HMO of Mississippi, Inc.'s (HMOMS or Company) operations and financial condition from January 1, 2003 through December 31, 2005, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2003 through December 31, 2005, and the examination date is defined as December 31, 2005. The Company was previously examined by the MID as of December 31, 2002.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY OF THE COMPANY

HMOMS was incorporated in June, 1995, pursuant to the laws of the State of Mississippi, to operate as a for-profit health maintenance organization. The Company was licensed effective October, 1995, under the Mississippi's Health Maintenance Organization, Preferred Provider Organization and Other Prepaid Health Benefit Plans Protection Act. HMOMS was formed as a wholly-owned subsidiary of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company (BCBSMS).

The Company operated under a management agreement with BCBSMS, whereby BCBSMS provided certain administrative and management services. As of January, 1999, the Company's membership was reduced to zero.

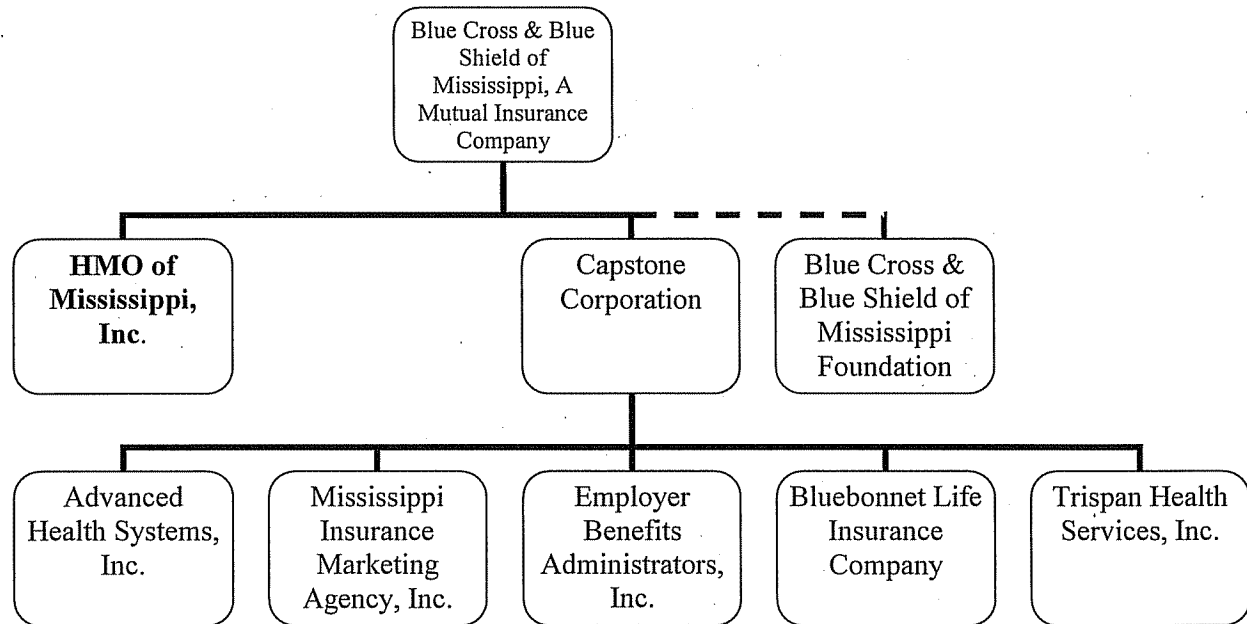
HOLDING COMPANY STRUCTURE

The Company was a member of an insurance holding company structure as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements, in conjunction with its parent and affiliates, with the MID in accordance with Miss. Code Ann. §§

83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed during the examination of the parent company, and it appeared that any changes and material transactions between the Company and its parent and affiliates were reported.

Organizational Chart

The following chart depicts the Company’s organizational structure at December 31, 2005. A brief description of the Company’s parent and affiliates, including their principal activities, follows the organizational chart.



BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE COMPANY (BCBSMS): This company was the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. It provided hospitalization and other health care benefits under contract to subscribers. This company also performed administrative services and processed claims for other Blue Cross & Blue Shield plans and for certain other programs, such as Medicare.

CAPSTONE CORPORATION: This company, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

BLUE CROSS & BLUE SHIELD OF MISSISSIPPI FOUNDATION: This company, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians.

ADVANCED HEALTH SYSTEMS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc., with its business being the facilitation of electronic submission of claims by providers. The company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

MISSISSIPPI INSURANCE MARKETING AGENCY, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company was that of a general insurance agency, which included the selling and brokerage of insurance coverage and the administration of claims and other services.

EMPLOYER BENEFITS ADMINISTRATORS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans.

BLUEBONNET LIFE INSURANCE COMPANY (BBL): This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on June 11, 1984, under the laws of the State of Louisiana, as a life and accident and health insurance company. On October 13, 1989, Capstone Corporation acquired the Company and moved its domicile to Mississippi, effective at the close of business March 31, 1997. The principal activity of this company was to provide life, cancer, and disability insurance coverage.

TRISPAN HEALTH SERVICES, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company was to execute contracts related to federal and/or state government health care programs.

Related Party Transactions

Tax Sharing Agreement with BCBSMS:

Effective January 1, 1996, the Company was a party to a Tax Sharing Agreement with BCBSMS which provided for an allocation of tax liability based on the amount of taxable income or taxable loss. This agreement was in effect during the examination period.

Service and Lease Agreement with BCBSMS:

Effective August 31, 1996, HMOMS entered into a Service and Lease Agreement with BCBSMS; whereby, BCBSMS provided certain business services to the Company. These services included; general management services, financial services, accounting, printing,

mailing, corporate data systems and programming, public relations, personnel, payroll, purchasing, legal, and other services. BCBSMS allocated or directly charged HMOMS its portion of salaries, travel, fees, and expenses.

Insolvency Plan Agreement with BCBSMS:

Effective September, 1, 1995, HMOMS entered into an Insolvency Plan Agreement; whereby, BCBSMS guaranteed the solvency of the Company. Pursuant to this agreement, BCBSMS agreed to continue coverage for members of HMOMS, in the event of insolvency.

MANAGEMENT AND CONTROL

Stockholders

The Company's Articles of Incorporation authorize the issuance of 2,000,000 shares of common stock. HMOMS' organizational documents did not specify a par value or stated value for the common stock; however, HMOMS deemed this class of stock to have a stated value of \$10.00 per share. BCBSMS owns 100% of the 250,000 issued shares of HMOMS stock. The Company paid no dividends during the examination period.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2005, were as follows:

<u>Name and Place of Residence</u>	<u>Principal Occupation</u>
Arthur Claiborne Kelly, Chairman Starkville, Mississippi	Administrator/Chief Executive Officer, Oktibbeha County Hospital
Richard John Hale Madison, Mississippi	President and Chief Executive Officer - Blue Cross & Blue Shield of Mississippi
Jeffery Thomas Leber Madison, Mississippi	Chief Financial Officer – Blue Cross & Blue Shield of Mississippi
Mary Carol Pigott Ridgeland, Mississippi	Chief Operating Officer – Blue Cross & Blue Shield of Mississippi
Robert Clark Williams Madison, Mississippi	Director of Legal Operations – Blue Cross & Blue Shield of Mississippi

Officers

The following officers were duly elected by the Board and held the following offices:

Richard John Hale	President and Chief Executive Officer
Robert Clark Williams	Secretary
Jeffery Thomas Leber	Chief Financial Officer
Mary Carol Pigott	Vice President
Arthur Claiborne Kelly	Chairman

Conflict of Interest

The Company's parent maintained a policy whereby disclosure was made to the Board of BCBSMS of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. This policy was approved by HMOMS. Written statements were signed annually by all officers and members of the Board.

CORPORATE RECORDS

The minutes of the meetings of the Shareholder and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment transactions and actions of the Company's officers.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by BCBSMS' management. HMOMS was a named insured on a financial institution bond with a \$2,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

During the review of these policies, it was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding "loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law." It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies.

OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company did not have any employees. Pursuant to a service agreement, the day-to-day operations of the Company were performed by BCBSMS. As such, no provision was made in financial statements for obligations under any benefit plan.

TERRITORY AND PLAN OF OPERATION

HMOMS was authorized to do business as a Health Maintenance Organization (HMO) in the State of Mississippi. The Company was authorized to operate in six (6) counties in Mississippi. The authorized service areas include Harrison, Hancock, George, Jackson, Pearl River, and Stone counties in Mississippi.

As of January, 1999, the Company discontinued writing policies. During the period under examination, HMOMS received no premium, had no enrollees, and paid no claims. HMOMS maintained its company license, certificate of authority, and minimum statutory capital and surplus during the examination period.

ACCOUNTS AND RECORDS

The 2005 trial balance of the Company's accounts was reconciled to the balance sheet of the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

During the course of the examination, it was noted that the Company's safekeeping agreement with its custodian did not conform to the standards established by the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company execute a safekeeping agreement with its custodian, AmSouth Bank, that conforms to the standards established in Part 1, Section IV, subsection J of the NAIC *Financial Condition Examiners Handbook*.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-41-325 (5). The following chart displays the Company's deposits at December 31, 2005:

<u>Mississippi</u>	<u>Par Value</u>	<u>Fair Value</u>
Bonds	\$ 531,000	\$ 526,504

FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Capital and Surplus at December 31, 2005, a Statement of Revenue and Expenses for year ended December 31, 2005, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2005, and a Reconciliation of Examination Adjustments to Capital and Surplus at December 31, 2005.

**STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2005**

ASSETS

Bonds	\$ 1,982,859
Cash, cash equivalents and short-term investments	346,733
Receivables for securities	65,000
Investment income due and accrued	<u>11,782</u>
Total Assets	<u>\$ 2,406,374</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

General expenses due or accrued	\$ 3,100
Amounts due to parent, subsidiaries and affiliates	15,354
Payable for securities	65,000
Aggregate write-ins for liabilities	<u>1,336</u>
Total Liabilities	84,790
Unassigned funds (surplus)	<u>2,321,584</u>
Total Liabilities, Capital and Surplus	<u>\$ 2,406,374</u>

**STATEMENT OF REVENUE AND EXPENSES
FOR YEAR ENDED DECEMBER 31, 2005**

General administrative expenses	\$ 216,809
Total underwriting deductions	<u>216,809</u>
Net underwriting gain or (loss)	(216,809)
Net investment gains (losses)	<u>78,103</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	(138,706)
Less: Federal income taxes incurred	<u>(67,685)</u>
Net income (loss)	<u>\$ (71,021)</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	2003	2004	2005
Capital and surplus, beginning of the year	\$ 2,415,401	\$ 2,433,216	\$ 2,392,605
Net income	17,815	(40,611)	(71,021)
Examination Adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	\$ 2,433,216	\$ 2,392,605	\$ 2,321,584

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2005**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2005 annual statement. The capital and surplus reported by the Company of \$2,321,584 is accepted as reasonably stated for purposes of the balance sheet per the examination.

COMMITMENTS AND CONTINGENCIES

As of the examination date, the Company was named as a defendant in certain litigation that was still pending at the report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of this litigation could not be reasonably determined for examination purposes; however, management of the Company does not anticipate any significant losses or costs to result.

COMMENTS AND RECOMMENDATIONS

1. It was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding “loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law.” It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies. (Page 6)

2. It is recommended that the Company execute a safekeeping agreement with its custodian, AmSouth Bank, that conforms to the standards established in Part 1, Section IV, subsection J of the NAIC *Financial Condition Examiners Handbook*. (Page 7)

ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Supervising Examiner: R. Dale Miller, CPA, CFE
Examiner-in-charge: Mitch Rayborn, CFE, FLMI
Examiner: Kimberly D. Strong, CFE

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Mitch Rayborn, CFE, FLMI
Examiner-in-charge