

INSOLVENCY REPORT

AVAHEALTH, INC.

July 1, 2014

Prepared by
Jamila G. Gooden, Senior Attorney
Florida Department of Financial Services, Division of Rehabilitation and Liquidation

Name of Receivership	AvaHealth, Inc. d/b/a/ Key Insurance Plan
Receivership Number	539
Date of Conservation	N/A
Date of Rehabilitation	June 2, 2012
Date of Liquidation	August 31, 2012

Scope: Pursuant to Section 631.398(3), Florida Statutes, the Division is required to prepare a summary report "containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency." Such a report is called an Insolvency Report and must be prepared prior to the discharge of a domestic insurer's estate.

The authority under which the insolvency report is written is section 631.398, Florida Statutes which states as follows:

[Title XXXVII Chapter 631](#)
[View Entire Chapter](#)
INSURANCE INSURER INSOLVENCY; GUARANTY
OF PAYMENT

631.398 Prevention of insolvencies.—To aid in the detection and prevention of insurer insolvencies or impairments:

(1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. 119.07(1) until the termination of a delinquency proceeding.

(2) The office shall:

(a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic

insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History.—ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

BUSINESS

AvaHealth, Inc., was originally incorporated in Florida under the name Avalon Healthcare, Inc. on July 8, 2005.¹ Avalon Healthcare, Inc., a wholly-owned subsidiary of Avalon Healthcare Holdings, Inc. (“AHH”),² was authorized, as of September 22, 2005, by Florida’s Office of Insurance Regulation (“OIR”) to operate as an accident and health insurer in accordance with sections 624.401, 624.404, and 624.413, Florida Statutes.³ On February 26, 2008, Avalon Healthcare, Inc. filed amended articles of incorporation to change its name to AvaHealth, Inc. (hereinafter “AvaHealth”).⁴ AvaHealth had its principal place of business in Tampa, Florida.

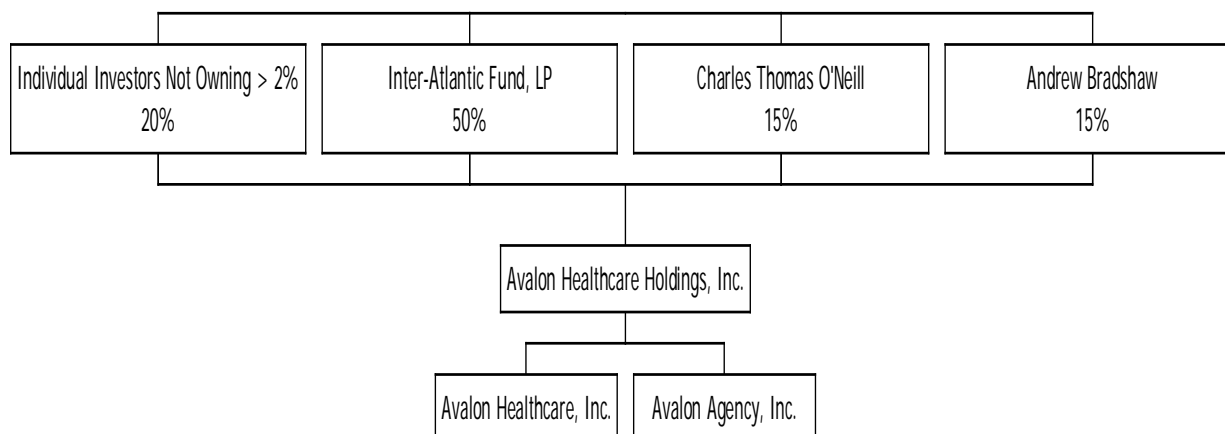
AvaHealth offered coordinated health insurance coverage and related services through a variety of plans for individuals and groups marketed through licensed agents and brokers. AvaHealth wrote insurance coverage exclusively in the state of Florida.

OWNERSHIP, AFFILIATES, MANAGEMENT

AvaHealth was a member of an insurance holding company system as defined by Rule 69O-143.045(3), *Florida Administrative Code*. In October 2005, AvaHealth entered into a Management Agreement with its parent, AHH whereby AHH agreed to provide AvaHealth with executive management and administrative services, marketing, accounting, claims processing, claims administration, claims analysis and reporting and utilization management services.⁵ Pursuant to an agreement entered into on January 1, 2006, AHH contracted with Health Network America, Inc. for the provision of third party administrator services to AvaHealth.⁶

Expenses under the management agreement with AHH that were charged to administrative and marketing expenses totaled \$.6 million in 2005, \$2.8 million in 2006, \$1.8 million in 2007, \$6.3 million in 2008, \$8.1 million in 2009, and \$1.6 million in 2010. An additional \$4,564,233 in management fees were paid to AHH during 2010.⁷ AHH became insolvent in 2010, and AvaHealth, Inc. paid its vendors directly for expenses incurred under the management agreement.

2005-2006 Simplified Organization Chart



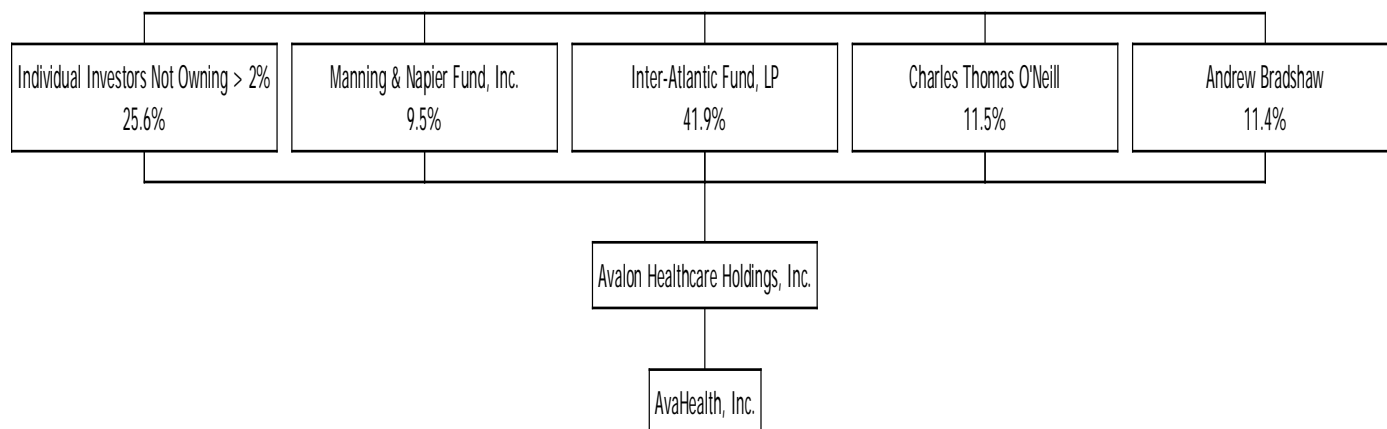
Initial Board of Directors for AvaHealth⁸

Charles Thomas O'Neill
 Andrew Bradshaw Cassidy
 Henry Harrison Neely
 Brett Geoffrey Baris
 Frederick Stuft Hammer

Initial Senior Officers

Charles Thomas O'Neil - President, CEO
 Andrew Bradshaw Cassidy - CFO, Treasurer
 Henry Harrison Neely - Secretary

2010 Simplified Organization Chart



2010 Board of Directors⁹

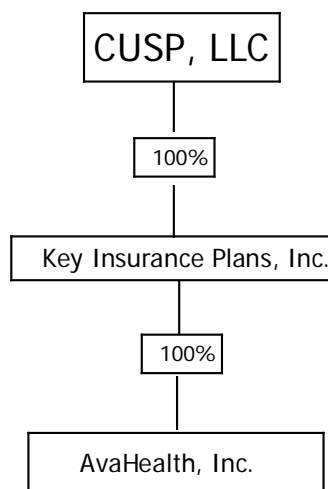
Charles Thomas O'Neill
 Henry Harrison Neely
 Richard Hayden
 Judith Anne Lyons
 Paul William Kowalksi
 Joseph Gauta

Senior Officers

Charles Thomas O'Neill - President, CEO
 Andrew Bradshaw Cassidy - CFO, Treasurer
 Henry Harrison Neely - Secretary

On March 14, 2011, CUSP LLC, a Florida limited liability company, entered into a Stock Purchase Agreement whereby its subsidiary, Key Insurance Plans, Inc. acquired all of the issued capital stock of AvaHealth, Inc.¹⁰ The acquisition was approved by OIR via Consent Order (Case No. 116802-11) on June 14, 2011.¹¹ Concurrent with the acquisition, AvaHealth, Inc. began operating under the name Key Insurance Plan. CUSP, LLC is owned by Integrity Health, LLC, Florida Health Finance, LLC, PASAN Health Administration Services, Inc. and Meditech, Inc. AvaHealth, Key Insurance Plans, Inc. and CUSP, LLC have one director in common, Enoc S. Martinez.

2011-2012 Simplified Organization Chart



2011- 2012 Board of Directors

Enoc Segundo Martinez
 Roberto Enrique Martinez
 Ernesto Urdaneta
 Karen W Connolly
 Barbara Roqueta
 Ricardo Di Campo
 Susan Elizabeth Griffin (resigned)
 Bruce Leon Carpenter (resigned)
 Bruce Frieman (resigned)

Senior Officers

Karen W Connolly - CEO, President
 Roberto Enrique Martinez - Treasurer
 Barbara Roqueta - COO
 Bruce Frieman – CEO (resigned)
 Bruce Leon Carpenter (resigned)
 Susan Griffin (resigned)

BACKGROUND/EVENTS OF IMPACT

Since the start of its insurance operations in 2006, AvaHealth experienced a net loss almost every year. Additionally, in order to maintain its minimum capital and surplus requirements, pursuant to section 624.408, Florida Statutes, it was necessary for AvaHealth to receive capital contributions from its parent of \$300,000 in 2007 and \$2.2 million in 2008.¹²

On May 28, 2009, an independent audit report was completed of AvaHealth's 2007 and 2008 Financial Statements.¹³ In Note 8 of the Report, the auditors discussed AvaHealth's plans to mitigate the negative financial trends experienced by the company. The report indicated that:

These plans and actions primarily include significant growth in premiums, management of development and marketing costs including the ability to spread these acquisitions costs over a larger premium base, and the receipt of additional capital contributions. The Company's ability to achieve profitability in the long term will be dependent on the successful implementation of management's plans and actions.

In August 2009, OIR completed a financial condition examination of AvaHealth which covered the period of January 1, 2008, through December 31, 2008. During the examination, OIR assessed the adequacy of AvaHealth's management controls and the extent to which AvaHealth's business processes might impact its future solvency. OIR determined that the prospective risk existed that AvaHealth would not "generate premium revenues and earnings sufficient to assure its future solvency."¹⁴

On March 26, 2010, AvaHealth, Inc. voluntarily agreed that it would not resume selling or writing business without the consent of OIR. On March 31, 2010, AvaHealth submitted its amended December 31, 2009, annual financial statement, reporting capital and surplus levels which were \$1,491,151 below levels required by section 624.408, Florida Statutes.¹⁵ As a result, on May 5, 2010, the Company was placed into confidential administrative supervision for 120 days via a Consent Order (Case No. 110187-10-CO), pursuant to Section 624.82, Florida Statutes.¹⁶ The Consent Order was extended on August 18, 2010, December 7, 2010, and March 23, 2011, to give AvaHealth the opportunity to successfully implement and complete a corrective action plan approved by OIR.

On June 14, 2011, OIR entered a Consent Order (Case No. 116802-11), whereby OIR approved the application of CUSP, LLC to acquire 100% of the issued and outstanding capital stock of AvaHealth, Inc. for the benefit of CUSP's subsidiary, Key Insurance Plans Inc.¹⁷

On July 29, 2011, an independent audit report was completed of AvaHealth's 2010 Financial Statements. The auditors found that AvaHealth had materially misstated its financial condition as reported to OIR as of the December 31, 2010 balance sheet and that AvaHealth had material deficiencies in its internal control structure.¹⁸

On August 1, 2011, OIR entered a Consent Order (Case No. 110187-10-CO) extending the administrative supervision of AvaHealth for an additional 120 days.¹⁹ Although ownership of AvaHealth had changed hands, the company was not permitted to market or sell new policies. On September 28, 2011, AvaHealth requested approval to resume writing business. OIR approved the request on November 23, 2011.²⁰ From March 26, 2010, when AvaHealth voluntarily agreed to cease

writing new business without the consent of OIR until December 2011 when that consent was granted by OIR, the number of members enrolled with AvaHealth fell from 6,620 to 2,056. By the end of the First Quarter of 2012, AvaHealth's membership had fallen to 1,849 members.²¹

After reviewing AvaHealth's 2011 Annual Financial Statement and its January 2012 Monthly Financial Statement, OIR determined that AvaHealth was "operating in a hazardous financial condition, pursuant to Section 631.051, Florida Statutes."²² On March 22, 2012, OIR issued an Order (Case No. 124309-12) suspending AvaHealth's Certificate of Authority and prohibiting AvaHealth from writing any new or renewal direct business in Florida based upon several violations of the Florida Insurance Code including financial impairment.²³ The Order also subjected AvaHealth to other penalties and sanctions. AvaHealth requested a formal administrative hearing to challenge OIR's Order and disputed the facts presented.

On April 19, 2012, in response to consumer complaints and a subsequent OIR investigation, OIR issued to AvaHealth a Cease and Desist Order (Case no. 124967-12) stemming from a finding by OIR that AvaHealth had been charging rates far in excess of the rate authorized by OIR.²⁴ A Final Order to Cease and Desist was entered on May 24, 2012.²⁵

On April 25, 2012, AvaHealth submitted its March 31, 2012, quarterly financial statement to OIR.²⁶ Based on the March 31, 2012, quarterly financial statement, AvaHealth reported capital and surplus levels which were \$358,588 below levels required by section 624.408, Florida Statutes. As a result, on May 1, 2012, OIR sent a referral to Florida Department of Financial Services indicating that one or more grounds existed for the initiation of delinquency proceedings against AvaHealth.²⁷ On June 4, 2012, the Company was issued an Order to Show Cause, Injunction, and Notice of Automatic Stay for Purposes of Rehabilitation.²⁸ On June 27, 2012, the Circuit Court in and for Leon County, Florida, entered an Order Appointing the Florida Department of Financial Services Receiver of AvaHealth, Inc. d/b/a Key Insurance Plan for purposes of Rehabilitation, Injunction, and Notice of Automatic Stay, effective July 2, 2012.²⁹ As a result of the Receiver's examination of AvaHealth's books and records, the Receiver determined that the company was insolvent and could not be rehabilitated. By order of the Court, AvaHealth was subsequently placed in receivership for purposes of liquidation on August 31, 2012, and the provisions of the Florida Life and Health Guaranty Association Act were triggered.³⁰

FINANCIAL ANALYSIS AND UNDERWRITING RESULTS

Selected financial data from AvaHealth's Monthly Statement for March 31, 2012, and Annual Statement for years ending 2011 and 2010 are presented below:

Assets

	As of 3/31/2012	As of 12/31/2011	As of 12/31/2010
Cash	3,259,439	2,680,468	869,363
Other Receivables	-	165,791	579
Total assets	3,259,439	2,846,259	869,942

Liabilities

	As of 3/31/2012	As of 12/31/2011	As of 12/31/2010
Accrued expenses	104,019	51,917	168,477
Claims payable	1,683,459	1,683,459	2,663,216
Claims adjustment expense payable	33,056	33,056	21,000
Advance premiums	214,080	167,998	73,453
Aggregate policy reserve	63,413	63,413	100,579
Aggregate write-ins for other liabilities	20,000	20,000	650,000
Total liabilities	2,118,026	2,019,843	3,676,725

Capital and Surplus (Deficit)

	As of 3/31/2012	As of 12/31/2011	As of 12/31/2010
Common Stock	1,500,000	1,500,000	1,500,000
Gross Paid-in and contributed surplus	12,917,000	6,807,000	6,807,000
Aggregate write-ins for other than special surplus funds		4,800,000	
Unassigned deficit	(13,275,588)	(12,280,584)	(11,113,783)
Total capital and surplus (deficit)	1,141,412	826,416	(2,806,783)

Total Liabilities and Capital and Surplus

3,259,439	2,846,259	869,942
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Operating Results

	<i>Premiums Earned</i>	<i>Underwriting Deductions</i>	<i>Net Underwriting Gain (Loss)</i>	<i>Net Income (Loss)</i>
2007	\$3,415,057	\$3,449,692	(\$ 18,736)	\$145,795
2008	\$9,191,923	\$11,733,437	(\$2,528,974)	(\$2,479,374)
2009	\$6,901,283	\$9,779,924	(\$2,852,691)	(\$2,850,248)
2010	\$12,960,084	\$15,783,942	(\$2,823,858)	(\$2,815,632)
2011	\$6,252,692	\$6,803,746	(\$551,054)	(\$746,589)

Ratio Analysis

As illustrated above, AvaHealth incurred substantial underwriting losses. The underwriting losses experienced by AvaHealth are illustrated by three key performance measures for insurance companies, **the Medical Loss Ratio** (incurred losses divided by net earned premiums), the **Administrative Expense Ratio** (administrative expenses and claims adjustment expenses divided by net premiums earned) and the **Combined Ratio** (Medical Loss Ratio + Administrative Expense Ratio).

	2011	2010	2009	2008	2007
Medical Loss Ratio	78.7%	62.5%	76.7%	55%	42.4%
Administrative Expense Ratio	30.1%	59.3%	64.7%	72.5%	58.3%
Combined Ratio	108.8%	121.8%	141.2%	127.6%	101%

The Medical Loss Ratio is an indicator of underwriting effectiveness, premium sufficiency, and favorable claims experience.

The Administrative Expense Ratio signifies the percentage of premium used to pay all the costs of acquiring, writing, and servicing insurance and reinsurance including commissions paid to insurance agents and brokers, training costs, advertising costs and other operational expenses. The administrative expense ratio measures operational efficiency in producing, underwriting, and administering an insurer's business. According to the National Association of Insurance Commissioners and the Center for Insurance Policy and Research, the Administrative Expense Ratio for the Health Industry held steady between 11 to 12% from 2007 through 2011. AvaHealth's Administrative Expense Ratio was consistently above the national average every year it was in operation.

The Combined Ratio measures losses and operating expenses as a percentage of premiums earned. A ratio below 100% represents a measure of profitability and the efficiency of an insurance firms underwriting. High ratios usually occur because of underpricing and/or because of unexpected high claims. AvaHealth's Combined Ratio was consistently above 100%.

REINSURANCE:

In June 2011, AvaHealth entered into a reinsurance agreement with Star Line Group. Under this agreement, AvaHealth was reinsured against losses exceeding \$150,000 for group policies and \$200,000 for individual policies in any calendar year on any insured member. AvaHealth's Excess of Loss reinsurance contract expired on June 21, 2012. The Reinsurer, Star Line Group, had offered renewal but at the time of the Receivership, AvaHealth had not confirmed renewal. Ultimately, the Receiver collected \$19,000 on outstanding reinsurance claims.

CONCLUSION:

AvaHealth was in financial trouble for its entire existence and became insolvent, due in part, to inadequate rates, material deficiencies in its internal control structure, and material deficiencies in the operation of those controls.

REFERENCES:

- ¹ Articles of Incorporation for Avalon Healthcare, Inc.
- ² Florida OIR Examiner Pre-Licensure Memorandum August 26, 2005.
- ³ Consent Order (Case No. 83208-05-CO), entered on September 22, 2005.
- ⁴ Articles of Amendment to the Articles of Incorporation of Avalon Healthcare, Inc. February 26, 2008.
- ⁵ Avalon Healthcare, Inc. and Avalon Healthcare Holdings, Inc. Management Agreement.
- ⁶ Report on Examination of Avalon Healthcare, Inc. as of December 31, 2006.
- ⁷ Audited Financial Statement for Avahealth, Inc., *Year ended December 31, 2011*.
- ⁸ Articles of Incorporation for Avalon Healthcare, Inc.
- ⁹ 2010 For Profit Corporation Reinstatement.
- ¹⁰ Amended Stock Purchase Agreement By and Between Avalon HealthCare Holdings, Inc. and CUSP, LLC.
- ¹¹ Consent Order (Case No. 116802-11), entered on June 14, 2011.
- ¹² Audited Financial Statement for Avahealth, Inc., *Year ended December 31, 2011*.
- ¹³ Audited Financial Statements and Other Financial Information for Avahealth, Inc., *Years ended December 31, 2008 and 2007*.
- ¹⁴ Report on Examination of AvaHealth, Inc. as of December 31, 2008.
- ¹⁵ Amended Health Annual Statement As of December 31, 2009, of the Condition and Affairs of AvaHealth, Inc.
- ¹⁶ Consent Order (Case No. 110187-10-CO), entered on May 5, 2010.
- ¹⁷ Consent Order (Case No. 116802-11), entered on June 14, 2011.
- ¹⁸ Audited Financial Statements and Other Financial Information for Avahealth, Inc., *Year ended December 31, 2010*.
- ¹⁹ Consent Order Extending Period of Confidential Administrative Supervision (Case No. 110187-10-CO), entered on August 1, 2011.
- ²⁰ Letter from OIR to AvaHealth, Inc. dated November 23, 2011.
- ²¹ Health Quarterly Statement As of March 31, 2012, of the Condition and Affairs of the AvaHealth, Inc.
- ²² Letter from OIR to AvaHealth, Inc. dated March 16, 2012.
- ²³ Order (Case No. 124309-12), entered on March 22, 2012.
- ²⁴ Cease and Desist Order (Case no. 124967-12), entered on April 19, 2012.
- ²⁵ Final Order to Cease and Desist (Case No. 124967-12), entered on May 25, 2012.
- ²⁶ Health Quarterly Statement As of March 31, 2012 of the Condition and Affairs of AvaHealth, Inc.
- ²⁷ Letter from OIR to DFS (Referral) dated May 1, 2012.
- ²⁸ Order to Show Cause, Injunction, and Notice of Automatic Stay for Purposes of Rehabilitation.
- ²⁹ Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Rehabilitation, Injunction and Notice of Automatic Stay
- ³⁰ Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Liquidation, Injunction and Notice of Automatic Stay

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AVALON HEALTHCARE, INC.

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APPROVED**ARTICLES OF INCORPORATION****OF****AVALON HEALTHCARE, INC.**Docketed by: CM

The undersigned, being natural persons over the age of 18 years, citizens of the United States of America, and competent to contract, hereby form a stock insurer corporation under the laws of the State of Florida.

ARTICLE I**CORPORATE NAME AND PRINCIPAL OFFICE**

The name of this corporation is AVALON HEALTHCARE, INC. (the "Corporation") and its principal office and mailing address is 13719 Chestersall Drive, in the City of Tampa, County of Hillsborough, Florida 33624.

ARTICLE II**COMMENCEMENT OF CORPORATE EXISTENCE**

The Corporation shall commence its existence upon the filing of these Articles of Incorporation with the Florida Secretary of State and shall continue perpetually.

ARTICLE III**GENERAL NATURE OF BUSINESS**

The purpose of this Corporation is to engage in every aspect of the health insurance business, as that term is defined in § 624.603, *Florida Statutes*, as amended from time to time, and to conduct such other business activities that are necessarily incidental to the health insurance business.

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SECRETARY OF STATE
TALLAHASSEE, FLORIDA

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ARTICLE IV
CAPITAL STOCK

The aggregate number of shares of stock authorized to be issued by this Corporation shall be 10,000 shares of common stock, each with a par value of \$1.00. Each share of issued and outstanding common stock shall entitle the holder thereof to fully participate in all shareholder meetings, to cast one vote on each matter with respect to which shareholders have the right to vote, and to share ratably in all dividends and other distributions declared and paid with respect to the common stock, as well as in the net assets of the Corporation upon liquidation or dissolution.

ARTICLE V
INITIAL REGISTERED OFFICE AND AGENT

The street address of the initial registered office of the Corporation shall be 220 S. Franklin Street, Tampa, Florida 33602, and the initial registered agent of the Corporation at such address is Brent A. Jones.

ARTICLE VI
INITIAL BOARD OF DIRECTORS

The business and affairs of the Corporation shall be managed by a Board of Directors consisting of no less than five (5) directors. The number of directors may be increased from time to time, in accordance with the Bylaws of the Corporation, but shall never be less than five (5). The initial term of the directors shall be for a period of one (1) year. The manner of election of the directors of the Corporation shall be regulated by the Bylaws.

The names and residence street addresses of the initial directors of the Corporation, each of whom are citizens of the United States and over the age of 18, are:

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<u>Name</u>	<u>Address</u>
Charles T. O'Neill	13719 Chestersall Drive, Tampa, Florida 33624
Andrew B. Cassidy	13719 Chestersall Drive, Tampa, Florida 33624
Brett G. Baris	400 Madison Avenue, New York, New York 10017
Frederick S. Hammer	400 Madison Avenue, New York, New York 10017
Henry H. Neely	13719 Chestersall Drive, Tampa, Florida 33624

ARTICLE VII
INCORPORATOR

The names and residence street addresses of the incorporators, each of whom are citizens of the United States and over the age of 18, are:

<u>Name</u>	<u>Address</u>
Charles T. O'Neill	13719 Chestersall Drive, Tampa, Florida 33624
Andrew B. Cassidy	13719 Chestersall Drive, Tampa, Florida 33624
Brett G. Baris	400 Madison Avenue, New York, New York 10017
Frederick S. Hammer	400 Madison Avenue, New York, New York 10017
Henry H. Neely	13719 Chestersall Drive, Tampa, Florida 33624

ARTICLE VIII
BYLAWS

The Board of Directors shall adopt Bylaws for the Corporation at the first meeting of the Board of Directors following the filing of these Articles of Incorporation.

The power to adopt, alter, amend or repeal Bylaws of this Corporation shall be vested in its shareholders and separately in its Board of Directors, as prescribed by the Bylaws of the Corporation.

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ARTICLE IX
INDEMNIFICATION

If the criteria set forth in §607.0850(1) or (2), *Florida Statutes*, as then in effect, have been met, then the Corporation shall indemnify any director, officer, employee or agent thereof, whether current or former, together with his or her personal representatives, devisees or heirs, in the manner and to the extent contemplated by §607.0850, as then in effect, or by any successor law thereto.

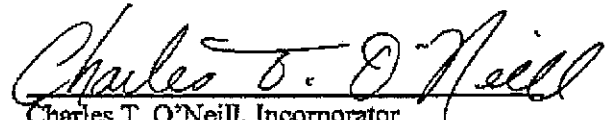
ARTICLE X
AMENDMENT

The power to amend these Articles of Incorporation shall be vested in the shareholders in accordance with the Bylaws of the Corporation.

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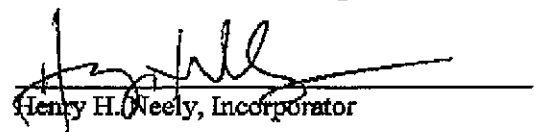
IN WITNESS WHEREOF, the undersigned have executed these Articles of
Incorporation this 21st day of ^{June}~~March~~, 2005.


Charles T. O'Neill, Incorporator


Andrew B. Cassidy, Incorporator

Brett G. Baris, Incorporator

Frederick S. Hammer, Incorporator


Henry H. Neely, Incorporator

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IN WITNESS WHEREOF, the undersigned have executed these Articles of
Incorporation this 7th day of ^{July}~~March~~, 2005.

Charles T. O'Neill, Incorporator

Andrew B. Cassidy, Incorporator

Brett Baris
Brett G. Baris, Incorporator

Frederick S. Hammer, Incorporator

Henry H. Neely, Incorporator

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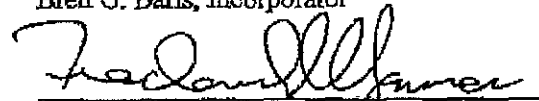
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IN WITNESS WHEREOF, the undersigned have executed these Articles of
Incorporation this 7th day of ^{July}~~March~~, 2005.

Charles T. O'Neill, Incorporator

Andrew B. Cassidy, Incorporator

Brett G. Baris, Incorporator



Frederick S. Hammer, Incorporator

Henry H. Neely, Incorporator

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STATE OF Florida
COUNTY OF St. Johns

The foregoing instrument was acknowledged before me this 29th day of ~~March~~ ^{June}, 2005, by Charles T. O'Neill, who is personally known to me OR produced a _____ Drivers License as identification.

K. Guidry
NOTARY PUBLICKatherine Guidry
Print Name of NotaryMy Commission Expires: May 7, 2006STATE OF Florida
COUNTY OF St. Johns

The foregoing instrument was acknowledged before me this 29th day of ~~March~~ ^{June}, 2005, by Andrew B. Cassidy, who is personally known to me OR produced a _____ Drivers License as identification.

K. Guidry
NOTARY PUBLICKatherine Guidry
Print Name of NotaryMy Commission Expires: May 7, 2006STATE OF Florida
COUNTY OF St. Johns

The foregoing instrument was acknowledged before me this 29th day of ~~March~~ ^{June}, 2005, by Henry H. Neely, who is personally known to me OR produced a _____ Drivers License as identification.

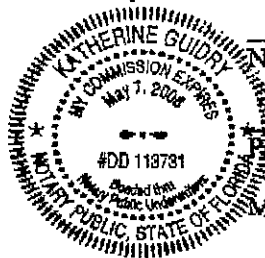
K. Guidry
NOTARY PUBLICKatherine Guidry
Print Name of NotaryMy Commission Expires: May 7, 2006

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STATE OF Florida
COUNTY OF St. Johns

The foregoing instrument was acknowledged before me this 7th day of July, 2005, by Brett G. Baris, who is personally known to me OR produced a New York Drivers License as identification. # 134 598204

Katherine Guidry
NOTARY PUBLICKatherine Guidry
Print Name of NotaryMy Commission Expires: May 7, 2006

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of March, 2005, by Frederick S. Hammer, who is personally known to me OR produced a _____ Drivers License as identification.

NOTARY PUBLICPrint Name of Notary

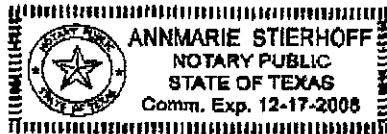
My Commission Expires:

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(((H05000165837 3)))

STATE OF TEXAS
COUNTY OF DALLAS

Frederick S. Hammer
The foregoing instrument was acknowledged before me this 1 day of ^{JULY}~~March~~, 2005, by ~~Frederick S. Hammer~~ ^{AS.} who is personally known to me OR produced a Florida Drivers License as identification.

*Annmarie Stierhoff*
NOTARY PUBLICANNMARIE STIERHOFF
Print Name of NotaryMy Commission Expires: 12-17-2008STATE OF _____
COUNTY OF _____

Brett G. Davis
The foregoing instrument was acknowledged before me this ____ day of March, 2005, by ~~Frederick S. Hammer~~ ^{Brett G. Davis} who is personally known to me OR produced a _____ Drivers License as identification.

NOTARY PUBLIC_____
Print Name of Notary

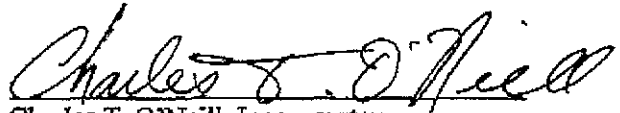
My Commission Expires: _____

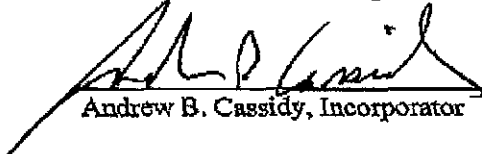
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CERTIFICATE DESIGNATING
REGISTERED AGENT

Pursuant to the provisions of §§48.091 and 607.0501, Florida Statutes, AVALON HEALTHCARE, INC., desiring to organize under the laws of the State of Florida, hereby designates Brent A. Jones, an individual resident of the State of Florida, as its Registered Agent for the purpose of accepting service of process within such State and designates 220 S. Franklin Street, Tampa, Florida 33602, the business office of its Registered Agent, as its Registered Office.

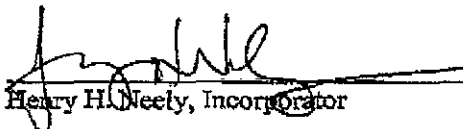
AVALON HEALTHCARE, INC.


Charles T. O'Neill, Incorporator


Andrew B. Cassidy, Incorporator

Brett G. Baris, Incorporator

Frederick S. Hammer, Incorporator


Henry H. Neely, Incorporator

<((H05000165837 3)))

(((H05000165837 3)))

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AVALON HEALTHCARE, INC.

Charles T. O'Neill, Incorporator

Andrew B. Cassidy, Incorporator



Brett G. Baris, Incorporator

Frederick S. Hammer, Incorporator

Henry H. Neely, Incorporator

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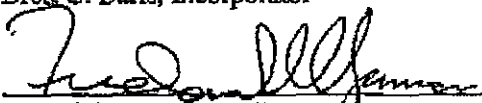
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AVALON HEALTHCARE, INC.

Charles T. O'Neill, Incorporator

Andrew B. Cassidy, Incorporator

Brett G. Baris, Incorporator

Frederick S. Hammer, Incorporator

Henry H. Neely, Incorporator

(((H05000165837 3)))

(((H05000165837 3)))

ACKNOWLEDGMENT

I hereby accept my appointment as Registered Agent of the above named Corporation, acknowledge that I am familiar with and accept the obligations imposed by Florida law upon that position, and agree to act as such in accordance with the provisions of §§48.091 and 607.0505, Florida Statutes.


Brent A. Jones

274776.3

FILED
05 JUL -8 AM 11:40
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

(((H05000165837 3)))

MEMORANDUM

TO: File

FROM: Ralph L. Byrd, Reinsurance Financial Specialist
Life & Health Financial Oversight

DATE: August 26, 2005

SUBJECT: AVALON HEALTHCARE, INC. (“Applicant or AHI”)
Application for a Certificate of Authority
Date Filed: August 3, 2005
Deemer Date: January 30, 2006
Days in Inventory (as of 8/26/2005) = 23 days
Days in Process (as of 8/26/2005) = 23 days

GENERAL INFORMATION

Type of Application: Domestic Company Certificate of Authority

Lines of business applied for: (0450) Accident and Health

Main Administrative Office: 13719 Chestersall Drive
Tampa, FL 33624

Type of Organization: Stock Company

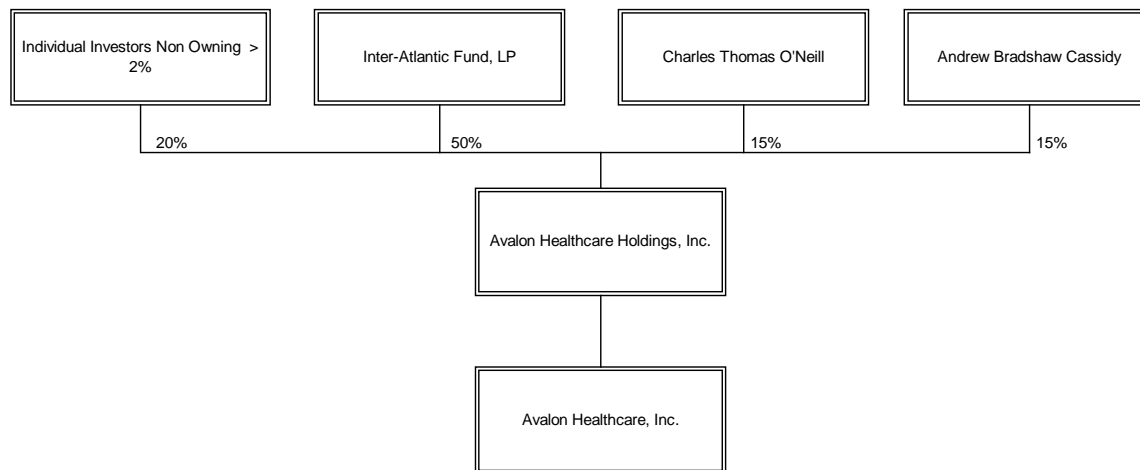
PROPOSED OWNERSHIP, MANAGEMENT, ORGANIZATION CHART

The Applicant will be a stock insurance company with ten thousand (10,000) shares of authorized common stock having a par value of \$1.00 per share. All of the issued and outstanding capital stock of the Applicant is owned by its parent company, Avalon Healthcare Holdings, Inc., which is owned by a limited partnership, Inter-Atlantic Fund, LP, and individual stockholders.

PROPOSED OFFICERS AND DIRECTORS

Charles Thomas O'Neill	-	President, CEO, Director
Andrew Bradshaw Cassidy	-	COO, Treasurer, Director
Henry Harrison Neely	-	Director of Finance, Director
Brett Geoffrey Baris	-	Director
Frederick Stuft Hammer	-	Director

SIMPLIFIED ORGANIZATION CHART



NOTE: INTER-ATLANTIC FUND, LP is comprised of four General Partners (Control) each owning 16%. The remaining 36% is owned by various Limited Partners (Non Voting) with none owning greater than 10% of the limited partnership.

SOURCE AND METHOD OF FINANCING

Avalon Healthcare Holdings, Inc. has submitted documentation of the purchase of all issued shares (100) of Avalon Healthcare, Inc. for \$4.8 million. The transaction was completed on June 29, 2005 with \$4.8 million deposited to a Demand Deposit Account at Bank of America in favor of Avalon Health Care, Inc.

PLAN OF OPERATION

Product Description:

Avalon Healthcare, Inc., ("AHI") will offer high deductible Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs) in conjunction with in and out of network high deductible PPO health plans. Created by the Medicare Modernization Act, which was signed by President Bush in December 2003, enrollment in HSA's and HRA's offered with high deductible health plans have soared. Initially, opponents claimed that these accounts would prove attractive only to relatively young and healthy policyholders thereby, raising the potential of adverse selection for more traditional health plans. Recent study has shown that roughly half the

enrollees were older than 40. Although the individual and small group market has accounted for the bulk enrollment, the large group enrollment rate is accelerating.

AHI expects that the HRAs and HSAs will allow price conscious employers lower cost options for health coverage and a mechanism to help employees save money for non-critical health care needs such as doctor office co-pays, lab and hospital co-pays and deductibles, ancillary services such as dental and vision care and more. These products are financial instruments that help employees decide how much money they may need to offset healthcare costs not supported by their health insurance and then manage the money appropriately.

The Applicant will execute a management and service agreement with its parent, Avalon Healthcare Holdings, Inc., for management and other administrative services. Health Network America, Inc., a Delaware Third Party Administrator, will provide claims functions for the Insurer. The TPA was admitted to Florida on July 1, 2005.

Marketing – Avalon Healthcare, Inc. will initially select 20 plus key general agents to represent the company supported by 4-6 Master General Agents (MGA). They will provide the primary distribution channel for Avalon Healthcare. AHI will concentrate on highly populated, higher income areas in key Florida urban markets at the outset with a controlled distribution approach using key general agents and brokers. The Applicant has indicated that Miami-Dade, Broward, Palm Beach, Tampa Bay, Orange, Naples and Jacksonville as initial target areas.

The company will pay highly competitive commissions to all brokers who supply a broker of record letter. Commissions will be determined by market conditions and will fall within state required guidelines.

AHI indicates it will utilize the latest technologies to become as highly automated on the process side as possible. Processes such as enrollment, product information and provider services will be available on the web. Other marketing programs includes direct mail, web based promotions, trade shows, print advertising and co-op marketing opportunities with physicians and hospitals.

Reinsurance – The Applicant will contract with Pacific Life, Allianz, ING RE or RBS RE for a stop loss treaty with 20% coinsurance. The terms will specify \$1,000,000 maximum benefit per member per policy year for claims in excess of the Company's retention of \$100,000 per person per Policy Period.

Revision to Previous Plan of Operation – The Office of Insurance Regulation held a meeting with John Black (Representing Avalon Healthcare, Inc) and senior officers of Avalon Healthcare on July 28, 2008 to discuss the company's Plan of Operation as submitted with the Permit to form a Domestic Insurer. During the meeting the Company was made aware that the Office had concerns regarding reference to the utilization of Associations and Small Business Groups and Payroll Companies (PEO's) in their sales distribution. The Company advised OIR that they had considered these groups as potential modes of distribution but had decided not to pursue these channels. These aspects were deleted from the Plan of Operation submitted with the Application for COA. In addition to a revised Plan of Operation, a revised Management Agreement was filed with the Application for COA.

FINANCIAL PROJECTIONS

(\$'000)	Year 1		Year 2		Year 3
Premium Written Projection	(Projected)		(Projected)		(Projected)
Premiums Written:					
Direct	\$1,064		\$11,230		\$21,132
Assumed	0		0		0
Ceded	0		0		0
Net	\$ 1,064		\$ 11,230		\$ 21,132
Income Statement					
Total Premiums	\$ 1,064		\$ 11,230		\$ 21,132
Net Investment Income	50		120		195
Miscellaneous Income	0		0		0
Total Income	1,114		11,350		21,327
Accident and Health Policy Benefits	777		8,198		15,426
Commissions on Premiums - Direct Business	0		0		0
General Insurance Expenses	0		0		0
Insurance Taxes	19		197		370
Other Expenses	1,750		2,471		4,649
Total Expenses	\$ 2,546		\$ 10,866		\$ 20,445
Net Operating Income (Loss) before Income Taxes	(1,432)		484		882
Dividends to Policyholders	0		0		0
Income Taxes Incurred	0		135		300
Net Operating Income After Income Taxes	(\$1,432)		\$349		\$582
Balance Sheet					
Total Invested Assets	\$3,799		\$5,227		\$7,178
Other Assets	49		140		221
Total Admitted Assets	3,848		5,367		7,399
Unpaid Losses	120		355		660
Reserve for Life Policies	0		0		0
Reserve for Accident and Health Policies	360		1,295		2,440
AVR	0		0		0
Other Liabilities	-		-		-
Total Liabilities	480		1,650		3,100
Capital and Surplus	3,368		3,717		4,299
Total Liabilities & Surplus	\$3,848		\$5,367		\$7,399
Writing Ratio:					
Gross	.25 : 1		2.42 : 1		3.91 : 1
Net	.25 : 1		2.42 : 1		3.91 : 1

The analysis shown above does not reflect ceded premiums. The Net A&H writing ratio will be lower if premiums were actually ceded. The Company must comply with the Risk Based Capital Ratio requirements defined by Section 624.4085, Florida Statutes.

PAID REPRESENTATIVE

John F. Black of Meridian Consulting, Inc. is the paid representative.

ANTI-FRAUD PLAN

The Company has submitted an acceptable anti-fraud plan with the Bureau of Fraud.

BACKGROUND INFORMATION

Background information on all officers and directors of the Applicant and any stockholder owning more than 10% interest and who exercise control over the Applicant has been received. Information developed on one of the officers was reviewed and determined not to rise to the level that would cause exclusion as an officer of the Applicant (MEMO to File 4/15/05). A Disclaimer of Control Affidavit for Inter-Atlantic Fund, LP listing the individuals having authority to exercise control over the Applicant has been received. All fingerprint cards have been processed and are cleared.

CONSENT ORDER

A nonstandard Consent Order is required with the Application for COA filing. The attorney assigned to this file is **Carl Morstadt**. The initial legal overview of the organizational documents is complete with no noted deficiencies. Special stipulations in the consent order include:

- Applicant must comply with Risk Based Capital Ratio.
- Applicant must comply with Plan of Operation as submitted.
- Applicant shall maintain its principal place of business in Florida.
- Applicant shall maintain sufficient and adequate internal controls.

STATUS

Review of the file has been completed and forwarded for further review within the Office.



01500

FILED

SEP 22 2005

OFFICE OF
INSURANCE REGULATIONDecreted by: adg

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 83208-05-CO

Application for the Issuance of a Certificate of Authority
to AVALON HEALTHCARE, INC.
_____ /CONSENT ORDER

THIS CAUSE came on for consideration upon the filing of an application with the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") for the issuance of a Certificate of Authority as a health insurer to AVALON HEALTHCARE, INC. (hereinafter referred to as "APPLICANT") pursuant to sections 624.401, 624.404, and 624.413, Florida Statutes, to write accident and health insurance. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE hereby finds, as follows:

1. The OFFICE has jurisdiction over the subject matter and parties herein.
2. APPLICANT will be wholly owned by AVALON HEALTHCARE HOLDINGS, INC.
3. APPLICANT has applied for and, subject to the present and continuing satisfaction of the requirements, terms and conditions established herein, has met all of the conditions precedent to the granting of a Certificate of Authority to APPLICANT as a

domestic health insurer in Florida, pursuant to the requirements set forth for such licensure by the Florida Insurance Code.

4. APPLICANT has filed an application with the OFFICE consisting of a plan of operation, biographical information, and other legal documents for the purpose of obtaining a Certificate of Authority. In making a determination regarding the issuance of a Certificate of Authority to APPLICANT, the OFFICE has relied on the accuracy and truthfulness of the documents and reports provided by APPLICANT in this matter. APPLICANT represents that the initial application filed with the OFFICE and all subsequent submissions and responses have been reviewed by APPLICANT, and that these documents, as amended to date, are complete and correct in all respects.

5. APPLICANT is a stock company with an authorized maximum number of ten thousand (10,000) shares of common stock having a par value of one dollar (\$1.00) per share. It further represents that it will be wholly owned by AVALON HEALTHCARE HOLDINGS, INC. AVALON HEALTHCARE HOLDINGS, INC. is owned by INTER-ATLANTIC FUND, LP, and individual stockholders.

6. APPLICANT has made material representations that none of its shareholders holding ten percent (10%) or greater ownership, and none of its officers, or directors, and none of the shareholders holding a ten percent (10%) or greater ownership interest in AVALON HEALTHCARE HOLDING, INC. or INTER - ATLANTIC FUND, LP and none of their officers, directors or incorporators, have been found guilty of, or have pleaded guilty or nolo contendere to, a felony or a misdemeanor other than a minor traffic violation, without regard to whether a judgment of conviction was entered by the court.

7. APPLICANT has provided a Disclaimer of Control Affidavit from INTER-ATLANTIC FUND, LP, certifying that no person, with the exception of Frederick S. Hammer will exercise any control, directly or indirectly, over the activities of APPLICANT or any entity owned or controlled by APPLICANT and licensed by the OFFICE. Further, no person other than those who have been identified will, on behalf of APPLICANT, attempt to exercise any control, either directly or indirectly, over the activities of APPLICANT or any such licensee without the advance written consent of the OFFICE. The representations made in the Disclaimer of Control Affidavit are material to the issuance of the Consent Order.

8. APPLICANT shall comply with risk based capital requirements as defined by section 624.4085, Florida Statutes.

9. APPLICANT and AVALON HEALTHCARE HOLDINGS, INC. affirm that all explanations, representations, and documents provided to the OFFICE in connection with APPLICANT'S application for the issuance of a Certificate of Authority, including all attachments and supplements thereto, are material to the issuance of this Consent Order and fully describe all transactions, agreements, and understandings regarding the formation and operation of APPLICANT.

10. APPLICANT shall comply with its Plan of Operation and supporting documents as submitted with its application. Written approval must be secured from the OFFICE prior to any material deviation from said Plan of Operation.

11. APPLICANT represents that its initial capital of four million eight hundred thousand U.S. dollars (\$4,800,000) has been funded by AVALON HEATHCARE HOLDINGS, INC.

12. APPLICANT shall maintain its principal place of business in Florida and shall make available to the OFFICE complete records of its affairs. APPLICANT shall also maintain its office, records, and assets in Florida as required by section 628.271, Florida Statutes. The physical form, if any, of the assets shall also be maintained in Florida, or in compliance with section 628.511, Florida Statutes.

13. APPLICANT shall file updates to its Holding Company Registration Statement as required by section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

14. During the first three (3) years of operations, APPLICANT shall pay only those dividends that have been approved in advance and in writing by the OFFICE.

15. APPLICANT shall maintain compliance with section 624.4095, Florida Statutes.

16. APPLICANT shall maintain sufficient and adequate internal controls and supervision of any external contractor(s) providing services in connection with the insurance transactions of APPLICANT, and shall further assume responsibility for the actions of said contractor(s) as they relate to any performance under service agreements.

17. Executive Order 13224, signed by President George W. Bush on September 23, 2001, blocks the assets of terrorist and terrorist support organizations identified by the Office of Foreign Assets Control of the Treasury Department. The

Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests. The list of identified terrorists and terrorist support organizations is periodically updated at the Treasury Department's website, www.treas.gov/ofac.

APPLICANT shall maintain and adhere to procedures necessary to detect and prevent prohibited transactions with individuals and entities which have been identified at the Office of Foreign Assets Control website of the Treasury Department.

18. APPLICANT and AVALON HEALTCARE HOLDINGS, INC. further affirm that all representations and requirements set forth herein are material to the issuance of this Consent Order.

19. APPLICANT and AVALON HEATHCARE HOLDINGS, INC. agree that failure to adhere to one or more of the terms and conditions contained herein shall result, without further proceedings, in the revocation of APPLICANT'S Certificate of Authority in this state in accordance with sections 120.569(2)(n) and 120.60(6), Florida Statutes.

20. APPLICANT and AVALON HEALTHCARE HOLDINGS, INC. expressly waive a hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which the parties may be entitled by law or rules of the OFFICE. APPLICANT and AVALON HEALTHCARE HOLDINGS, INC. hereby knowingly and voluntarily waive all rights to challenge or to contest this Consent Order, in any forum now available to them, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

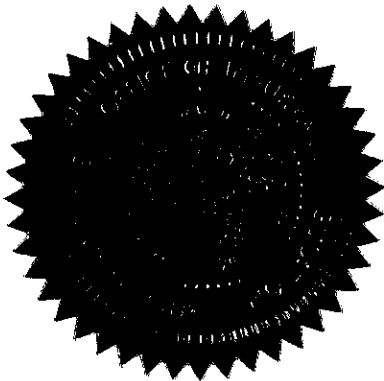
21. Each party to this action shall bear its own costs and fees.

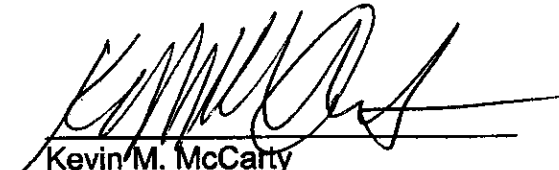
22. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has executed a copy of this Consent Order bearing the signature of APPLICANT and AVALON HEALTHCARE HOLDINGS, INC. notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, APPLICANT, and AVALON HEALTHCARE HOLDINGS, INC. agree that their signatures as affixed to this Consent Order shall be under the seal of a notary public.

WHEREFORE, the agreement between AVALON HEALTHCARE, INC., AVALON HEALTHCARE HOLDINGS, INC. and the OFFICE OF INSURANCE REGULATION under the terms and conditions set forth above, is APPROVED, and the application for the issuance of a Certificate of Authority to AVALON HEALTHCARE, INC., pursuant to sections 624.401, 624.404, and 624.413, Florida Statutes, is APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 22nd day of September, 2005.




Kevin M. McCarty
Commissioner
Office of Insurance Regulation

By execution hereof, Charles Thomas O'Neill, as incorporator of the proposed insurer, AVALON HEALTHCARE, INC., consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind AVALON HEALTHCARE, INC. to the terms and conditions of this Consent Order.

AVALON HEALTHCARE, INC.

By: Charles T. O'Neill

Corporate Seal

Print Name: Charles T. O'Neill

Title: Chief Executive Officer

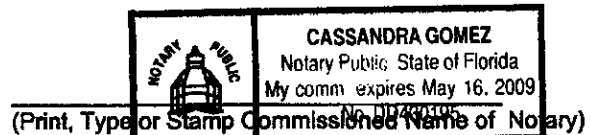
STATE OF Florida

COUNTY OF Hillsborough

The foregoing instrument was acknowledged before me this 17 day of Sept. 2005,
by Charles T. O'Neill as CEO
(Name of person) (type of authority.... e.g. officer, trustee attorney in fact)

for Avalon Healthcare, Inc.
(company name)

Cassandra Gomez
(Signature of the Notary)



Personally Known _____ or Produced Identification ✓

Type of Identification Produced FLDL 054015861891-0

[NOTARIAL SEAL]

My Commission Expires: 5/16/09

By execution hereof, AVALON HEALTHCARE HOLDINGS, INC, consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind AVALON HEALTHCARE HOLDINGS, INC., to the terms and conditions of this Consent Order.

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles T. O'Neill

Corporate Seal

Print Name: Charles T. O'Neill

Title: Chief Executive Officer

STATE OF Florida

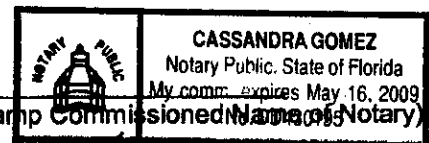
COUNTY OF Hillsborough

The foregoing instrument was acknowledged before me this 17 day of Sept 2005,
by Charles T. O'Neill as CEO
(Name of person) (type of authority.... e.g. officer, trustee attorney in fact)

for Avalon Healthcare Holdings Inc.
(company name)

Cassandra Gomez
(Signature of the Notary)

(Print, Type or Stamp Commissioned Name of Notary)



Personally Known _____ or Produced Identification ✓

Type of Identification Produced FLDL054015861391-0

[NOTARIAL SEAL]

My Commission Expires: 05/16/09

COPIES FURNISHED TO:

CHARLES T. ONEILL, PRESIDENT
Avalon Healthcare, Inc.
Rocky Point Centre
3030 N. Rocky Pt. Drive W.
Ste 800
Tampa, Florida 33607

JOHN F. BLACK, PRESIDENT
John F. Black & Associates, Inc.
Post Office Box 14989
Tallahassee, Florida 32317-4989

ROBERT A. WILLIS, DIRECTOR
Life & Health Financial Oversight
Office of Insurance Regulation
200 East Gaines Street
319B Larson Building
Tallahassee, Florida 32399-0329

CARL B. MORSTADT III, ASSISTANT GENERAL COUNSEL
Office of Insurance Regulation
Legal Services Office
200 East Gaines Street
612 Larson Building
Larson Building, 645A-7
Tallahassee, Florida 32399-4206

FEB. 26 2008 11:28AM

BUSH ROSS P A

NO. 4153

P. 1
Page 1 of 1

PD5000096675

Florida Department of State
Division of Corporations
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Account Number : I19990000150
Phone : (813) 224-9255
Fax Number : (813) 223-9620

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08 FEB 26 PM 2:32
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

Bush Ross P.A. - 8975.0

COM AMND/RESTATE/CORRECT OR O/D RESIGN

AVALON HEALTHCARE, INC.

RECEIVED

2008 FEB 26 AM 8:00

SECRETARY OF STATE
TALLAHASSEE, FLORIDA

Certificate of Status	0
Certified Copy	1
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Estimated Charge	\$43.75

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Corporate Filing Menu

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2/26/2008
T. Roberts FEB 26 2008

APPROVED

**ARTICLES OF AMENDMENT TO THE
ARTICLES OF INCORPORATION OF
AVALON HEALTHCARE, INC.**

FEB 15 2008

Docketed by: 

AVALON HEALTHCARE, INC., a Florida corporation (the "Corporation"), hereby certifies as follows:

1. The Articles of Incorporation of the Corporation (Florida Division of Corporations Document Number P05000096675), are hereby amended by deleting the present form of Article I in its entirety and by substituting, in lieu thereof, the following:

"ARTICLE I

CORPORATE NAME AND PRINCIPAL OFFICE

*The name of this corporation is **AVAHEALTH, INC.**, and its principal office and mailing address is Rocky Point Centre 3030 N. Rocky Point Dr. W., Suite 800, Tampa, Florida 33607."*

2. The foregoing amendment shall become effective as of the close of business on the date these Articles of Amendment are approved by the Florida Department of State and all filing fees then due have been paid, all in accordance with the corporation laws of the State of Florida.

3. The amendment recited in Section 1. above has been duly adopted in accordance with the provisions of §607.0821, .0704, .1003 and .1006, Florida Statutes, the sole shareholder of the Corporation and all directors having executed a written statement, dated September 26, 2007, manifesting their intention that this amendment be adopted.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be prepared under the signature of its Chief Executive Officer this 1st day of October, 2007.

AVALON HEALTHCARE, INC.

By: 
Charles T. O'Neill, Chief Executive Officer

Avalon HealthCare, Inc. and Avalon Healthcare Holdings, Inc.
MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT is entered into effective as of the 1st day of October, 2005, by and between Avalon HealthCare, Inc., a for profit, licensed Florida corporation (hereinafter referred to as "INSURER") and Avalon Healthcare Holdings, Inc. a Delaware corporation (hereinafter referred to as "Manager").

W I T N E S S E T H:

THAT, WHEREAS, INSURER is licensed with the Florida Office of Insurance Regulation and maintains a Certificate of Authority to operate as a life and health insurance company; and

WHEREAS, Manager has the expertise and ability to provide management and consulting services to health maintenance organizations, hospitals, pharmacies, medical laboratories, individual practice associations, and other health care providers; and

WHEREAS, INSURER requires such management and consulting services to assist in the operation of the health maintenance organization; and

WHEREAS, INSURER desires to engage the services of Manager to meet its requirements for such services;

NOW THEREFORE, in consideration of the mutual agreements and covenants contained herein, INSURER and Manager hereby agree as follows:

I
MANAGEMENT SERVICES

1.1 EXECUTIVE MANAGEMENT AND ADMINISTRATION

Manager shall provide overall executive management and consulting services for the business operations of INSURER and provide all administrative services for the efficient and effective operation of INSURER. Except as provided in paragraphs 3.3 and 4.1 below, services provided pursuant to this agreement are all inclusive and Manager shall be responsible for all costs and expenses incurred for the efficient and effective operation of INSURER.

1.2 MARKETING

Manager shall devise, implement, supervise, and administer a plan of marketing for INSURER, which shall include, but not be limited to, the following:

- devising an overall marketing strategy;
- devising methods of compensation for marketing personnel;
- developing training programs for marketing personnel; and,
- instituting systems to monitor compliance with all INSURER marketing laws and regulations,

1.3 ACCOUNTING AND FINANCIAL SUPPORT

Manager shall establish, administer and maintain accounting procedures and controls necessary for the efficient and effective management and planning of INSURER's operations; including but not limited to the following:

- preparation of an annual operating budget, including an estimate of operating revenues and expenses;
- development and implementation of all accounting, billing and collection procedures necessary and appropriate for Insurer's operations;
- institution of legal collection procedures upon prior written request by INSURER;
- recommendations regarding investment of cash reserves;
- reconciliation of bank accounts;
- reporting on status of cash reserves on a monthly basis;
- recommendations regarding adjustments to the schedule of charges to be paid to INSURER by or on behalf of its members; and
- preparation and filing of any and all financial reports required by state and federal agencies, statutes, and regulations.

1.4 CLAIMS PROCESSING AND ADMINISTRATION

Manager shall design, implement, and maintain such systems and procedures as may be necessary from time to time for the appropriate adjudication and payment of all claims submitted to INSURER by its members.

Manager duties hereunder shall include, but not be limited to, the following:

- designating draft claim forms to be used by health care providers in requesting payments;
- designating computer-printer-compatible claim drafts to be used by INSURER to reimburse health care providers for health care products and/or services provided to members;
- developing and conducting on a continuing basis such educational and training programs as may be necessary to assure the accurate and efficient submission of claims to INSURER by its health care providers;
- evaluating claims for payment by INSURER, including eligibility verification, editing of duplicate services, coordination of benefits, subrogation programs and computation of benefits; and
- reporting to INSURER management on claims adjudication.

All premiums and charges received by Manager pursuant to the foregoing provisions shall be deemed to have been received by INSURER when received by Manager. All return premiums or claims payments forwarded by INSURER to Manager shall not be deemed to have been paid to the insured or claimant until received by the insured or claimant. All insurance charges or premiums collected by Manager on behalf of INSURER and returned premiums received by Manager from INSURER shall be held in a fiduciary capacity. Immediately following receipt of such funds, the funds shall be remitted to the party entitled to the same or deposited in Manager's fiduciary account in a financial institution. Disbursements from such fiduciary account may only be made in one of the ways hereinafter specified:

- a. Remittance to INSURER;
- b. Deposit in an account in the name of INSURER;

- c. Transfer to and deposit in a claims paying account, with claims to be paid only on drafts of, and as authorized by, INSURER;
- d. Payment to a group policyholder for remittance to the insurer entitled to such remittance;
- e. Payment to Manager of the fees, commissions and charges authorized hereunder; and
- f. Remittance of return premiums to the person or persons entitled to such return premiums.

1.5 CLAIMS ANALYSIS AND STATISTICAL REPORTING

As reasonably required and requested by INSURER, Manager shall prepare and deliver to INSURER analytical reports regarding various statistical information on claims submitted to INSURER, in sufficient frequency and in such detail as will enable INSURER to use such information in its planning and budgeting process.

1.6 UTILIZATION MANAGEMENT

Manager shall design, implement, maintain and operate such systems and procedures as may be necessary to support the utilization review program to be operated by INSURER. In connection therewith, Manager shall:

- screen individual claims against INSURER's utilization criteria and submit claims failing to meet such criteria to INSURER's review committee for review.
- on at least a semi-annual basis, submit a written report to INSURER analyzing utilization of health care products and/or services by members and the performance of health care providers, and recommending such corrective action as may be deemed necessary.
- compile such materials, information and data as may be available for the presentation of specific utilization cases for review by INSURER, prepared at the prior request of INSURER.

1.7 PROVIDER AND MEMBER RELATIONS

Manager shall be responsible for the design and implementation of systems for promoting and achieving good relations between

health care providers and members, with whom INSURER has contracted. Manager shall provide a written notice approved by INSURER to INSURER's members, advising such members of the identity of and relationship among, Manager, INSURER, and INSURER's members. Manager's duties hereunder shall include, but may not be limited to, the following:

- designing member identification cards and such other forms, records and documents as may be reasonably necessary and/or required by law to assure the availability of appropriate and accurate information for the administration of INSURER;
- developing, maintaining, and continuously updating member, group, and health care provider files to permit eligibility verification and claims adjudication;
- responding to health care providers and members inquiries regarding the administration of the INSURER, including requests for physician referrals, inquiries concerning covered services, eligibility verification, INSURER's billings and payment of claims;
- developing an instructional brochure outlining procedures for obtaining covered health care products and/or services within and outside of INSURER's service area and procedures for obtaining emergency health services, for distribution to members;
- developing an instructional brochure outlining procedures for billing and payment for health care products and/or services, schedules of covered benefits, and applicable risk-sharing arrangements, for distribution to health care providers;
- developing a system of procedures for resolving member complaints, sufficient to meet, on a continuing basis, the minimum requirements of state and federal statutes and regulations applicable to the operations of a health maintenance organization; and
- developing and implementing communications programs directed towards members and health care providers that will further the goal of good relations among members and health care providers.

Any policies, certificates, booklets, termination notices or other written communications delivered by INSURER to Manager

for delivery to its Members shall be delivered by Manager promptly after receipt of instructions from INSURER to deliver the same.

ARTICLE II PERSONNEL

2.1 APPOINTMENT

Manager agrees to hire, appoint, and supervise such personnel as are reasonable and necessary to carry out the responsibilities of the Manager under the terms of this Agreement, including, but not limited to, the personnel specified in Section 2.2 below. All such personnel shall be the employees of the Manager. Manager shall be solely responsible for the payment of all wages, fringe benefits and other compensation associated therewith, and shall indemnify and hold INSURER harmless from any claims of third parties which may arise with such personnel.

2.2 SPECIFIC PERSONNEL

Manager shall hire and appoint, subject to the prior approval of INSURER, the following persons:

EXECUTIVE DIRECTOR

Responsible for overseeing the day-to-day operations of INSURER and implementing the services required to be performed by INSURER under this Agreement.

MEDICAL DIRECTOR

In charge of and responsible for the coordination of all health care products and services to be provided under the INSURER;

MARKETING DIRECTOR

Responsible for coordination of all marketing and promotion of the INSURER programs located in the INSURER service area, and for all member recruitment activities;

FINANCE DIRECTOR

Responsible for the accounting and financial affairs of operating the INSURER.

All of such persons shall abide by the policies established from time to time by INSURER's Board of Directors, in their execution of Managers obligations hereunder. While such persons shall remain employees of Manager, INSURER shall have the final authority with respect to the quality of their performance.

INSURER shall notify Manager of unsatisfactory performance by any of the above-specified persons. If the Manager is unable to correct the perceived deficiency within thirty (30) days of such notice, Manager will remove such person within thirty (30) days thereafter, replacing such person within a reasonable time frame.

2.3 ADMINISTRATIVE SUPPORT PERSONNEL

In addition to the persons described in Section 2.2 above, the Manager shall hire, maintain and supervise such administrative support personnel as may be necessary to carry out and perform the responsibilities of Manager as specified under this Agreement.

The hiring, assignment and termination of these administrative support personnel will be at the discretion of Manager; provided, however, if INSURER, in good faith, determines that any of such administrative support personnel have done or will do through their actions, serious harm to the reputation and goodwill generated by INSURER with health care providers, members and the public at large, it shall give notice of such determination to Manager and Manager shall thereafter attempt to correct such problem. If, within thirty (30) days after such notice is given, Manager has not reasonably corrected the problem, INSURER, by resolution of its Board of Directors, may request the removal of any such persons. In such event, Manager shall remove such persons within thirty (30) days thereafter. INSURER shall have the right to consult with Manager concerning any administrative support personnel and Manager shall cooperate with INSURER in addressing any complaints brought to its attention by INSURER.

ARTICLE III COMPENSATION AND COSTS

3.1 MONTHLY FEE

INSURER shall pay Manager \$200,000.00 per month for the first six months or until monthly premiums exceed \$900,000.00.

After six months INSURER shall pay Manager twenty-two percent (22%) of monthly premiums, or when monthly premiums exceed \$900,000.00

3.2 RESPONSIBILITY FOR COSTS

Unless otherwise specified in this Agreement, Manager shall be responsible for all costs and expenses incurred by it in providing the services required to be performed by it under this Agreement.

3.3 EXCLUDED COSTS

Notwithstanding anything in this Agreement to the contrary, Manager shall have no financial responsibility for any and all costs directly or indirectly related to the delivery of health care products and services to members, including all compensation and reimbursement paid to providers, except for costs relating to the administrative and managerial services to be provided by Manager pursuant to the terms of this Agreement.

ARTICLE IV INSURANCE

4.1 TYPES OF INSURANCE AND COSTS

INSURER may seek and procure at its expense directors and officers insurance, professional liability/malpractice insurance, insolvency insurance, and such other insurance such coverages as required by Chapter 641, Florida Statutes.

4.2 FAILURE TO MAINTAIN INSURANCE

If INSURER fails to effect or maintain the insurance coverages as required by Section 4.1 above, INSURER will indemnify and hold Manager harmless against damage, loss, or liability to Manager resulting from all risks for which such insurance could have been maintained.

ARTICLE V RECORDS

5.1 OWNERSHIP OF RECORDS

All business and medical records relating to the operation of INSURER, including but not limited to all books of account, member enrollment records, patient records, and general administrative records, shall be and remain the sole property of INSURER. Manager agrees and acknowledges that such records are confidential information and constitute trade secrets of the INSURER. Manager agrees that it will not reveal information contained in such records without the prior written consent of INSURER.

5.2 CONFIDENTIALITY OF RECORDS

Manager shall adopt procedures which shall assure maximum confidentiality of the records of INSURER and shall comply with all applicable federal, state, and local laws and regulations relating to patient confidentiality.

ARTICLE VI RETENTION OF AUTHORITY BY INSURER

Notwithstanding any of the terms and provisions of this Agreement, INSURER, acting through its Board of Directors, shall retain authority and responsibility over the policies, operations, and assets of INSURER, as required by law and regulation, including, but not limited to, the authority for all operations of the business and all medical, professional, and ethical affairs of INSURER, and to establish general operating policies which shall be carried out by Manager as provided in this Agreement. Manager shall perform the functions described in this Agreement to be performed by it in accordance with the policies, directives and by-laws adopted from time to time by INSURER. By entering into this Agreement, INSURER does not delegate to Manager any of the powers, duties, or responsibilities vested exclusively in INSURER by law.

ARTICLE VII TERMINATION

7.1 Termination without Cause

Either party may terminate this Agreement without cause upon thirty (30) days prior written notice. If terminated by Manager, INSURER may extend this agreement for up to six

months to ensure minimal disruption to policyholders, business and affairs of INSURER. To further ensure the minimal disruption in the event of termination, Manager agrees to transfer personnel, equipment and other resources used in providing services pursuant to this agreement to INSURER or its designee.

7.2 Bankruptcy / Receivership

Either party may terminate this Agreement upon Bankruptcy of the other party. As used herein the term Bankruptcy shall mean the filing of a voluntary petition in bankruptcy under the United States Bankruptcy Code, the filing of an involuntary petition under the United States Bankruptcy Code which is not dismissed within sixty (60) days, a general assignment for the benefit of creditors; or a written admission of an inability to pay debts when they become due. In the event of Bankruptcy of Manager or if INSURER is placed into receivership, conservation or liquidation pursuant to Chapter 631, Florida Statutes, Manager will cooperate with INSURER or its Receiver and will provide access to all records, equipment and other information required by INSURER's Receiver.

7.3 Breach or Default.

Either party shall have the right to terminate this Agreement by written notice thereof to the other party if the other party shall be in breach of, or default under, this Agreement and shall have failed to cure the same within ten (10) days following the giving of written notice of any such breach or default by the non-breaching or non-defaulting party.

7.4 Suspension or Revocation of Certificate of Authority.

Manager shall have the right to terminate this Agreement upon written notice from Manager to INSURER if INSURER's Certificate of Authority to operate as a health maintenance organization shall be suspended or revoked or not renewed. INSURER shall have the right to terminate this Agreement upon written notice from INSURER to Manager if Manager's license to operate as a third party administrator shall be suspended or revoked or not renewed.

7.5 Cancellation by Department of Insurance.

This Agreement shall automatically terminate if the Department of Insurance issues an order requiring cancellation of the Agreement and such order becomes final and non-appealable.

7.6 Effect of Termination.

Manager shall furnish the management services described herein through the effective time of any termination hereof. In addition, notwithstanding termination, Manager shall be responsible for processing of all claims incurred through the termination date unless otherwise directed by INSURER.

IN WITNESS WHEREOF, INSURER and Manager have executed this Management Agreement effective as of the day and year first above written.

Avalon HealthCare, Inc.

By: _____

Its: _____

INSURER

Avalon Healthcare Holdings, Inc.

By: _____

Its: _____

"MANAGER"

Report on Examination
of
Avalon Healthcare, Inc.

Tampa, Florida

as of

December 31, 2006

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

October 1, 2007

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Julie McPeak, Executive Director
Kentucky Office of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 517
Frankfort, Kentucky 40602-0517

Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

Commissioners McCarty and Gross and Executive Director McPeak:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

Avalon Healthcare, Inc.
3030 N. Rocky Point Dr., Suite 800
Tampa, Florida 33607

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of September 22, 2005 through December 31, 2006. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

Planning for the current examination began on April 2, 2007. The fieldwork commenced on April 9, 2007 and concluded on July 11, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System (IRIS) ratio results were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2006 annual statement. Transactions subsequent to December 31, 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

HISTORY

GENERAL

The Company was incorporated in Florida on July 8, 2005, and commenced business on September 22, 2005.

As of the date of this examination, the Company was authorized to transact accident and health insurance coverage in Florida, in accordance with Section 624.401, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

	<u>As Reported</u>	<u>Per Examination</u>
Number of authorized common capital shares	10,000	10,000
Number of shares issued and outstanding	10,000	100
Total common capital stock	\$10,000	\$100
Par value per share	\$1.00	\$1.00

In its 2006 annual statement, as originally filed, the Company incorrectly reported that 10,000 of its common shares were issued and outstanding in the total amount of \$10,000, rather than 100 shares in the total amount of \$100. On July 9, 2007, the Company filed an amended annual statement and corrected the error.

At December 31, 2006, the Company was wholly-owned and controlled by Avalon Healthcare Holdings, Inc. An abbreviated organizational chart appears on page 6.

PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2006</u>	<u>2005</u>
Net premiums	\$659,906	\$0
Total revenues	\$667,615	\$0
Net loss	\$2,549,663	\$564,661
Total capital and surplus	\$1,655,702	\$4,234,173

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

Directors	
Name and Location	Principal Occupation
Brett G. Baris New York, New York	General Partner Inter-Atlantic Group
Andrew B. Cassidy Tampa, Florida	Chief Financial Officer and Treasurer Avalon Healthcare, Inc.
Frederick S. Hammer New York, New York	General Partner Inter-Atlantic Group
Henry H. Neely Tampa, Florida	Secretary Avalon Healthcare, Inc.
Charles T. O'Neill Tampa, Florida	President and Chief Executive Officer Avalon Healthcare, Inc.

At December 31, 2006, members of the principal committee of the Board were:

**Executive
Committee**

Andrew B. Cassidy
Charles T. O'Neill

**Audit
Committee**

Brett G. Baris
Andrew B. Cassidy
Charles T. O'Neill

The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers	
Name	Title
Charles T. O'Neill	President and Chief Executive Officer
Andrew B. Cassidy	Chief Financial Officer and Treasurer
Henry H. Neely	Secretary

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on February 25, 2005.

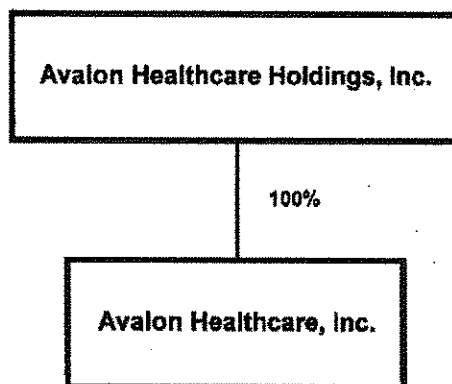
The following agreement was in force between the Company and its affiliates on December 31, 2006:

MANAGEMENT AGREEMENT

Avalon Healthcare Holdings, Inc. provided management services to the Company pursuant to an April 1, 2006 agreement in return for fees which amounted to \$0.6 million and \$2.6 million in years 2005 and 2006, respectively. Services provided included executive management and administration, marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, and utilization management services.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement provided the names of all related companies in the holding company group.

**Avalon Healthcare, Inc.
Organizational Chart
December 31, 2006**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$250,000 with a deductible of \$5,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$50,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offered to eligible employees participation in a 401(k) retirement plan.

STATUTORY DEPOSITS

The Company maintained a cash deposit of \$100,000 with the State of Florida as required by Section 624.411, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company marketed individual and group accident and health insurance products through licensed agents and brokers.

TERRITORY AND PLAN OF OPERATION

At December 31, 2006, the Company was authorized to transact insurance solely in the State of Florida.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

ASSUMED

The Company did not assume insurance during the examination period.

CEDED

The Company maintained reinsurance coverage with General Re Life Corporation on a loss occurring basis of up to \$5 million in losses on covered policies in excess of the first \$100,000 of medical expenses.

ACCOUNTS AND RECORDS

Pursuant to Section 624.424(8)(b), F.S., the Company was exempt from the general requirement to have conducted an annual audit by an independent certified public accountant.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

The following agreement was in effect between the Company and a non-affiliate:

TPA AGREEMENT

Health Network America, Inc. provided third party administrator services to the Company pursuant to a January 1, 2006 agreement. Fees related to this agreement were \$315,041 and \$426,696 in years 2005 and 2006, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 16.

Avalon Healthcare, Inc.
Assets
December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents, & short-term investments	\$2,122,744	\$0	\$2,122,744
Investment income due and accrued	5,547	0	5,547
Totals	<u>\$2,128,291</u>	<u>\$0</u>	<u>\$2,128,291</u>

Avalon Healthcare, Inc.
Liabilities, Capital and Surplus
December 31, 2006

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$6,102	\$0	\$6,102
Unpaid claims adjustment expenses	15,000	0	15,000
Aggregate health claim reserves	201,627	0	201,627
Premiums received in advance	116,504	0	116,504
Amounts due to parent, subsidiaries and affiliates	17,353	0	17,353
Amounts due to parent, subsidiaries and affiliates	116,003	0	116,003
Total liabilities	472,589	0	472,589
Capital and Surplus			
Common capital stock	10,000	(9,900)	100
Gross paid in and contributed surplus	4,790,000	9,900	4,799,900
Unassigned funds	(3,144,298)	0	(3,144,298)
Total capital and surplus	1,655,702	0	1,655,702
Total liabilities, capital and surplus	\$2,128,291	\$0	\$2,128,291

Avalon Healthcare, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2006

Net premium income		\$659,906
Aggregate write-ins for other non-health revenues		<u>7,709</u>
Total revenues		667,615
Hospital/medical benefits	\$341,999	
Outside referrals	3,967	
Emergency room and out-of-area	8,578	
Prescription drugs	<u>25,881</u>	
Claims adjustment expenses	380,425	
Claims adjustment expenses	15,000	
General administrative expenses	<u>2,932,351</u>	<u>3,327,776</u>
Net underwriting gain (loss)		(2,660,161)
Net investment income earned		<u>110,498</u>
Net income (loss)		<u><u>(\$2,549,663)</u></u>

Avalon Healthcare, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2006

Capital and surplus - December 31, 2005		\$4,234,173
Net loss	(\$2,549,663)	
Change in nonadmitted assets	(28,808)	
Examination adjustments	<u>0</u>	<u>(2,578,471)</u>
Capital and surplus - December 31, 2006		<u><u>\$1,655,702</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Common capital stock	\$100
Gross paid in and contributed surplus	\$4,799,900

The amount of common capital stock reported by the Company of \$10,000 has been decreased by \$9,900, and the amount of "gross paid in and contributed surplus" reported by the Company of \$4,790,000 has been increased by the same amount. In its 2006 annual statement, the Company incorrectly reported 10,000 shares of \$1 par value common capital stock as being authorized, issued, and outstanding. While 10,000 shares were authorized, only 100 shares were issued and outstanding. Accordingly, \$9,900 has been reclassified from common capital stock to "gross paid in and contributed surplus." On July 9, 2007, the Company filed an amended annual statement and corrected the error.

Claims unpaid	\$6,102
Aggregate health claim reserves	\$201,627

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

Avalon Healthcare, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2006

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2006 - per annual statement				\$1,655,702
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	
Common capital stock	\$10,000	\$100	(\$9,900)	
Gross paid in and contributed surplus	\$4,790,000	\$4,799,900	<u>\$9,900</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$1,655,702</u></u>

SUMMARY OF FINDINGS

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

Capital and Surplus

As reported on pages 2 and 15, the Company incorrectly reported in its 2006 annual statement, as originally filed, that 10,000 of its common shares were issued and outstanding in the total amount of \$10,000, rather than 100 shares in the total amount of \$100. **We recommend that the Company correctly report the components of its equity in accordance with the *NAIC Annual Statement Instructions*.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Avalon Healthcare, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$1,655,702, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2006 was \$1.5 million.

In addition to the undersigned, the following participated in this examination: Kerry A. Krantz, Actuary; and David C. Schleit, CPA, CFE, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Russell Judge, Financial Examiner/Analyst
Florida Office of Insurance Regulation

AVAHEALTH, INC.

2011

Annual Report
Pursuant to Section 624 Florida Statutes

AVAHEALTH, INC.

**STATUTORY
ANNUAL FINANCIAL STATEMENTS**

December 31, 2011

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PUBLIC ACCOUNTANTS (AICPA)

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors and Stockholders of AvaHealth, Inc.

We were engaged to audit the accompanying statement of the statutory basis admitted assets, liabilities, capital and surplus (deficit) of AvaHealth, Inc., as of December 31, 2011, and the related statement of operations – statutory basis, statement of cash flows – statutory basis and statement of changes in capital and surplus (deficit) – statutory basis for the year ended December 31, 2011. These financial statements are the responsibility of the Company's management.

As described in Note 2, Summary of Significant Accounting Policies, Statutory Reporting, the financial statements are to be prepared in conformity with the accounting practices prescribed or permitted by the *State of Florida Office of Insurance Regulation* which is a comprehensive basis of accounting other than generally accepted accounting principles. Pursuant to 624.424, Florida Statutes, the statutory basis financial statements should be prepared in conformity with the *National Association of Insurance Commissioners Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the State of Florida, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying Schedule of Reconciliation of Differences, is presented for purposes of additional analysis as required by the *Office of Insurance Regulation*, and is a required part of the basic financial statements.

The scope of the audit was not sufficient to warrant the expression of an opinion. We could not obtain a signed management representation letter from management, a signed legal representation letter from the corporate attorney nor obtain signed approval of adjusting journal entries from management. The company's lack of internal controls and frequent major changes in management also made it difficult to obtain sufficient information.

The Company's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate. As discussed in Note 7 to the financial statements, the State of Florida Office of Insurance Regulation imposes capital requirements on insurance companies. At December 31, 2011 the Company's minimum statutory capital and surplus was not in compliance with 624.408, F.S. As discussed in Note 8, the Company has experienced operating losses and negative cash

INDEPENDENT AUDITOR'S REPORT
(concluded)

flows from operations in five of the last six years. As discussed in Note 9, in 2012 the State of Florida, Department of Financial Services issued an Order to Show Cause, Injunction, and Notice of Automatic Stay for Purposes of Rehabilitation for not complying with the minimum capital and surplus requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Because of the significance of the matters involved with obtaining information described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. We also concluded that the disclosures with respect to the Company's ability to continue as a going concern for a reasonable period of time are inadequate. Accordingly, we do not express an opinion on these financial statements.

This report is intended solely for the information and use of the board of directors, stockholders and management of AvaHealth, Inc. and for filing with the State of Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Waters CPA Group, P.A.

May 21, 2012

AvaHealth, Inc.

STATEMENT OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS (DEFICIT) – STATUTORY BASIS December 31, 2011

ASSETS

ADMITTED ASSETS

Cash	\$ 2,680,467
Other receivables	<u>73,994</u>
Total current assets	<u>2,754,461</u>
TOTAL ADMITTED ASSETS	<u>\$ 2,754,461</u>

LIABILITIES AND CAPITAL AND SURPLUS (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 117,022
Claims payable	1,683,459
Claims adjustment	33,056
Advance premiums	167,998
Aggregate policy reserve	63,413
Broker commissions payable	20,667
Premium tax payable	120,364
Other current liabilities	<u>45,898</u>
Total current liabilities	<u>2,251,877</u>
Total liabilities	<u>2,251,877</u>

CAPITAL AND SURPLUS (DEFICIT)

Common stock, \$1.00 par value, 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	1,500,000
Paid-in surplus	11,607,000
Unassigned deficit	(11,113,783)
Net loss	(746,589)
Non-admitted assets & adjustments to surplus (deficit)	<u>(744,044)</u>
Total capital and surplus (deficit)	<u>502,584</u>
TOTAL LIABILITIES AND CAPITAL AND SURPLUS (DEFICIT)	<u>\$ 2,754,461</u>

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENT OF OPERATIONS – STATUTORY BASIS Year ended December 31, 2011

REVENUES

Premiums, net	\$ 6,241,577
---------------	--------------

COST OF REVENUES

Physician and provider services	<u>5,306,697</u>
---------------------------------	------------------

GROSS PROFIT

	<u>934,880</u>
--	----------------

OPERATING EXPENSES

Management fee	528,294
----------------	---------

Insurance premium tax	109,422
-----------------------	---------

Bank service charges	42,440
----------------------	--------

Rent	29,652
------	--------

Professional fees	575,369
-------------------	---------

Broker commissions	138,320
--------------------	---------

Administrative and marketing expense	<u>260,451</u>
--------------------------------------	----------------

Total Operating Expenses	<u>1,683,948</u>
--------------------------	------------------

OPERATING LOSS

	(749,068)
--	-----------

OTHER INCOME

Interest	<u>2,479</u>
----------	--------------

NET LOSS

	<u><u>\$ (746,589)</u></u>
--	----------------------------

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS (DEFICIT) - STATUTORY BASIS December 31, 2011

	Common Stock	Paid-in Surplus	Treasury Stock	(Deficit)	Total
Balances at December 31, 2010	\$ 1,500,000	\$ 6,807,000	\$ -	\$ (11,113,783)	\$ (2,806,783)
Net Loss	-	-	-	(746,589)	(746,589)
Additional Paid in Surplus	-	4,800,000	-	-	4,800,000
Less: Non-Admitted Assets and Adjustments to Surplus	-	-	-	(744,044)	(744,044)
Balances at December 31, 2011	<u>\$ 1,500,000</u>	<u>\$ 11,607,000</u>	<u>\$ -</u>	<u>\$ (12,604,416)</u>	<u>\$ 502,584</u>

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENT OF CASH FLOWS - STATUTORY BASIS Year ended December 31, 2011

Cash flows from operating activities

Net loss	\$ (746,589)
Increase in other receivables	(73,415)
Increase in payables	11,557
Decrease in accrued expenses	(7,436)
Decrease in other current liabilities	(818,648)
Decrease in claims payable	(667,701)
Decrease in advance premiums	<u>94,545</u>
Net cash (used) by operating activities:	<u>(2,207,687)</u>

Cash flows from financing activities

Increase in paid in capital	4,800,000
Decrease in admitted assets and capital	(744,044)
Decrease in reserve	<u>(37,165)</u>
Net cash provided by financing activities	<u>4,018,791</u>

Net change in cash 1,811,104

Cash and cash equivalents, beginning of year 869,363

Cash and cash equivalents, end of year \$ 2,680,467

See accompanying notes and independent auditor's report

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 1: REPORTING ENTITY

Nature of Operations

AvaHealth, Inc., dba Key Insurance Plan (hereinafter referred to as “the Company”) is an accident and health insurance company, licensed in the State of Florida by the Office of Insurance Regulation (OIR) on September 22, 2005, pursuant to sections 624.401, 624.404 and 624.413 Florida Statutes. The Company was incorporated in the State of Florida on July 8, 2005 and is located at 5440 Mariner Street, Suite 101, Tampa, Florida, 33609.

The Company offers coordinated health insurance coverage and related services through a variety of plans for individuals and groups marketed through licensed agents and brokers.

Currently the services are offered exclusively in the State of Florida.

The total number of members as of December 31, 2011 was as follows:

Individual	2,057
Group	47

AvaHealth, Inc. was 100% owned by Avalon Healthcare Holdings, Inc. (hereinafter referred to as “AHH”), a Delaware corporation, through June 21, 2011. On March 14, 2011, AHH entered into a Stock Purchase Agreement (“SPA”) with Key Insurance Plans, Inc. to sell 100% of the stock to Key Insurance Plans, Inc., a Florida corporation. The closing date of the Stock Purchase Agreement was June 21, 2011.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company’s financial statements and accompanying notes are prepared in accordance with statutory accounting principles (SAP) as required by the National Association of Insurance Commissioners’ (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed or permitted by the State of Florida Office of Insurance Regulation. The accounting principles applied in the preparation of the statutory-basis financial statements varies from accounting principles generally accepted in the United States of America (“GAAP”). The departures from GAAP relate primarily to

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the method of accounting used for certain assets and liabilities which are recorded under GAAP but are excluded from assets, liabilities, capital and surplus (deficit) for statutory purposes. The statement of *Reconciliation of Differences Between Financial Report and Annual Statement* on page 20-21 shows the GAAP presentation with the statutory adjustments, if any. Adjustments generally relate to non-admitted assets of prepaid expenses, related party receivables, deferred tax assets and EDP equipment as follows:

- Certain assets designated as “nonadmitted,” principally past-due uncollected premiums and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statement of admitted assets, liabilities, capital and surplus (deficit) and are charged directly to unassigned surplus (deficit). Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Cash in the statement of cash flows includes cash, cash equivalents and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.

Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% capital and surplus excluding any net deferred tax assets, “electronic data processing” (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years and a valuation allowance would be established for deferred tax assets not realizable.

- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

- Recoverable amounts, if any, on unpaid claims under reinsurance agreements are netted against claims and claim adjustment expenses payable and not reported as an asset as would be required under GAAP.
- Consolidation: Wholly-controlled subsidiaries are not consolidated for individual entity statutory reporting. Under GAAP, financial statements of wholly-controlled subsidiaries are consolidated with the parent.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Statutory cash equivalents have a maturity of one year or less. Cash and cash equivalents include cash, time deposits, money market funds, commercial paper and certain U.S. Securities. As of December 31, 2011, \$2,580,467 was held in Wells Fargo, Synovus and Regions Banks, Tampa, Florida, business checking accounts and \$100,000 was held on deposit with the State of Florida.

Solvency Deposit

Pursuant to Florida Statute 625.041, the Company is required to maintain an amount on deposit to help secure payment of claims. As of December 31, 2011, a certificate of deposit of \$100,000 has been assigned to the Office to satisfy this requirement. This amount is included in cash and cash equivalents.

Prepaid Expenses

Prepaid expenses such as insurance premiums and contracts, are recorded as an asset on the balance sheet and amortized to expense in a systematic manner based on the period of coverage. As of December 31, 2011, there were no prepaid expenses. This is a non-admitted asset for statutory purposes.

Premium Receivables and Revenue Recognition

Premiums are billed monthly and are recognized as revenue over the period in which the Company is obligated to provide benefits to insured's. Any medical premiums collected in advance are recorded as unearned premiums. Other revenue is recognized when earned. Unearned premiums received in advance as of December 31, 2011 were \$167,998.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Off-Balance Sheet Risk and Concentration of Credit Risk

From time to time the Company maintains deposits in financial institutions in excess of federally insured limits. The Statement of Financial Accounting Standards No. 105 identifies these deposits as a concentration of risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The financial stability of these institutions is monitored on an ongoing basis. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions pursuant to Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Company has not experienced any losses in such accounts.

Credit risk consists primarily of its cash, cash equivalents, reinsurance recoveries and premium revenue.

Policy Acquisition Costs

Policy acquisition costs related to contracts such as broker commissions, premium taxes and other costs are expensed as incurred.

Property and Equipment

Property and equipment are stated at cost. According to SSAP 16, EDP equipment and operating system software are depreciated using the straight line method over an estimated useful life not to exceed 3 years. Furniture and fixtures are depreciated according to SSAP 19 using the straight line method over the useful life of the asset.

Depreciation estimates calculated for financial statement purposes are based on the straight line mid-month convention. There were no indications of valuation impairment during the year ended December 31, 2011.

Income Taxes and Deferred Tax

The Company is a C-corporation and calculates its state and federal income tax liabilities based upon the statutory rates currently in effect. It recognizes an asset or liability for the deferred tax consequences of temporary differences between tax bases of assets or liabilities and their reported amounts in the financial statements. Also, an operating loss, certain deductible items that are subject to limitations, and some tax credits arising but not utilized in the current year may be carried back for

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes and Deferred Tax (continued)

refund of taxes in prior years or carried forward to reduce taxes paid in future years. The realization of deferred tax assets is contingent upon the generation of taxable income in the future and the current tax rates and laws in effect for the year in which differences are expected to reverse. Management assesses future taxable income and tax planning strategies to determine the ultimate realization of deferred tax assets.

The Company is required to file statutory financial statements with the State of Florida Department of Insurance Regulation. Under Statement of Statutory Accounting Principles (SSAP) Statement No. 10R, *Income Taxes-Revised*, deferred taxes are limited to the admitted portion of the deferred tax asset up to 10% of statutory capital and surplus excluding net deferred assets.

State income taxes are classified as taxes, licenses and fees in the NAIC Annual statement and as administrative and marketing expenses in the accompanying statement of operations.

- A. Components of the maximum allowable 2011 deferred tax assets (DTA's) and deferred tax liabilities (DTL's) are as follows:

Gross DTA's	\$ 2,850,000
DTA Allowance	(2,850,000)
Gross DTL's	<u>-</u>
Net DTA's	-
Nonadmitted DTA's	<u>-</u>
Net admitted DTA's	\$ <u><u>-</u></u>
Decrease in nonadmitted DTA's	\$ <u><u>-</u></u>

- B. Unrecognized DTL's:

There are no unrecognized DTL's in 2011.

- C. Current tax and change in deferred tax:

Current Tax:

Current year income tax expense	-
Prior year over accrual	<u>-</u>
Current Income taxes incurred	\$ <u><u>-</u></u>

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes and Deferred Tax (continued)

D. Operating loss and tax credit carryforwards:

1. As of December 31, 2011, the Company has approximately \$11,584,751 of unused net operating loss carryforwards available to offset against future taxable income. The valuation account is estimated at \$2,800,000.
2. There were no income taxes incurred in the current year and prior years that will be available for recoupment in the event of future net losses.

E. Federal income tax return:

An extension for the 2011 tax return has been filed.

Estimates

The preparation of financial statements in conformity with statutory accounting principles and generally accepted accounting principles requires the use of estimates that affect certain reported amounts and disclosures. These estimates are based on management's knowledge and experience. Assumptions are also based on actuarially accepted quantitative and/or analytical methods in determining incurred and unreported claims (IBNR), deferred income taxes and various other accruals. Accordingly, actual results could differ from estimates.

Medical and Other Expenses Payable and Medical Cost Recognition

Aggregate Policy Reserves

Aggregate policy reserves represent a reserve for unearned premium income, a reserve for rate credits, experience rating refunds and rate stabilization reserve. As of December 31, 2011 the aggregate health claim reserve was \$63,413.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Medical and Other Expenses Payable and Medical Cost Recognition (continued)

Health Claim Reserves Incurred but Not Reported

The Company's medical claims expense incurred but not reported (IBNR) are based on accepted actuarial methods and a review of the claims processed through March 31, 2012. A significant portion of medical costs include future hospital and future medical services payments. The liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims. However, increased costs, catastrophes, competition, utilization and new governmental regulations can cause the actual health care cost to exceed the estimate. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate.

As experience develops and new information becomes known, the estimate and liability are continually reviewed and adjusted. An independent actuary issued a Statement of Actuary Opinion dated March 6, 2012 on the adequacy of the provision. Based on the lag reports provided by The Loomis Company, a third party claims processor, to the independent actuary and used as a basis for the actuarial opinion, the health claims payable as of December 31, 2011 was estimated to be \$1,683,459.

The change in claims and claim adjustment expenses (CAE) payable at December 31, 2011 is as follows:

Claims and CAE payable at beginning of year	<u>\$ 2,813,215</u>
Incurred related to:	
Current year	4,921,518
Prior years	<u>445,224</u>
Total current year incurred	<u>5,366,742</u>
Paid related to:	
Current year	(3,650,227)
Prior years	<u>(2,813,215)</u>
Total paid	<u>(6,463,442)</u>
Claims and CAE payable at end of year	<u>\$ 1,716,515</u>

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management

General Insurance

The Company maintains comprehensive general liability, directors' and officers' liability, property, and business automobile insurance.

Reinsurance

The Company reinsured certain "excess" risks with reinsurance companies by ceding portions of risks and premiums. Reinsurance does not discharge the Company from its liability to members for defined coverages. In the event that the reinsurance company might be unable to meet its obligation under the existing reinsurance agreement, the Company would be liable for such amounts. Management only reinsures with highly rated reinsurance companies. The reinsurer is obligated to the Company for the excess claim costs as defined in the reinsurance agreement.

In June 2011, the Company entered into a reinsurance agreement with Star Line Group. Under this agreement, the Company is reinsured against losses exceeding \$150,000 for group policies and \$200,000 for individual policies in any calendar year on any insured member. As of December 31, 2011, the company has expected recoveries under the reinsurance agreement of \$9,622.

Statutory Reporting

In 2001, the State of Florida adopted the National Association of Insurance Commissioners (NAIC) Risk Based Capital Act of 1995 reporting requirements. The State of Florida requires that insurance companies domiciled in the State of Florida prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual subject to any deviations prescribed or permitted by the State of Florida Director of Insurance Regulation.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 3: EQUIPMENT

SSAP No. 19 establishes statutory principles for the recording of furniture, fixtures and equipment (excluding electronic data processing equipment and software that is addressed in SSAP No. 16), leasehold improvements paid by the reporting entity as lessee, and depreciation of property and amortization of leasehold improvements.

SSAP No. 16 sets forth the requirements in establishing the amount of admitted EDP equipment and operating system software (net of accumulated depreciation). The aggregate amount of admitted assets shall be limited to three percent of the reporting entity's capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating software and net deferred tax assets.

Computer Software	\$ 1,312
Furniture and Fixtures	4,221
Less Accumulated Depreciation	<u>(1,875)</u>
Assets less Depreciation	3,658
Less Non-Admitted Assets	<u>(3,658)</u>
Admitted Assets	<u><u>\$ 0</u></u>

NOTE 4: CURRENT LIABILITIES

Amounts due and payable within one year are classified as current liabilities. As of December 31, 2011 accounts payable, including medical claims payable was \$2,251,877.

NOTE 5: Broker Liability

Broker Liability

As stated in Note 1 *Nature of Operations*, the Company entered into a management agreement with its former parent, AHH, in which AHH agreed to provide marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, and provider member relations. Due to the insolvency of AHH, broker commissions were not paid on a timely basis. The Company's current parent, Key Insurance Plans, Inc., negotiated and paid outstanding balances with the brokers during 2011 and early 2012.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 6: RELATED PARTY TRANSACTIONS

The Company was a member of an insurance holding company system when affiliated with its former parent, AHH, as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). AHH and AvaHealth, Inc. had certain common officers and directors in common. Andrew B. Cassidy and Charles T. O'Neill were officers of AvaHealth, Inc. and owners and officers of Avalon Healthcare Holdings, Inc.

Key Insurance Plans, Inc., the Company's owner as of 6/21/2011, and AvaHealth, Inc. do not have common ownership however; they do have an officer in common as reported in the Summary of Ownership and Relationships on page 22.

Transactions with Parent

"Related party" shall mean that the party is related by reasons of common ownership or control by the organization furnishing the services, facilities, or supplies. AvaHealth, Inc. was owned 100% by AHH until June 21, 2011. From June 21, 2011 on, AvaHealth, Inc. is owned 100% by Key Insurance Plans, Inc.

As stated in Note 1 *Nature of Operations*, the Company entered into a management agreement with its former parent, AHH, in which AHH provided marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, and provider member relations. AHH contracted with an unaffiliated service company to provide claims administration and assistance with member and provider relations. Due to the insolvency of AHH, AvaHealth, Inc. paid these expenses during 2011.

AvaHealth, Inc. has a loan receivable from CUSP, LLC, parent company of Key Insurance Plans, Inc., Avahealth's parent, at 12/31/2011 of \$298,823. This is a non-admitted asset.

NOTE 7: STOCKHOLDERS' EQUITY

Statutory Equity

As of December 31, 2011, the company had 5,000,000 shares of \$1 par value common stock authorized of which 1,500,000 shares were issued and outstanding. The parent company, Key Insurance Plans, Inc., is the sole shareholder. Key Insurance Plans, Inc. made capital contributions totaling \$4,800,000 for the year ended December 31, 2011.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 7: STOCKHOLDERS' EQUITY (continued)

The maximum amount of dividends that may be paid by insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations, it may only pay dividends that are approved in advance by the Office. The company did not declare or pay any dividends during the year ended December 31, 2011.

Pursuant to Section 624.408, Florida Statutes, each health insurer shall at all times maintain a minimum surplus in the amount that is the greater of \$1,500,000, or 4% of total liabilities plus 6% of liabilities relative to health insurance. During 2011, the Company's statutory capital and surplus was \$502,584, which was not in compliance with 624.408, F.S. Minimum levels of equity are required to monitor an entity's solvency.

According to 624, F.S., the Company is required to file financial statements with the Office of Insurance Regulation of the State of Florida. The financial statements are prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office of Insurance Regulation. These financial statements are a departure from generally accepted accounting principles and the significant differences include certain assets (prepaid expenses and related liabilities, deposits, deferred tax, furniture, fixtures and equipment) not admitted under statutory accounting practices.

Net Loss and Capital and Surplus of the Company on the basis of Statutory Accounting Principles (SAP) is as follows:

Statutory Accounting Practices:

Net Loss	\$	(746,589)
Total Capital and Surplus	\$	502,584

Generally Accepted Accounting Principles (GAAP)

Net Loss	\$	(746,589)
Equity	\$	1,246,628

See the "Reconciliation of Differences Financial Report and Annual Statement" on pages 20-21, for the GAAP, Statutory Annual Statement and prior year Statutory Annual statement.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 8: FINANCIAL CONDITION, CONSENT ORDERS AND REQUEST TO RESUME WRITING BUSINESS

Operating Losses

The Company experienced net losses of \$746,589 for the year ended December 31, 2011, a loss of \$2,815,632 for 2010, a loss of \$2,850,248 for 2009, a loss of \$2,479,374 for 2008 and a loss of \$2,343,939 for 2006. The Company had net income of \$145,797 for the year ended December 31, 2007. The company received additional capital contributions from Key Insurance Plans, Inc. of \$4,800,000 in 2011 and from AHH, its former parent, of \$1,000,000 in 2009, \$2,207,000 in 2008, \$300,000 in 2007 and \$3,300,000 prior to 2007.

Consent Orders

On May 5, 2010 the Company was placed under a Consent Order (Case No. 110187-10-CO) pursuant to Section 624.82, Florida Statutes for the purpose of confidential administrative supervision for 120 days. Consent orders may be extended in order for the Company to successfully implement and complete a corrective action plan approved by the Office of Insurance Regulation. Extensions shall be renewed in one hundred twenty (120) day increments at the Office's sole discretion. The Consent Order was extended August 18, 2010, December 7, 2010, March 23, 2011 and August 1, 2011.

Request to Resume Writing Business

On March 26, 2011, AvaHealth, Inc. voluntarily agreed that it would not resume selling or writing business without the consent of the Office of Insurance Regulation. On September 28, 2011, AvaHealth requested approval to resume writing business. The Office approved the request November 23, 2011.

AvaHealth, Inc.

Notes to Statutory Financial Statements December 31, 2011

NOTE 9: SUBSEQUENT EVENTS

Office of Insurance Regulation

On March 22, 2012 the Florida Office of Insurance Regulation issued an Order (Case No. 124309-12) suspending Avahealth from writing any new or renewal direct business and from issuing any new policies in Florida. The Order also subjects Avahealth to other penalties and sanctions. The Company has requested a formal administrative hearing to challenge the Office's Order and disputes the facts presented.

On April 19, 2012, the Company was issued a Cease and Desist Order by the Florida Office of Insurance Regulation. The Company was notified that pursuant to Florida Insurance Code, including Sections 624.307 and 624.310, F.S., that it inappropriately implemented approved rate increases resulting in unauthorized rates in violation of Section 627.410(6) for the past 2 years. The Company was required to offer reinstatement to any insureds who did not renew based on the unauthorized rates, and to refund to its insureds and former insureds premiums received from the unauthorized rates as determined by the Office of Insurance Regulation. According to management, all refunds due are to be credited to the insureds account in June 2012.

On May 21, 2012, the Company was issued an Order to Show Cause, Injunction, and Notice of Automatic Stay for Purposes of Rehabilitation by the State of Florida, Department of Financial Services. The Order stated the Company did not comply with the minimum capital and surplus requirements of Section 624.408, F.S., and therefore was impaired. A hearing is scheduled for June 15, 2012.

Current Management and Corporate Attorney

Current management (New CEO and CFO April 1, 2012) states they have been making diligent strides in correcting the prior management's acts and omissions relating to the management of the company, including those that may be in departure from generally accepted accounting procedures.

Current management has yet to finish their own internal and forensic audit of the company as of December 31, 2011. As the current management was not privy to the information that has been furnished to Waters CPA Group, P. A., the current management cannot ensure the nature, the completeness, or the accuracy of said information to the extent it was relied upon by the auditors.

Recently the corporate attorney has been changed. Effective as of May 20, 2012, the new counsel for the company is Stephen P. Walroth-Sadurni, Esq.

AvaHealth, Inc.
Reconciliation of Differences Between
Financial Report
and Annual Statement
December 31, 2011

BALANCE SHEET

	<u>GAAP</u>	<u>NON ADMITTED</u>	<u>NET ADMITTED</u>	<u>ANNUAL STATEMENT</u>	<u>2010 ANNUAL STATEMENT</u>
Current Assets					
Cash and Cash Equivalents (Note 2)	\$ 2,680,467	\$ 0	\$ 2,680,467	\$ 2,680,467	\$ 869,363
Total Current Assets	<u>2,680,467</u>	<u>0</u>	<u>2,680,467</u>	<u>2,680,467</u>	<u>869,363</u>
Other Assets					
Premiums Receivable (Note 2)	0	0	0	0	0
Deferred and Recoverable Taxes (Note 2)	0	0	0	0	0
Reinsurance Receivable (Note 2)	9,622	0	9,622	9,622	0
Other Receivables	359,699	(295,327)	64,372	64,372	579
Other Assets (Note 2)	0	0	0	0	0
Premiums Receivable (Note 2)	0	0	0	0	0
Receivables from Affiliates	<u>445,059</u>	<u>(445,059)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Assets	<u>814,380</u>	<u>(740,386)</u>	<u>73,994</u>	<u>73,994</u>	<u>579</u>
Property					
Equipment (Note 3)	<u>3,658</u>	<u>(3,658)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 3,498,505</u>	<u>\$ (744,044)</u>	<u>\$ 2,754,461</u>	<u>\$ 2,754,461</u>	<u>\$ 869,942</u>
Current Liabilities					
Accounts Payable	\$ 117,022	0	\$ 117,022	\$ 117,022	105,465
Accrued Expenses (Note 2)	0	0	0	0	7,436
Health Claims Payable (Note 5)	1,683,459	0	1,683,459	1,683,459	2,363,216
Claims Adjustment	33,056	0	33,056	33,056	21,000
Advance Premiums (Note 2)	167,998	0	167,998	167,998	73,453
Premium Tax Payable	120,364	0	120,364	120,364	0
Aggregate Policy Reserve (Note 2)	63,413	0	63,413	63,413	100,579
Broker Commission Payable	20,667	0	20,667	20,667	500,000
Reserve Payable	0	0	0	0	450,000
Other Current Liabilities	<u>45,898</u>	<u>0</u>	<u>45,898</u>	<u>45,898</u>	<u>55,576</u>
Total Current Liabilities	<u>2,251,877</u>	<u>0</u>	<u>2,251,877</u>	<u>2,251,877</u>	<u>3,676,725</u>
TOTAL LIABILITIES	<u>2,251,877</u>	<u>0</u>	<u>2,251,877</u>	<u>2,251,877</u>	<u>3,676,725</u>
Equity (Deficiency)					
Common Stock	1,500,000	0	1,500,000	1,500,000	1,500,000
Additional Paid In Capital (Paid in Surplus)	11,607,000	0	11,607,000	11,607,000	6,807,000
Loss	(746,589)	0	(746,589)	(746,589)	(2,815,632)
Retained Earnings (Unassigned Deficit)	(11,113,783)	0	(11,113,783)	(11,113,783)	(8,298,151)
Disallowed Assets and Capital Adjustment	<u>0</u>	<u>(744,044)</u>	<u>(744,044)</u>	<u>(744,044)</u>	<u>0</u>
Total Equity (Deficiency)	<u>1,246,628</u>	<u>(744,044)</u>	<u>502,584</u>	<u>502,584</u>	<u>(2,806,783)</u>
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)	<u>\$ 3,498,505</u>	<u>\$ (744,044)</u>	<u>\$ 2,754,461</u>	<u>\$ 2,754,461</u>	<u>\$ 869,942</u>

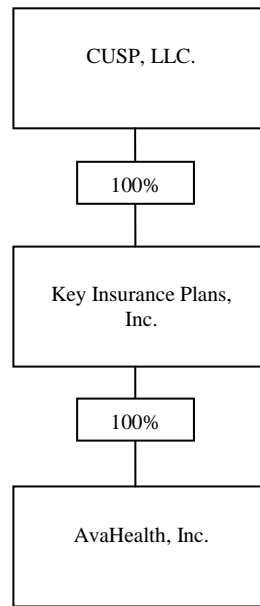
AvaHealth, Inc.
Reconciliation of Differences Between
Financial Report
and Annual Statement
December 31, 2011

STATEMENT OF OPERATIONS

	<u>GAAP</u>	<u>NON ADMITTED</u>	<u>NET ADMITTED</u>	<u>ANNUAL STATEMENT</u>	<u>2010 ANNUAL STATEMENT</u>
Premiums, Net	\$ 6,241,577	0	\$ 6,241,577	\$ 6,241,577	\$ 12,960,084
Physician and Provider Services	<u>(5,306,697)</u>	<u>0</u>	<u>(5,306,697)</u>	<u>(5,306,697)</u>	<u>(8,099,518)</u>
Gross Profit	<u>934,880</u>	<u>0</u>	<u>934,880</u>	<u>934,880</u>	<u>4,860,566</u>
Operating Expenses	<u>(1,683,948)</u>	<u>0</u>	<u>(1,683,948)</u>	<u>(1,683,948)</u>	<u>(7,684,424)</u>
Operating Loss	(749,068)	0	(749,068)	(749,068)	(2,823,858)
Other Income and Interest	2,479	0	2,479	2,479	8,226
Income Tax (Expense) Refund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET LOSS	\$ (746,589)	0	\$ (746,589)	\$ (746,589)	\$ (2,815,632)
CAPITAL SURPLUS ADJUSTMENT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
STATUTORY LOSS	<u><u>(746,589)</u></u>	<u>0</u>	<u><u>(746,589)</u></u>	<u><u>(746,589)</u></u>	<u><u>(2,815,632)</u></u>

AvaHealth, Inc.

Summary of Ownership and Relationships



AvaHealth, Inc. is 100% owned by Key Insurance Plans, Inc., a Florida corporation. Key Insurance Plans, Inc. is 100% owned by CUSP, LLC, a Florida limited liability company. CUSP, LLC is owned by Integrity Health, LLC, Florida Health Finance, LLC, PASAN Health Administration Services, Inc. and Meditech, Inc. The Company, Key Insurance Plans, Inc. and CUSP, LLC have one director in common, Enoc S. Martinez.



12195 WEST LINEBAUGH AVENUE
TAMPA, FLORIDA 33626

TELEPHONE: (813) 855-4461
FAX: (813) 855-7536

WWW.WATERSCPAGROUP.COM

AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (AICPA)

FLORIDA INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (FICPA)

**To the Board of Directors and Stockholders
AvaHealth, Inc.**

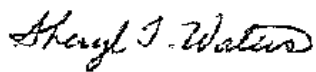
ACCOUNTANTS' DECLARATIONS AND QUALIFICATIONS

We have issued our report dated May 21, 2012 on the statement of admitted assets, liabilities, capital and surplus (deficit) - statutory basis of AvaHealth, Inc. dba Key Insurance Plan as of December 31, 2011, and the related statement of operations – statutory basis, statement of cash flows – statutory basis and statement of changes in capital and surplus (deficit) – statutory basis for the year then ended. Pursuant to 624, Florida Statutes we make the following declarations:

1. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV, Engagement Partner, and the audit team with Waters CPA Group, P.A. are independent with respect to AvaHealth, Inc. dba Key Insurance Plan and conform to the standards of independence of the profession. Waters CPA Group, P.A. is a member of the Peer Review Section of the American Institute of Certified Public Accountants. The firm is current with the Peer Review requirements and received an unqualified opinion.
2. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV, Engagement Partner, is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Financial Planner (CFP™), Certified in Financial Forensics (CFF), Certified Professional Coder (CPC), Certified in Business Valuation. Sheryl has over 30 years of accounting and auditing experience in the healthcare industry, as well as, governmental entities and insurance related industries. She is the recipient of the American Institute of Certified Public Accountants' Governmental and Auditing Certificate of Education Achievement. Sheryl T. Waters, CPA is experienced in governmental and insurance compliance auditing.
3. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV, Engagement Partner, understands the annual Audited Financial Report, and the auditor's opinion thereon is filed in compliance with the Florida Statutes. The auditor understands that the Office of Insurance Regulation will be relying on this information in the monitoring and the regulation of the financial position of AvaHealth, Inc.

ACCOUNTANTS' DECLARATIONS AND QUALIFICATIONS
(Concluded)

4. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV, consents to the requirements of Florida Statutes 641.26 which require that the auditor consent and agree to make the work papers available for review by the Office of Insurance Regulation.
5. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV, has been licensed in the State of Florida as a Certified Public Accountant since January 27, 1994. Her license number is 19412.
6. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV has not been disqualified as an independent auditor by the Office of Insurance Regulation.



WATERS CPA GROUP, P.A.

Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, ABV,
Engagement Partner

May 21, 2012

AvaHealth, Inc.

STATEMENT OF ACTUARIAL CERTIFICATION

Pursuant to

Florida Statutes 641.36, Rule 690-191.075

December 31, 2011

See Attachment A

AvaHealth, Inc.

REPORT OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

**Pursuant to
Rule 690-137.002
December 31, 2011**

This statement serves as notice to the officers, members of the board of directors and to the Office of Insurance Regulation that Avahealth, Inc. has material deficiencies in its internal control structure. The Company materially misstated its financial condition as reported to the Office as of the balance sheet date currently under examination and failed to comply with the filing regulations. The insurer does not meet the minimum capital and surplus requirements as outlined in Florida Statutes.

AvaHealth, Inc.

NOTIFICATION OF ADVERSE FINANCIAL CONDITION

**Pursuant to
Rule 690-137.02
December 31, 2011**

This statement serves as notice to the officers, members of the board of directors and to the Office of Insurance Regulation that Avahealth, Inc. materially misstated its financial condition as reported to the Office as of the balance sheet date currently under examination. The insurer does not meet the minimum capital and surplus requirements as outlined in Florida Statutes.

AvaHealth, Inc.

EVIDENCE OF ADEQUATE INSURANCE

Pursuant to

Compliance with Rule 690-131.069

December 31, 2011

AvaHealth, Inc.

**Certification Statement
December 31, 2011**

Certification of Officers

We hereby certify that we have examined the accompanying financial statements and supplementary data of AvaHealth, Inc. and, to the best of our knowledge and belief, the same are accurate and complete.

Karen Connolly, CEO

Date_____

Roberto Martinez, CFO

Date_____

2010 FOR PROFIT CORPORATION REINSTATEMENT

DOCUMENT# P05000096675

FILED
Nov 11, 2010
Secretary of State

Entity Name: AVAHEALTH, INC.

Current Principal Place of Business:

3030 N. ROCKY POINT DR. W.
SUITE 800
TAMPA, FL 33607

New Principal Place of Business:

Current Mailing Address:

3030 N. ROCKY POINT DR. W.
SUITE 800
TAMPA, FL 33607

New Mailing Address:

FEI Number: 20-3075951

FEI Number Applied For ()

FEI Number Not Applicable ()

Certificate of Status Desired ()

Name and Address of Current Registered Agent:

BUSH ROSS REGISTERED AGENT SERVICES, LLC
1801 N. HIGHLAND AVENUE
TAMPA, FL 33602 US

Name and Address of New Registered Agent:

The above named entity submits this statement for the purpose of changing its registered office or registered agent, or both, in the State of Florida.

SIGNATURE: JOSEPH A. PROBASCO

Electronic Signature of Registered Agent

Date

OFFICERS AND DIRECTORS:

Title: DC
Name: O'NEILL, CHARLES T
Address: 3030 N ROCKY POINT DR W, SUITE 800
City-St-Zip: TAMPA, FL 33607 US

Title: DS
Name: NEELY, HENRY H
Address: 3030 N ROCKY POINT DR W, SUITE 800
City-St-Zip: TAMPA, FL 33607 US

Title: D
Name: HAYDON, RICHARD W
Address: 3030 N ROCKY POINT DR W, SUITE 800
City-St-Zip: TAMPA, FL 33607 US

Title: D
Name: LYONS, JUDITH
Address: 3030 N ROCKY POINT DR W, SUITE 800
City-St-Zip: TAMPA, FL 33607 US

Title: D
Name: KOWALSKI, PAUL W
Address: 3030 N ROCKY POINT DR W, SUITE 800
City-St-Zip: TAMPA, FL 33607 US

Title: D
Name: GAUTA, JOSEPH
Address: 1890 SW HEALTH PKWY, SUITE 205
City-St-Zip: NAPLES, FL 34109 US

I hereby certify that the information indicated on this report or supplemental report is true and accurate and that my electronic signature shall have the same legal effect as if made under oath; that I am an officer or director of the corporation or the receiver or trustee empowered to execute this report as required by Chapter 607, Florida Statutes; and that my name appears above, or on an attachment with all other like empowered.

SIGNATURE: HENRY H. NEELY

DS

11/11/2010

Electronic Signature of Signing Officer or Director

Date

**AMENDED AND RESTATED
STOCK PURCHASE AGREEMENT**

DATED AS OF MARCH 14, 2011

BY AND BETWEEN

AVALON HEALTHCARE HOLDINGS, INC.,

AS SELLER,

AND

CUSP, LLC

AS PURCHASER

AMENDED AND RESTATED STOCK PURCHASE AGREEMENT

THIS AMENDED AND RESTATED STOCK PURCHASE AGREEMENT ("Agreement") is made as of March 14, 2011, by and between **AVALON HEALTHCARE HOLDINGS, INC.**, a Delaware corporation ("Seller") and **CUSP, LLC** or its assignee ("Purchaser").

RECITALS

A. WHEREAS, Seller owns all of the Shares (as defined herein) of **AVAHEALTH, INC.**, a Florida corporation (the "Company").

B. WHEREAS, the Company is engaged in the business of providing insurance services to individuals through commercial health plans (the "Business").

C. WHEREAS, Purchaser desires to purchase all of the outstanding Shares from Seller and those specific assets set forth on Schedule A (the "Assets"), and Seller desires to sell such Shares to Purchaser, on the terms and subject to the conditions herein contained.

AGREEMENTS

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

Definitions

1.1 Definitions. Certain capitalized terms not defined herein have the meanings set forth in Appendix A attached hereto.

1.2 Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP.

ARTICLE II

Purchase and Sale of Shares; Closing and Manner of Payment

2.1 Agreement to Purchase and Sell Shares. On the terms and subject to the conditions contained in this Agreement, at the Closing, Purchaser shall purchase from Seller, and Seller shall sell, convey, transfer, assign and deliver to Purchaser, all of the outstanding Shares of the Company and the Assets, free and clear of any and all Claims.

2.2 Purchase Price. The Purchase Price for the Shares and the Assets shall be One Million Seven Hundred Fifty Thousand and No/100 Dollars (\$1,750,000.00), subject to Schedule 2.2. The Purchase Price shall be payable to a specific bank account belonging to the Seller at the end of twelve (12) months from the Closing Date subject to the provisions specified in Schedule 2.2 attached hereto.

2.3 Time and Place of Closing. The Closing shall be at 10:00 a.m., at the offices of GrayRobinson, P.A., 201 N. Franklin Street, Suite 2200, Tampa, Florida 33602 on May 31, 2011 unless the parties mutually agree to close prior to such date, or within five (5) days after receipt of the OIR

Approval whichever is later (such date the Closing occurs, the "Closing Date"); provided, however, that the Closing Date shall be no later than June 30, 2011.

2.4 Seller's Closing Deliveries. At the Closing, Seller shall deliver to Purchaser:

- (i) certificates representing the Shares, endorsed in blank (or accompanied by stock powers executed in blank) and otherwise in proper form for transfer;
- (ii) a bill of sale for the Assets;
- (iii) the Articles of Incorporation of the Company filed with any Governmental Authority, duly certified as of a recent date by the Secretary of State or other appropriate authority of the jurisdiction of its incorporation, the Bylaws, Minutes and Corporate Records Book of the Company, all together with a certificate dated as of the Closing Date from the Secretary of the Company to the effect that the Organizational Documents are true and complete and that no undisclosed amendments to such Organizational Documents have been made;
- (iv) certificates dated as of a date not more than five (5) days prior to the Closing Date as to the good standing of the Company, issued by the appropriate Governmental Authority of the jurisdiction of the Company's organization and each jurisdiction in which the Company is licensed or qualified to do business as a foreign entity as specified in **Schedule 3.3(a)**;
- (v) releases in the form of **Exhibit 2.6(v)**;
- (vi) an opinion of Seller's attorney, dated the Closing Date, in the form of **Exhibit 2.6(vi)**;
- (vii) estoppel certificates executed on behalf of _____ and dated as of a date not more than five days prior to the Closing Date, each in the form of **Exhibit 2.6(vii)**;
- (viii) copies of the third party consents;
- (ix) the approval of the Florida Office of Insurance Regulation;
- (x) the closing certificates referred to in **Sections 4.2(a), 4.2(b) and 4.2(c)**;
- (xi) Non-Compete and Non-Solicitation agreements executed by each Key Employee, each in the form of **Exhibit 2.6(xi)**;
- (xii) Personal Guarantees executed by Charles O'Neill and Andrew Cassidy contemplated and specified under Schedule 2.2; and
- (xiii) such other documents as Purchaser may reasonably request to facilitate the consummation of the transaction contemplated by this Agreement.

2.5 Purchaser's Closing Deliveries. At the Closing, Purchaser shall deliver to Seller (or in the case of the Escrow Funds, to the Escrow Agent):

- (i) the Closing Payment;
- (ii) the closing certificate referred to in **Sections 4.3(a) and 4.3(b)**; and
- (iii) OIR Approval.

ARTICLE III
Representations and Warranties

3.1 General Statement. The parties make the representations and warranties to each other which are set forth in this **ARTICLE III**. All such representations and warranties and all representations and warranties which are set forth elsewhere in this Agreement and in any financial statement, exhibit or document delivered by a party hereto to the other party pursuant to this Agreement or in connection herewith shall survive the Closing (and none shall merge into any instrument of conveyance), regardless of any investigation or lack of investigation by any of the parties to this Agreement. No specific representation or warranty shall limit the generality or applicability of a more general representation or warranty. All representations and warranties of Seller are made subject to the exceptions noted in the Disclosure Schedule. Each exception noted in the **Disclosure Schedule** shall be numbered to correspond to the applicable paragraph of **Section 3.3** to which such exception refers. Purchaser and Seller acknowledge that the Disclosure Schedules have not been delivered contemporaneous with the execution of this Agreement, and agree that the Disclosure Schedules will be delivered prior to Closing and shall become part of this Agreement.

3.2 Representations and Warranties of Purchaser. Purchaser represents and warrants to Seller as follows:

(a) **Organization; Authority.** Purchaser is a corporation duly organized, existing and in good standing, under the laws of its state of organization. Purchaser has full power and authority to enter into and perform this Agreement. The execution, delivery and performance of this Agreement by Purchaser and the consummation by Purchaser of the transactions contemplated hereby have been duly and validly approved by the board of directors and shareholders of Purchaser.

(b) **Enforceability.** This Agreement has been duly executed and delivered by Purchaser and constitutes a legal, valid and binding agreement of Purchaser, enforceable against Purchaser in accordance with its terms.

(c) **Consents; Conflicts.** Except for the OIR Approval, no consent, authorization, order or approval of, or filing or registration with, any Governmental Authority is required for or in connection with the consummation by Purchaser of the transactions contemplated hereby except as set forth in **Schedule 3.3(c)**.

(d) **Conflicts Under Constituent Documents or Laws.** Neither the execution and delivery of this Agreement by Purchaser, nor the consummation by Purchaser of the transactions contemplated hereby, will conflict with or result in a breach of any of the terms, conditions or provisions of its Articles of Organization or Operating Agreement, or of any statute or administrative regulation, or of any order, writ, injunction, judgment or decree of any court or Governmental Authority or of any arbitration award.

(e) **Conflicts Under Contracts.** Purchaser is not a party to any unexpired, undischarged or unsatisfied written or oral contract, agreement, indenture, mortgage, debenture, note or other instrument under the terms of which performance by Purchaser according to the terms of this Agreement will be a default or an event of acceleration, or grounds for termination, modification or cancellation, or whereby timely performance by Purchaser according to the terms of this Agreement may be prohibited, prevented or delayed.

(f) **Brokers.** Neither Purchaser, nor any of its Affiliates has dealt with any Person who is entitled to a broker's commission, finder's fee, investment banker's fee or similar payment from Seller

or the Company for arranging the transactions contemplated hereby or introducing the parties to each other.

(g) Certain Actions. There is no Action, in law or in equity, and there are no Actions before any Governmental Authority, pending or, to Purchaser's or Purchaser's Affiliates' Knowledge, threatened against Purchaser or any of Purchaser's officers, directors or Affiliates, which challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, consummation of the transactions contemplated hereby.

3.3 Representations and Warranties of Seller. The Seller represents and warrants to Purchaser that, except as set forth in the **Disclosure Schedule**:

(a) Organization; Authority; Enforceability. The Company and the Seller are corporations duly organized, existing and in good standing under the laws of Florida and Delaware, respectively. Each of the Company and the Seller has qualified as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business or the nature or location of its assets requires such qualification and where the failure to so qualify would have a Material Adverse Effect. Each of the Company and the Seller has all necessary corporate power and authority to carry on its business as such business is now being conducted. Seller has full power and authority to execute this Agreement and the execution and delivery of this Agreement has been duly approved prior to the date hereof by all requisite action of Seller's board of directors. Seller has sent all required notices to its shareholders under its shareholders agreement and any applicable laws in connection with the transactions contemplated hereby, including without limitation, any notices required in connection with dissenter's rights, and the approval of Seller's shareholders for Seller to execute this Agreement or consummate the transactions contemplated hereby is either not required or has been duly given. This Agreement has been duly executed and delivered by Seller and constitutes a legal, valid and binding agreement of Seller, enforceable against Seller in accordance with its terms.

(b) Consents; Conflicts. No consent, authorization, order or approval of, or filing or registration with, any Governmental Authority other than as set forth in **Schedule 3.3(b)(i)** is required for or in connection with the consummation by Seller of the transactions contemplated hereby. Neither the execution and delivery of this Agreement by Seller, nor the consummation by Seller of the transactions contemplated hereby, will conflict with or result in a breach of any of the terms, conditions or provisions of the Company's or the Seller's Organizational Documents, or of any statute or administrative regulation, or of any order, writ, injunction, judgment or decree of any court or Governmental Authority or of any arbitration award to which the Company or the Seller is a party or by which the Company or the Seller is bound. Except as set forth on **Schedule 3.3(b)(ii)**, neither the Company nor the Seller is a party to, or bound by, any unexpired, undischarged or unsatisfied Contract under the terms of which performance by Seller according to the terms of this Agreement or the consummation of the transactions contemplated hereby will require a consent, approval, or notice or will result in a breach, lapse, cancellation, right to terminate or modify, default or acceleration of any right or obligation or result in a lien on the Shares or any of the assets of the Company or the Seller, or whereby timely performance by Seller according to the terms of this Agreement may be prohibited, prevented or delayed.

(c) Constituent Documents. True and complete copies of the Organizational Documents, all foreign qualifications, all stock records, and corporate minute books and records, of the Company have been made available for inspection by Purchaser and are attached hereto as **Schedule 3.3(c)**. Such stock records accurately reflect all Share transactions and the current stock ownership of the Company. The corporate minute books and records of the Company contain true and complete copies of all resolutions adopted by the stockholders or the board of directors of the Company.

(d) Capitalization.

(1) The authorized capital stock of the Company consists of a single class of 5,000,000 shares of common stock, \$1.00 par value per share, of which 100 Shares are issued and outstanding. There are no shares of capital stock of the Company of any other class authorized, issued or outstanding. All of the issued and outstanding Shares have been validly issued, are fully paid and nonassessable, and are owned beneficially and of record by the Seller, free and clear of all Claims. There are no outstanding subscriptions, options, warrants, rights (including preemptive rights), calls, convertible securities or other agreements or commitments of any character relating to the issued or unissued capital stock or other securities of the Company or otherwise obligating the Company to issue any securities of any kind, and there are no voting agreements with respect to any of the foregoing. The Company is under no obligation to repurchase, redeem or otherwise acquire any of its capital stock or other securities.

(2) The Company does not hold or beneficially own (and has not held or beneficially owned) any other direct or indirect interest (whether it be common or preferred stock or any comparable ownership interest in any Person that is not a corporation), or any subscriptions, options, warrants, rights, calls, convertible securities or other agreements or commitments for any interest in any Person.

(e) Financial Statements. Complete and accurate copies of the Financial Statements are contained in **Section 3.3(e)** of the Disclosure Schedule. Complete and accurate copies of the Interim Financial Statements are also contained in **Section 3.3(e)** of the Disclosure Schedule. The Financial Statements and the Interim Financial Statements present fairly, in all material respects, the consolidated financial position of the Company as of the dates thereof and the consolidated results of operations and cash flows of the Company for the periods covered by said statements, in accordance with GAAP consistently applied through the periods covered thereby, except for, in the case of the Interim Financial Statements, (1) the omission of footnote disclosures required by GAAP and (2) normal year-end adjustments which are not material, individually or in the aggregate. The books and records of the Company have been maintained in accordance with GAAP and properly reflect all of the transactions entered into by them. The Company's internal controls and financial reporting are and have been in compliance with all laws, rules, regulations and requirements applicable to the Company as a result of the Company's Government Contracts. Seller has furnished to Purchaser complete and correct copies of all attorney's responses to audit inquiry letters with respect to the Company and all management letters from the Company's accountants for the last three (3) fiscal years. **Section 3.3(e)(i)** of the Disclosure Schedule sets forth a listing of all Indebtedness of the Company. **Section 3.3(e)(ii)** of the Disclosure Schedule sets forth a true and complete list of all Liabilities of the Company that would be required by GAAP to be provided for or reserved against on a balance sheet of the Company as of February 28, 2011. **Section 3.3(e)(iii)** of the Disclosure Schedule sets forth a true and complete list of all Liabilities of the Company that would be required by GAAP to be provided for or reserved against on a balance sheet of the Company as of the Closing Date.

(f) Undisclosed Liabilities. The Company does not have any Liabilities except for: (1) Liabilities provided for or reserved against in the Financial Statements or the Interim Financial Statements and not discharged subsequent to the dates of the Financial Statements or the Interim Financial Statement Date; (2) Liabilities which have been incurred by the Company subsequent to the Interim Financial Statement Date in the Ordinary Course of Business of the Company and not discharged since the Interim Financial Statement Date; and (3) Liabilities under the executory portion of any Contract by which the Company is bound and which was entered into in the Ordinary Course of Business of the Company and has been disclosed in the Disclosure Schedule. All liabilities not listed on financial statements under clauses (1) through (3) above have been disclosed on the Disclosure Schedules. None of the Liabilities described in clauses (1) through (3) above relates to or has arisen out of a breach of contract, breach of

warranty, tort, or infringement by or against the Company or any claim or lawsuit involving the Company.

(g) Title to Assets. The Company is the sole owner of, and has good title to, its assets which are set forth on Schedule 3.3(g)(i), free and clear of any Claims, except for Permitted Liens set forth in Schedule 3.3(g)(ii). No unreleased mortgage, trust deed, chattel mortgage, security agreement, financing statement or other instrument encumbering any of the Company's assets has been recorded, filed, executed or delivered.

(h) Sufficiency of Assets. The Company's fixed assets are in good operating condition and repair, normal wear and tear excepted, and are suitable for the uses intended therefor.

(i) Accounts Receivable. All of the Accounts Receivable have arisen from bona fide transactions in the Ordinary Course of Business and, to the extent not previously collected, are fully collectible, net of the allowance for doubtful accounts, in the Ordinary Course of Business in accordance with their terms and assuming that the methods of collection practices and procedures used in collection of the Accounts Receivable are consistent with those historically used by the Company. Except as provided by law, none of the Accounts Receivable is or will be subject to any counterclaim, set off, audit or otherwise subject to reduction by the obligor thereof. All reserves, allowances and discounts with respect to the Accounts Receivable were and are adequate and consistent in extent with reserves, allowances and discounts previously maintained by the Company in the Ordinary Course of Business.

(j) Insurance. Schedule 3.3(j) contains a true and correct list and description (including insurer, coverages, deductibles, limitations and expiration dates) of all insurance policies (including fire and casualty, general liability, theft, life, workers' compensation, directors and officers, business interruption and all other forms of insurance) which are owned by the Company or which name the Company as an insured (or loss payee), including without limitation those which pertain to the Company's respective assets, employees or operations. All such insurance policies are in full force and effect. To the Knowledge of Seller, in the three (3) year period ending on the date hereof, the Company has not received any notice from or on behalf of any insurance carrier issuing such insurance policies to the effect that insurance rates will thereafter be substantially increased, that there will thereafter be no renewal of an existing policy, or that material alteration of any owned or leased personal or real property, purchase of additional equipment, or material modification of the Company's methods of doing business, will be required or is suggested. There are no pending claims that have been denied insurance coverage. The Company has not failed to give any notice or present any claim under any insurance policy in due and timely fashion or as required by any insurance policy.

(k) Bank Accounts. Schedule 3.3(k) contains a list showing: (1) the name of each bank, safe deposit company or other financial institution in which the Company has an account, lock box or safe deposit box; (2) the names of all Persons authorized to draw thereon or to have access thereto and the names of all Persons, if any, holding powers of attorney from the Company; and (3) all instruments or agreements to which the Company is a party as an endorser, surety or guarantor, other than checks endorsed for collection or deposit in the Ordinary Course of Business.

(l) Taxes.

(1) There have been properly completed and filed on a timely basis all Returns required to be filed by the Company. As of the time of filing, the foregoing Returns correctly reflected the facts regarding the income, business, assets, operations, activities, status and other matters of or information regarding the Company required to be shown thereon, and no extension of time within which to file any such Return has been requested or granted. The Company has provided to Purchaser

complete copies of (i) all federal, state, local and foreign income or franchise Returns of the Company relating to the taxable periods since Seller has owned the Business and (ii) any audit report, notice of deficiency, notice of assessment or similar document issued within the last three (3) years relating to Taxes due from or with respect to the Company. No claim has been made by a taxing authority in a jurisdiction where the Company does not file Tax Returns such that the Company is or may be subject to taxation by that jurisdiction.

(2) With respect to all amounts in respect of Taxes imposed upon the Company or for which the Company is or could be liable, whether to taxing authorities or to other Persons (as, for example, under tax allocation agreements), with respect to all taxable periods or portions of periods ending on or before the Closing Date, all applicable Tax laws have been complied with in all material respects and all amounts required to be paid by the Company to Taxing authorities on or before the date hereof have been paid.

(3) To Seller's Knowledge, no issues have been raised and are currently pending by any taxing authority in connection with any of the Returns. The Company has not received any written notice from any taxing authority that it intends to conduct an audit or investigation. No waivers of statutes of limitation with respect to the Returns have been given by or requested from the Company. Schedule 3.3(1)(3) sets forth the taxable years of the Company as to which the respective statutes of limitations with respect to Taxes have not expired, and with respect to such taxable years, the years for which examinations have been completed, the years for which examinations are presently being conducted, the years for which examinations have not been initiated, and the years for which required Returns have not yet been filed. All material elections with respect to Taxes affecting the Company are set forth in the Disclosure Schedule. All deficiencies asserted or assessments made as a result of any examinations of Returns previously filed by the Company have been fully paid, or are fully reflected as a Liability in the Financial Statements and the Interim Financial Statements, or are being contested and an adequate reserve therefor has been established and is fully reflected as a Liability in the Financial Statements and the Interim Financial Statements. No issue has been raised by a federal, state, local or foreign taxing authority in any current or prior examination which, by application of the same or similar principles, could reasonably be expected to result in a proposed deficiency for any subsequent taxable period. The Company has not requested or is subject to any private letter ruling of the IRS or comparable rulings of other taxing authorities.

(4) The Company has not filed a consent pursuant to the collapsible corporation provisions of section 341(f) of the Code (or any corresponding provision of state, local or foreign income Tax law) or agreed to have section 341(f)(2) of the Code (or any corresponding provision of state, local or foreign income Tax law) apply to any disposition of any asset owned by it.

(5) None of the assets of the Company (i) is "tax-exempt use property" within the meaning of Section 168(h) of the Code, (ii) is property that the Company is required to treat as being owned by any other Person pursuant to the "safe harbor lease" provisions of former section 168(f)(8) of the Code, or (iii) secures any debt the interest on which is tax-exempt under section 103(a) of the Code.

(6) The Company or the Seller have not agreed to make, nor is either of them required to make, any adjustment under section 481(a) of the Code (or any similar provision of state, local or foreign law) by reason of a change in accounting method or otherwise, and neither is aware that the IRS has proposed any such adjustment or change in accounting method.

(7) The Company or the Seller are not a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of section 280G of the Code.

(8) Except as set forth on Section 3.3(1)(3), the Seller or the Company is not a Person other than a United States person within the meaning of the Code and the transactions contemplated hereby are not subject to the withholding provisions of section 3406 or subchapter A of Chapter 3 of the Code.

(9) The Company has disclosed on their Returns all positions taken therein that could reasonably give rise to a substantial understatement of Tax within the meaning of section 6662 of the Code.

(10) The Company has not (i) made a deemed dividend election under Regulations Section 1.1502-32(f)(2) or a consent dividend election under section 565 of the Code, (ii) participated in an international boycott within the meaning of section 999 of the Code or (iii) been a United States real property holding corporation (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c)(1)(A)(ii) of the Code.

(11) The Company has never had a permanent establishment in any foreign country, as defined in any applicable Tax treaty or convention between the United States and such foreign country.

(12) The unpaid Taxes of the Company do not exceed the reserve for Tax liability (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth or included in the Interim Financial Statements, as adjusted for the passage of time through the Closing Date, in accordance with the past practices of the Company.

(13) The Company or the Seller are not and have never been a member of an affiliated, combined, consolidated or unitary group.

(14) The Company is not a party to any joint venture, partnership, or other arrangement or contract that could be treated as a partnership for federal income tax purposes.

(15) The Company will not recognize any item of income or gain after the Closing Date that was previously deferred under the intercompany transaction rules of Treasury Regulations Section 1.1502-13 or similar provisions of foreign, state or local laws. The Company will not be required to include in a taxable period ending after the Closing Date taxable income attributable to income that accrued in a prior taxable period but was not recognized in any prior taxable period as a result of the installment method of accounting, the completed contract method of accounting, prepaid amounts, the long-term contract method of accounting, the cash method of accounting, section 481 of the Code, or any comparable provision of state, local, or foreign tax law.

(16) The Company has not constituted a "distributing corporation" or a "controlled corporation" (within the meaning of Code Section 355(a)(1)(A)) in a distribution of shares qualifying for tax free treatment under Code Section 355 (i) in the two years prior to the date of this Agreement or (ii) in a distribution that could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Code Section 355(e)), in conjunction with this acquisition.

(17) The Company is not a party to any agreement, plan or arrangement of “deferred compensation” (within the meaning of Section 409A of the Code) that fails in form or in operation to comply with the requirements of Section 409A of the Code.

(18) The Company is not a party to or bound by any tax indemnity, tax sharing or tax allocation agreement. The Company is not liable for the Taxes of another Person (other than the Company) (i) under Treasury Regulations Section 1.1502-6 (or comparable provisions of state, local or foreign law), (ii) as a transferee or successor, or (iii) by contract or indemnity or otherwise.

(19) No closing agreement pursuant to Section 7121 of the Code (or any similar provision of state, local or foreign law) has been entered into by or with respect to the Company or the Seller.

(20) All material Taxes required to be withheld, collected or deposited by or with respect to the Company have been timely withheld, collected or deposited as the case may be, and to the extent required, have been paid to the relevant taxing authority.

(m) Conduct of Business. Except as set forth in **Schedule 3.3(m)**, since the Financial Statement Date, the Company has not:

(1) sold or transferred any portion of its assets or property that would be material to the Company as a whole, except for sales of Inventory and transfers of cash in payment of trade payables, all in the usual and Ordinary Course of Business;

(2) suffered any loss, or any interruption in use, of any assets or property (whether or not covered by insurance), on account of fire, flood, riot, strike or other hazard or Act of God;

(3) paid or declared any dividends or distributions to its stockholders in any form other than cash;

(4) except as disclosed on **Schedule 3.3(m)**, made or suffered any material change in the conduct or nature of any aspect of the Business, whether or not made in the Ordinary Course of Business and whether or not the change had a Material Adverse Effect;

(5) except as disclosed on **Schedule 3.3(m)** paid or delayed payment of accounts payable, or collected or delayed collection of Accounts Receivables, in each case other than in the Ordinary Course of Business;

(6) waived any right or canceled or compromised any debt or claim other than in the Ordinary Course of Business;

(7) made any capital expenditure in an amount which exceeds \$10,000, or capital expenditures in an aggregate amount which exceeds \$25,000;

(8) made any payment or increase in the bonus, salary or other compensation or fringe benefits of any officer or employee of the Company;

(9) paid or incurred any management or consulting fees in an aggregate amount which exceeds \$5,000;

(10) hired or terminated any employee who has an annual salary in excess of \$50,000;

(11) borrowed any money or issued any bonds, debentures, notes or other corporate securities evidencing money borrowed;

(12) made any change in accounting methods or principles;

(13) except as disclosed on **Schedule 3.3(m)** taken (or failed to take) any actions that could adversely affect the Company's (A) Government Contracts or grants from Governmental Authorities or (B) eligibility to receive grants from Governmental Authorities, participate in the award of Government Contracts or otherwise participate in any programs of, or sponsored by, any Governmental Authority;

(14) except as disclosed on **Schedule 3.3(m)** been subject to an audit (or other review or inquiry) by a Governmental Authority with respect to any Government Contracts or grants from Governmental Authorities other than in the Ordinary Course of Business;

(15) without limitation by the enumeration of any of the foregoing, entered into any material transaction other than in the Ordinary Course of Business; or

(16) made any commitment or agreement (legally binding or otherwise) to do any of the acts described above in this **Section 3.3(m)**, other than in the Ordinary Course of Business.

(n) Contracts. **Schedule 3.3(n)** contains a true and correct list of the following undischarged written or oral contracts, agreements, leases and other instruments to which the Company is a party:

(1) contracts or arrangements with, or relating to the provision (directly or indirectly) of goods or services to, for or on behalf of, or relating to grants from, any Governmental Authority (each, a "Government Contract");

(2) agreements with respect to employment, or restricting the employment, of any employee of the Company;

(3) consulting agreements;

(4) collective bargaining agreements;

(5) agreement for the payment of severance benefits, retention bonuses, sale bonuses or similar payments to any employee;

(6) plan or contract or arrangement with respect to Employee Plans;

(7) contract for the purchase of equipment, inventory, or other materials having a purchase price under any such contract in excess of \$10,000;

(8) contract for the sale of any equipment, inventory or other assets, except for sales of inventory in the Ordinary Course of Business;

(9) leases or subleases, either as lessee or sublessee, lessor or sublessor, of personal property or intangibles;

(10) agreements restricting in any manner the Company's right to compete with any other Person, restricting the Company's right to sell to or purchase from any other Person, restricting the right of any other party to compete with the Company or the ability of such Person to employ any of the Company's employees;

(11) agreements between the Company and any of its Affiliates;

(12) agreements pursuant to which the Company acts as a subcontractor or engages a subcontractor to provide services;

(13) agreements of agency, representation, distribution, or franchise which cannot be canceled by the Company without payment or penalty upon notice of thirty (30) days or less;

(14) service agreements affecting any of the Company's assets where the annual service charge is in excess of \$10,000 and has an unexpired term as of the Closing Date in excess of 1 year;

(15) confidentiality agreements;

(16) contracts for the advertisement, display or promotion of any products or services, which cannot be canceled by the Company without payment or penalty upon notice of thirty (30) days or less;

(17) contracts or orders for the sale of goods or the performance of services which, if performed by the Company in accordance with its terms, could not be performed within the time limits or other terms therein provided, or which, when actually performed, would result in an obligation (contractual or otherwise) to pay damages or penalties;

(18) orders or directives of a Governmental Authority;

(19) agreements which restricts the ability of the Company to increase prices to a customer of the Business;

(20) loan or credit agreements, pledge agreements, notes, security agreements, mortgages, debentures, indentures, factoring agreements or letters of credit;

(21) guaranties, performance, bid or completion bonds, or surety or indemnification agreements;

(22) partnership agreements or joint venture agreements or other contracts (however named) involving a sharing of profits, losses, costs, or liabilities by the Company and another Person;

(23) agreements with lobbyists or other similar Persons; or

(24) any other agreements which provide for the receipt or expenditure of more than \$10,000.

All of such Contracts are in full force and effect and are valid and enforceable in accordance with their terms. The Company is, in all material respects, in compliance with all terms and requirements of each such Contract and, to Seller's Knowledge, each other Person that is party to a Contract is in material

compliance with the terms and requirements of such Contract. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a material violation or breach of, or give the Company or any other Person the right to declare a material default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify any such Contract. There are no renegotiations, attempts to renegotiate or outstanding rights to negotiate any amount to be paid or payable to or by the Company under any such Contract other than with respect to non-material amounts in the Ordinary Course of Business, and no Person has made a written demand for such renegotiation. The Company has not released or waived any of its rights under any Contract.

(o) Government Contract Matters.

(1) Schedule 3.3(o)(1) lists all: (i) Government Contracts the period of performance of which has not yet expired or terminated or for which final payment has not yet been received (the "Current Government Contracts"); (ii) quotations, bids and proposals for awards of new Government Contracts made by the Company for which no award has been made and for which the Company believes there is a reasonable prospect that such an award to the Company may yet be made (the "Government Contract Bids"); and (iii) Government Contracts pursuant to which the Company is currently or, to Seller's Knowledge, is reasonably likely to experience cost, schedule, technical or quality problems that could result in claims against the Company (or its successors in interest). The Current Government Contracts are not, as of the date of this Agreement, the subject of bid or award protest proceedings, and, to Seller's Knowledge, no Current Government Contracts are reasonably likely to become the subject of bid or award protest proceedings and no Person has notified the Company that any Person intends to seek the Company's agreement to lower rates under any of the Government Contracts or Government Contract Bids. Schedule 3.3(o)(1) lists all bonds required to be posted by the Company with respect to each Current Government Contract. Seller has no Knowledge that any of the programs (including grant programs) pursuant to which any of the Current Government Contracts or Government Contract Bids are operated or funded are to be discontinued or limited in any material respect.

(2) All of the Government Contracts are in full force and effect and are valid and enforceable in accordance with their terms. The Company is all material respects, in compliance with all terms and requirements of each Government Contract and, to Seller's Knowledge, each other Person that is party to a Government Contract is in material compliance with the terms and requirements of such Government Contract. No event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a material violation or breach of, or give the Company or any other Person the right to declare a material default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify any Government Contract. There are no renegotiations, attempts to renegotiate or outstanding rights to negotiate any amount to be paid or payable to or by the Company under any Government Contract other than with respect to non-material amounts in the Ordinary Course of Business, and no Person has made a written demand for such renegotiation. There are no price adjustments required or expected under any Government Contract except as set forth therein. The Company or Seller have not released or waived any of its rights under any Government Contract.

(3) To the Seller's Knowledge, the Company or the Seller have not received any adverse or negative government past performance evaluation or rating that could reasonably be expected to materially and adversely affect the evaluation by the Government Authority or other potential customer of the Company's bids or proposals for future Government Contracts.

(4) No past performance evaluation received by the Company or the Seller with respect to any Government Contract has set forth a default or other failure to perform thereunder or termination or default thereof. There has not been any withholding or setoff under any Current

Government Contract. All invoices and claims (including, without limitation, requests for progress payments and provisional costs payments) submitted under each Government Contract were current, accurate and complete in all material respects as of their submission date. The Company or the Seller have not received any written or, to Seller's Knowledge, oral notice terminating any of the Current Government Contracts for convenience or indicating an intent to terminate any of the Current Government Contracts for convenience.

(5) None of the Company, the Seller or their respective Affiliates, managers, members, directors, officers or employees has been debarred, suspended or proposed for suspension or debarment from bidding on any Government Contract, declared nonresponsible or ineligible or otherwise excluded from participation in the award of any Government Contract. No debarment, suspension or exclusion proceeding has ever been initiated against the Company, the Seller or its respective Affiliates, managers, members, directors, officers or employees. To Seller's Knowledge, no circumstances exist that could reasonably be expected to warrant the institution of suspension or debarment proceedings against the Company, the Seller or their respective Affiliates, managers, members, directors, officers or employees.

(p) Material Adverse Effects. Since the Financial Statement Date, and except as set forth in **Schedule 3.3(p)**, the Company has not suffered or been threatened with, and Seller has no Knowledge of any facts which may cause or result in, any Material Adverse Effect in the Business as currently conducted or as currently contemplated to be conducted, operations (including results of operations), assets, liabilities, or financial condition of the Company, including, without limiting the generality of the foregoing, any facts or circumstances that may have a Material Adverse Effect on the Company's Contracts, Government Contracts, grants from Governmental Authorities, eligibility to receive grants from Governmental Authorities, participation in the award of Government Contracts or in any programs of, or sponsored by, any Governmental Authority.

(q) Customers and Suppliers. **Schedule 3.3(q)** sets forth a list of all of the Company's Significant Customers and Significant Suppliers. Seller or the Company has no Knowledge of any intention or indication by a Significant Customer to terminate its business relationship with the Company or to limit or alter its business relationship with the Company in any material respect. Seller or the Company has no Knowledge of any intention or indication of intention by a Significant Supplier to terminate its business relationship with the Company or to limit or alter its business relationship with the Company in any material respect.

(r) Related Party Transactions. The Company or the Seller has not entered into any agreements, contracts, arrangements or other business relationships with any of the Related Parties other than normal employment arrangements. The Company is not owed and does not owe any amount from or to the Related Parties (excluding employee compensation and other ordinary incidents of employment). No property or interest in any property (including designs and drawings concerning machinery) which relates to and is or will be necessary or useful in the present or currently contemplated future operation of the Business, is presently owned by or leased by or to any Related Party. Neither the Company, the Seller nor any Related Party has an interest, directly or indirectly, in any business, corporate or otherwise, which is in competition with the Business.

(s) Permits. **Schedule 3.3(s)** contains a true and correct list of, and the Company possesses, all Permits which are required in order for the Company to conduct their Business as presently conducted or proposed to be conducted, including all Permits required pursuant to Government Contracts and all Permits required to participate in the grant programs in which the Company participates. Seller has delivered complete and accurate copies of each Permit to Purchaser.

(t) Charitable and Political Contributions. The Company has no unsatisfied community or charitable pledges, contributions or commitments, or any political pledges, contributions or commitments. **Schedule 3.3(t)** sets forth a true and complete list of all charitable and political contributions (whether in cash or in kind) made by the Company (or any of its Affiliates) since January 1, 2007. **Schedule 3.3(t)** sets forth a true and complete list of all amounts paid by the Company (or any of its Affiliates) to lobbyists or similar Persons (whether in cash or in kind) since January 1, 2007.

(u) Employee Benefit Plans.

(1) **Schedule 3.3(u)** sets forth a true and complete list of all Employee Plans of the Company. With respect to each Employee Plan, the Company has furnished to Purchaser, to the extent applicable, true and complete copies of (i) all plan documents, (ii) the most recent determination letter received from the IRS, (iii) the most recent application for determination filed with the IRS, (iv) the latest actuarial valuations, (v) the latest financial statements, (vi) the latest Form 5500 Annual Report, including all schedules and attachments thereto, (vii) all related trust agreements, insurance contracts or other funding arrangements which implement any of such Employee Plans and (viii) all Summary Plan Descriptions and summaries of material modifications and all modifications thereto communicated to employees.

(2) Each of the Employee Plans is, and has been, operated in accordance with its terms and each of the Employee Plans, and administration thereof, is, and has been, in material compliance with the requirements provided by any and all applicable statutes, orders or governmental rules or regulations currently in effect, including, but not limited to, ERISA, and the Code. Each Employee Plan and its related trust which is intended to qualify under Section 401(a) and Section 501(a) of the Code is so qualified and has heretofore been determined by the IRS so to qualify, and nothing has occurred to cause the loss of such qualification. All required reports and descriptions of the Employee Plans (including, but not limited to, Form 5500 Annual Reports, Form 1024 Application for Recognition of Exemption Under Section 501(a), Summary Annual Reports and Summary Plan Descriptions) have been timely filed and distributed as required by ERISA and the Code. Any notices required by ERISA or the Code or any other state or federal law or any ruling or regulation of any state or federal administrative agency with respect to the Employee Plans, including but not limited to any notices required by Section 204(h), Section 606 or Section 4043 of ERISA or Section 4980B of the Code, have been appropriately given.

(3) With respect to the Employee Plans, all required contributions for all periods ending on or before the Closing Date have been made in full.

(4) With respect to each Employee Plan (i) no prohibited transactions as defined in Section 406 of ERISA or Section 4975 of the Code have occurred or are expected to occur as a result of the transactions contemplated by this Agreement, (ii) no Action with respect to the assets thereof of any Employee Plan (other than routine claims for benefits made in the ordinary course of plan administration for which plan administrative review procedures have not been exhausted) is pending, threatened or imminent against or with respect to any of the Employee Plans, the Company, any ERISA Affiliate or any Fiduciary, including but not limited to any Action regarding conduct that allegedly interferes with the attainment of rights under any Employee Plan, and (iii) neither the Seller nor the Company has any Knowledge of any facts which would give rise to or could give rise to any such Action with respect to any Employee Plan. Neither the Company nor their directors, officers, or employees, or any Fiduciary have any Liability for failure to comply with ERISA or the Code for any action or failure to act in connection with the administration or investment of such plans.

(5) Neither the Company nor any ERISA Affiliate has ever maintained, established, sponsored, participated in, or contributed to (i) any Employee Plan subject to Title IV of ERISA; (ii) "multiemployer plan" within the meaning of Section (3)(37) of ERISA; (iii) any Employee Plan in which stock of the Company or any ERISA Affiliate is or was held as a plan asset; (iv) any plan, program, policy, practice, agreement or other arrangement that is subject to the laws of a country other than the United States; or (v) any Employee Plan intended to be exempt under Section 501(c)(9) or 501(c)(17) of the Code.

(6) Neither the Company nor any ERISA Affiliate maintains, contributes to, or has any Liability for medical, health, life insurance, or other welfare benefits for terminated employees or for present employees after termination of their employment (other than any welfare benefits provided in compliance with Section 4980B of the Code, Section 601 of ERISA or other applicable law). The Company does not have any current or projected Liability with respect to post-employment or post-retirement welfare benefits for retired, former, or current employees of the Company.

(7) Except as set forth in Schedule 3.3(u), neither the Company nor any ERISA Affiliate has any obligation to or customary arrangement with employees for bonuses, incentive compensation, vacations, severance pay, insurance, or other benefits. Except as set forth on Schedule 3.3(u), and except as expressly required or provided by this Agreement or as otherwise required by applicable laws, the execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Employee Plan, employment agreement between the Company and any current or former employee, trust or loan that will or may result (either alone or in connection with any other circumstance or event) in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any current or former employee of the Company. The transactions contemplated by this Agreement will not cause the Company to lose a tax deduction pursuant to Section 280G of the Code or cause any service provider or shareholder of the Company to be subject to the excise tax under Section 4999 of the Code.

(8) To the Knowledge of Seller, the Company and any ERISA Affiliate have, prior to the Closing, complied with the health care continuation requirements of COBRA, the requirements of the FMLA, the requirements of HIPAA, and any similar provisions of state law applicable to the employees of the Company and its ERISA Affiliates.

(9) Any Employee Plans that constitute or include a nonqualified deferred compensation plan within the meaning of Section 409A of the Code (each a "409A Plan") has been amended to comply, and operated in accordance, with the requirements of Section 409A of the Code so as to avoid the imposition of taxation under Section 409A(a)(1) of the Code. Neither the Company nor any ERISA Affiliate has any obligation with respect to the failure of any 409A Plan to satisfy the foregoing requirements, including but not limited to any tax withholding and reporting obligation or any obligation to make any payments to an individual covered by a 409A Plan that does not satisfy the requirements of Section 409A of the Code. No 409A Plan or other Employee Plan has been funded in a manner subject to Section 409A(b) or is otherwise described in or subject to Section 409A(b) or Section 457A of the Code. Since January 1, 2009, all Employee Plans have been in documentary compliance with the applicable provisions of Section 409A. Neither the Company nor any ERISA Affiliate has any indemnity or gross-up obligation for any Taxes or interest imposed or accelerated under Section 409A of the Code. For any Employee Plan that is not intended to be subject to Section 409A because it is not a nonqualified deferred compensation plan under Treasury Regulations Section 1.409A-1(a)(2) through 1.409A-1(a)(5), or due to the application of Treasury Regulations Section 1.409A-1(b), all the conditions required to retain such treatment remain in effect and are not reasonably expected to change so as to subject such Employee Plan to Section 409A.

(10) Neither the Company nor any ERISA Affiliate have participated in any filings, or considered any filings, with the IRS or the Department of Labor under the Employee Plans Compliance Resolution Program, the Department of Labor Voluntary Fiduciary Correction Program, the Delinquent Filer Voluntary Compliance Program for late Form 5500s or any other governmental correction programs, except as identified in Schedule 3.3(v).

(v) Employee Relations. With respect to the employees of the Company:

(1) To Seller's Knowledge, no employee of the Company or the Seller has any claim against the Company (whether under law, any employment agreement or otherwise) on account of or for: (A) overtime pay, other than overtime pay for the current payroll period, (B) wages or salaries, other than wages or salaries for the current payroll period, or (C) vacations, sick leave, time off or pay in lieu of vacation, sick leave or time off, other than vacation, sick leave or time off (or pay in lieu thereof) earned in the twelve (12) month period immediately prior to the date of this Agreement. The Company has made all required payments to the relevant unemployment compensation reserve account with the appropriate Governmental Authorities with respect to their employees and such accounts have positive balances.

(2) Schedule 3.3(v) contains a true and correct list of all employees of the Company as of the date of this Agreement whose annual compensation exceeds \$50,000, together with their respective base salaries, bonuses, and positions. The Disclosure Schedule correctly states the number of employees laid off by the Company in the ninety (90) days preceding the date hereof. To Seller's Knowledge, no employee of the Company is an undocumented alien.

(3) The employees and former employees of the Company who have (or have had) access to confidential or proprietary information of the Company have executed confidentiality and assignment of inventions forms which, to Seller's Knowledge, are adequate to protect the Company's proprietary interest therein.

(4) No employee of the Company is a party to, or is otherwise bound by, any agreement, including any confidentiality, non-competition or proprietary rights agreement, between such employee and the Company or, to Seller's Knowledge, any other Person that materially adversely affects or will affect the performance of that employee's duties as an employee of the Company following the Closing.

(w) Litigation and Claims. Except as described on Schedule 3.3(w), there are no Actions, in law or in equity, and there are no Actions before any Governmental Authority, pending or, to Seller's Knowledge, threatened against the Company, or any of the Company's officers, directors or Affiliates, with respect to or affecting the Company's operations, Business or Assets, or with respect to the consummation of the transactions contemplated hereby. To Seller's Knowledge, there are no facts which, if known by a potential claimant or Governmental Authority, would give rise to an Action which, if asserted or conducted with results unfavorable to Seller, may have a Material Adverse Effect. The Company is not a party to, or bound by, any decree, order or arbitration award (or agreement entered into in any administrative, judicial or arbitration proceeding with any Governmental Authority) with respect to or affecting the Company's operations, Business or Assets.

(x) Warranties. The Company or the Seller have not made any oral or written warranties with respect to the quality of the products or services which it has sold or performed which are in force as of the date hereof, except for those warranties which are described in Schedule 3.3(x). There are no claims pending or, to Seller's Knowledge, anticipated or threatened against the Company with respect to the quality of such products or services. The Disclosure Schedule sets forth a true and correct

summary of all claims since January 1, 2007 with respect to the quality of the Company's products and services, and all credits and allowances given to customers during such period with respect thereto. The Company or the Seller have not been required to pay any damages to any Person in connection with any of the products or services provided by the Company at any time since January 1, 2007.

(y) Compliance with Laws. Except as set forth on **Schedule 3.3(y)**, the Company or the Seller are not (and since January 1, 2007 have not been) in violation of, or delinquent in respect to, any decree, order or arbitration award or law, statute, or regulation of or agreement with, or any Permit from, any Governmental Authority to which the property, assets, personnel or Business activities of the Company is subject, including federal, state or local laws, statutes and regulations relating to equal employment opportunities, fair employment practices, occupational health and safety, wages and hours, discrimination, political elections and political contributions. Since January 1, 2007, the Company or the Seller have not received from any Governmental Authority any written notification with respect to possible noncompliance of any decree, order, writ, judgment or arbitration award or law, statute, regulation or agreement.

(z) Environmental Matters. The Company is in compliance, in all material respects, with all applicable Environmental Laws and possesses and is in compliance, in all material respects, with all Environmental Permits which are required for the operation of its Business. The Company or the Seller have not received any communication alleging that the Company is not, or since January 1, 2007 was not, in compliance with any applicable Environmental Laws or Environmental Permits. There is no Environmental Claim pending or, to Seller's Knowledge, threatened against the Company. Neither the Company nor Seller has received any notice from any Person of potential or actual Liability or a written request for information from any Person under or relating to CERCLA or any comparable state or local law.

(aa) Real Estate.

(1) The Company sub-leases the real property described on **Schedule 3.3(aa)**.

(bb) Intellectual Property.

(1) **Schedule 3.3(bb)** contains a complete and accurate list of all (A) patented or registered Intellectual Property Rights owned or used by the Company, (B) pending patent applications and applications for other registrations of Intellectual Property Rights filed by or on behalf of the Company and (C) material unregistered Intellectual Property Rights owned or used by the Company. **Schedule 3.3(bb)** also contains a complete and accurate list of all licenses and other rights granted by the Company to any third party with respect to any Intellectual Property Rights and all licenses and other rights granted by any third party to the Company with respect to any Intellectual Property Rights, in each case identifying the subject Intellectual Property Rights. The Company owns and possesses all right, title and interest to, or has the right to use pursuant to a valid and enforceable license, all Intellectual Property Rights necessary for the operation of the Business of the Company as presently conducted and as presently proposed to be conducted, free and clear of all Claims. Without limiting the generality of the foregoing, the Company owns and possesses all right, title and interest in and to all Intellectual Property Rights created or developed by the Company's employees and independent contractors or under the direction or supervision of the Company's or employees or independent contractors relating to the businesses of the Company. The Company has taken all reasonable necessary steps to maintain and protect the Intellectual Property Rights which it owns and uses.

(2) Except as set forth on Schedule 3.3(bb), (A) there have been no claims made against the Company asserting the invalidity, misuse or unenforceability of any of the Intellectual Property Rights owned or used by the Company, to Seller's Knowledge, there is no basis for any such claim, (B) neither the Company nor the Seller has received any notices of, and has no Knowledge of any facts which indicate a reasonable likelihood of, any infringement or misappropriation by, or conflict with, any third party with respect to any Intellectual Property Rights (including any demand or request that the Company license any rights from a third party), (C) to Seller's Knowledge, the conduct of the Company's Business has not infringed, misappropriated or conflicted with and does not infringe, misappropriate or conflict with any Intellectual Property Rights of other Persons, (D) the Company has the right to use and license the Intellectual Property Rights, free and clear of any claim or conflict with the rights of others, (E) no royalties, honorariums or fees are payable by the Company to any person by reason of the ownership or use of any of the Intellectual Property Rights, (F) to the extent that any item constituting part of the Intellectual Property Rights has been registered with, filed in or issued by, any Governmental Authority, such registrations, filings or issuances are listed on the Schedule 3.3(bb) and were duly made and remain in full force and effect and (G) to the extent any of the Intellectual Property Rights constitutes proprietary or confidential information, the Company has adequately safeguarded such information from disclosure. The transactions contemplated by this Agreement will not have a Material Adverse Effect on the Company's right, title or interest in and to the Intellectual Property Rights listed on Schedule 3.3(bb) and all of such Intellectual Property Rights shall be owned or available for use by the Company on identical terms and conditions immediately after the Closing.

(3) Except as set forth on Schedule 3.3(bb), no open source source code, freeware, libraries or any source code subject to any open source license or any other license requiring the disclosure of source code, has been used to create any software that is owned by the Company and distributed to any Person. Except as set forth on Schedule 3.3(bb), the Company is not a party to any agreement requiring the deposit of any source code with an escrow agent or escrow service.

(cc) Improper Payments. Neither the Company nor the Seller nor any of their respective former or current officers, directors, shareholders, partners, members, employees, agents or representatives has made, directly or indirectly, with respect to the Business, any bribes or kickbacks, illegal political contributions, payments from corporate funds not recorded on the books and records of the Company, payments to officials of Governmental Authorities for the purpose of affecting their action or the action of the Governmental Authority they represent, to obtain favorable treatment in procuring business, grants, Contracts or licenses or to obtain special concessions or otherwise obtain favorable treatment or other payments to obtain or retain business, Contracts, grants, special concessions or favorable treatment from a Governmental Authority. Without limiting the generality of the foregoing, neither the Company nor the Seller nor any of their respective former or current officers, directors, shareholders, partners, members, employees, agents or representatives, directly or indirectly, has made or agreed to make (whether or not said payment is lawful) any payment to obtain, or with respect to, sales or procurement of business other than usual and regular compensation to its employees and representatives with respect to such sales or procurement of business.

(dd) Brokers. Neither Seller, any of its Affiliates nor the Company have dealt with any Person who is entitled to a broker's commission, finder's fee, investment banker's fee or similar payment from Purchaser or the Company for arranging the transactions contemplated hereby or introducing the parties to each other.

3.4 Limitation on Warranties. Except as expressly set forth in **Sections 3.2 and 3.3**, the parties make no other express or implied warranties of any kind whatsoever.

ARTICLE IV
Actions Prior to the Closing Date; Conditions Precedent

4.1 Actions Prior to the Closing Date. The respective parties hereto covenant and agree to take the following actions between the date hereof and the Closing Date:

(a) Investigation of the Company by Purchaser. The Company shall afford the officers, employees and authorized representatives of Purchaser (including, without limitation, independent public accountants and attorneys) complete access to the offices, properties, employees and business and financial records (including computer files, retrieval programs and similar documentation) of the Company to the extent Purchaser shall deem necessary or desirable. If requested, the Company or Seller shall provide legible copies to the Purchaser's representatives of any and all documents, documentation or information related to this transaction. No investigation made by Purchaser or its representatives hereunder shall affect the representations and warranties of the Seller or the Company hereunder.

(b) Preserve Accuracy of Representations and Warranties. Each of the parties hereto shall refrain from taking any action which would render any representation or warranty contained in **Article 3** of this Agreement inaccurate as of the Closing Date.

(c) Operations Prior to the Closing Date. The Seller and the Company shall enter into a management agreement with the Purchaser for the operation and administration of the Business in the Ordinary Course of Business.

(d) Notification by the Company and the Seller of Certain Matters. During the period prior to the Closing Date, the Company and the Seller will promptly advise Purchaser in writing of: (i) any adverse change in the condition of the Shares, Assets or the Business or any change in any of the information set forth in the Disclosure Schedule; (ii) any notice or other communication from any third Person alleging that the consent of such third Person is or may be required in connection with the transactions contemplated by this Agreement; and (iii) any default under any of the Contracts, Real Property Leases or Personal Property Leases or event which, with notice or lapse of time or both, would become such a default on or prior to the Closing Date.

(e) Best Efforts. Each of the parties will use their best efforts to take all action and to do all things necessary in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction of the closing conditions set forth in this **Article 4**). This **Section 4.1(e)** shall not be construed to obligate any of the parties to waive any condition precedent to perform any obligations hereunder.

(f) Consents of Third Parties; Governmental Approvals. The Company, the Seller and Purchaser shall cooperate and act diligently and reasonably to secure, before Closing, the consent, approval or waiver, in form and substance reasonably satisfactory to Purchaser, from any party to any of the Contracts including without limitation any leases for real or personal property or any Governmental Authority required to be obtained to assign or transfer any such agreements to Purchaser or to otherwise satisfy the conditions set forth in **Section 4.2**; and provided, that the Company and the Seller shall not make any agreement or understanding affecting the Shares, Assets or the Business or the matters set forth on the Disclosure Schedule as a condition for obtaining any such consents or waivers except with the prior written consent of Purchaser. During the period prior to Closing, Purchaser shall act diligently and reasonably to cooperate with the Company and the Seller to obtain the consents, approvals and waivers contemplated by this Section.

(g) Payment of Indebtedness. The Seller will cause all indebtedness owed to the Company by the Seller to be paid in full prior to Closing. The Seller shall cause forgiveness of all indebtedness owed by Company to the Seller, its Affiliates, key employees, principals, or major investors including, without limitation, the Key Employees.

4.2 Conditions Precedent to Obligations of Purchaser. The obligations of Purchaser under this Agreement shall, at the option of Purchaser, be subject to the satisfaction, on or prior to Closing, of the following conditions:

(a) No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by the Company or the Seller in the performance of any of their covenants and agreements herein; each of the representations and warranties of the Seller contained or referred to in this Agreement shall be true and correct on the Closing Date in all respects, except for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by Purchaser or any transaction contemplated by this Agreement; and there shall have been delivered to Purchaser a certificate to such effect, dated the Closing Date, signed by the President of the Company on behalf of the Company and by the Seller.

(b) No Changes or Destruction of Property. As of the Closing Date, there shall have been: (i) no adverse change in the Shares, Assets, the Business or the operations, Liabilities, profits, prospects or condition (financial or otherwise) of the Company; (ii) no adverse federal or state legislative or regulatory change affecting the Shares, the Assets, the Business or its products or services; and (iii) no damage to the Assets by fire, flood, casualty, act of God or public enemy or other cause, regardless of insurance coverage for such damage; and there shall have been delivered to Purchaser a certificate to such effect, dated the Closing Date and signed by the President of the Company on behalf of the Company and the Seller.

(c) No Restraint or Litigation. No action, suit, investigation or proceeding shall have been instituted or threatened to restrain or prohibit or otherwise challenge the legality or validity of the transactions contemplated by this Agreement and there shall be no litigation filed by any of Seller's shareholders pursuant to Seller's shareholders agreement or any dissenter's rights statutes; and there shall have been delivered to Purchaser a certificate to such effect, dated the Closing Date and signed by the President of the Company and the Seller on behalf of the Company and the Seller.

(d) Necessary Governmental Approvals. The parties shall have received all approvals and actions of or by all Governmental Authorities including without limitation approval from the Florida Office of Insurance Regulation which are necessary to consummate the transactions contemplated by this Agreement, which are required to be obtained prior to the Closing by applicable laws and regulations or which are necessary to prevent an adverse change in the Shares, the Assets or the Business or the operations, Liabilities, profits, prospects or condition (financial or otherwise) of the Company.

(e) Necessary Consents. The Company and the Seller shall have received all consents, in form and substance reasonably satisfactory to Purchaser, from the other parties to the Contracts to which the Company is a party or by which the Company or any of the Shares, the Assets or the Business is affected or are otherwise necessary to prevent an adverse change in the Shares, the Assets or the Business or in the operations, Liabilities, profits, prospects or condition (financial or otherwise) of the Company.

4.3 Conditions Precedent to Obligations of Seller. The obligations of Seller under this Agreement shall, at the option of Seller, be subject to the satisfaction, on or prior to Closing, of the following conditions:

(a) **No Misrepresentation or Breach of Covenants and Warranties.** There shall have been no material breach by Purchaser in the performance of any of its covenants and agreements herein; each of the representations and warranties of Purchaser contained or referred to in this Agreement shall be true and correct on the Closing Date in all material respects, except for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by the Company or the Seller or any transaction contemplated by this Agreement; and there shall have been delivered to Seller a certificate to such effect, dated the Closing Date and signed on behalf of Purchaser.

(b) **No Restraint or Litigation.** No action, suit or proceeding by any Governmental Body shall have been instituted or threatened to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated by this Agreement; and there shall have been delivered to Seller a certificate to such effect, dated the Closing Date and signed on behalf of Purchaser.

(c) **Necessary Governmental Approvals.** The parties shall have received all approvals and actions of or by all Governmental Authorities necessary to consummate the transactions contemplated by this Agreement, which are required to be obtained prior to Closing by applicable laws and regulations.

ARTICLE V

Termination

5.1 Mutual Termination of Agreement. The parties may terminate this Agreement by mutual written consent at any time prior to the Closing Date.

5.2 Termination of Agreement by Purchaser. Purchaser may terminate this Agreement by giving written notice to Seller at any time prior to the Closing Date: (a) in the event the Seller or the Company has breached any representation, warranty, or covenant contained in this Agreement in any respect, Purchaser has notified Seller of the breach, and the breach has continued without cure for a period of five (5) days after the notice of breach; or (b) if the Closing shall not have occurred on or before June 30, 2011, by reason of the failure of any condition precedent under **Section 4.2** hereof, (unless the failure results primarily from Purchaser breaching any representation or warranty, contained in this Agreement).

5.3 Termination of Agreement by Seller. Seller may terminate this Agreement by giving written notice to Purchaser at any time prior to the Closing Date: (a) in the event Purchaser has breached any representation, warranty, or covenant contained in this Agreement in any material respect, Seller has notified Purchaser of the breach, and the breach has continued without cure for a period of five (5) days after the notice of breach; or (b) if the Closing shall not have occurred on or before June 30, 2011, by reason of the failure of any condition precedent under **Section 4.3** hereof (unless the failure results primarily from the Company or the Seller breaching any representation or warranty, contained in this Agreement).

5.4 Effect of Termination. If any party terminates this Agreement pursuant to **Section 5.2** or **Section 5.3** above, all rights and obligations of the parties hereunder shall terminate without any liability of any party to any other party (except for any liability of any party then in breach).

ARTICLE VI
Post-Closing Agreements

6.1 Post-Closing Agreements. From and after the Closing, the parties shall have the respective rights and obligations which are set forth in the remainder of this **ARTICLE VI**.

6.2 Inspection of Records. Seller shall make its respective books and records (including work papers in the possession of their respective accountants, attorneys, business professionals and consultants) with respect to the Company available for inspection by the Purchaser, or by its duly accredited representatives, for reasonable business purposes at all reasonable times during normal business hours, for a five (5) year period after the Closing Date, with respect to all transactions of the Company occurring prior to and relating to the Closing, and the historical financial condition, assets, liabilities, operations and cash flows of the Company. As used in this **Section 6.2**, the right of inspection includes the right to make extracts or copies.

6.3 Use of Trademarks. Seller shall not use and shall not license or permit any third party to use, any name, slogan, logo or trademark which is deceptively similar to any of the names or trademarks used in connection with the Business of the Company.

6.4 Payments of Accounts Receivable. In the event the Seller shall receive any instruments of payment of any of the Accounts Receivable, Seller shall forthwith deliver such instruments to Purchaser, endorsed where necessary, without recourse, in favor of Purchaser.

6.5 Third Party Claims. The parties shall cooperate with each other with respect to the defense of any Third Party Claims subsequent to the Closing Date which are not subject to the indemnification provisions contained in **ARTICLE VII**, provided that the party requesting cooperation shall reimburse the other party for the other party's reasonable out-of-pocket costs and expenses of furnishing such cooperation.

6.6 Non-Competition; Non-Solicitation; Confidentiality. In consideration of the benefits of this Agreement to the Seller and in order to induce Purchaser to enter into this Agreement, the Seller hereby covenants and agrees as follows:

(a) From and after the Closing and until the one (1) year anniversary of the Closing Date, neither the Seller nor its Affiliates, or its Key Employees shall, directly or indirectly, as a partner, stockholder, proprietor, consultant, joint venturer, investor or in any other capacity:

(1) engage in, or own, manage, operate or control, or participate in the ownership, management, operation or control of, any business or entity which engages anywhere in Florida in the Business or which contracts with Assurant for any services; provided, however, that nothing herein shall prohibit the Seller, its Affiliates and Key Employees from owning, in the aggregate, not more than five percent (5%) of any class of securities of a publicly traded entity in any of the portion of the Business so long as neither the Seller nor any of its Affiliates participate in any way in the management, operation or control of such entity; or

(2) solicit any customer of the Company to purchase products or services which could be provided by the Company on a commercially reasonable basis.

(b) From and after the Closing and until the five (5) year anniversary of the Closing Date, neither the Seller nor its Affiliates, or its Key Employees shall, directly or indirectly, as a partner, stockholder, proprietor, consultant, joint venturer, investor or in any other capacity: hire or solicit to perform

services from (as an employee, consultant or otherwise) any Persons who are or, within the one (1) year period immediately preceding the Closing Date were, employees of the Company, Purchaser or any of Purchaser's Affiliates or take any actions which are intended to persuade any such employees to terminate his or her association with the Company, Purchaser or any of Purchaser's Affiliates; provided, however, that general solicitations of employment published in a journal, newspaper or other publication of general circulation and not specifically directed towards such employees shall not be deemed to constitute solicitation for purposes of this subparagraph (b);

(c) From and after the Closing, the Seller and its Affiliates, and its Key Employees, principals, or major investors including, without limitation, Charles O'Neill, Andrew Cassidy and Henry Neely shall keep confidential and not disclose to any other Person or use for their own benefit or the benefit of any other Person, any information regarding the Company. The obligation of the Seller and its Affiliates, key employees, principals, or major investors including, without limitation, Charles O'Neill, Andrew Cassidy and Henry Neely under this paragraph (b) shall not apply to information which: (1) is or becomes generally available to the public without breach of the commitment provided for in this paragraph (c); or (2) is required to be disclosed by law, order or regulation of a court or tribunal or Governmental Authority; provided, however, that in any such case, the disclosing party shall notify Purchaser as early as reasonably practicable prior to disclosure to allow Purchaser to take appropriate measures to preserve the confidentiality of such information;

(d) The Seller acknowledges that, given the nature of the business of the Company, the covenants contained in this **Section 6.6** contain reasonable limitations as to time, geographical area and scope of activity to be restrained, and do not impose a greater restraint than is necessary to protect and preserve for the benefit of Purchaser the goodwill of the Company and to protect the legitimate business interests of Purchaser. If, however, this **Section 6.6** is determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too long a period of time or over too large a geographic area or by reason of its being too extensive in any other respect or for any other reason it will be interpreted to extend only over the longest period of time for which it may be enforceable or over the largest geographical area as to which it may be enforceable or to the maximum extent in all other aspects as to which it may be enforceable, all as determined by such court and in such action. The Seller agrees that Purchaser's remedies at law for any breach or threat of breach by the Seller of the provisions of this **Section 6.6** will be inadequate, and that Purchaser shall be entitled to an injunction or injunctions, without the necessity for the posting of a bond or other collateral security, to prevent breaches of the provisions of this **Section 6.6** and to enforce specifically the terms and provisions hereof.

Notwithstanding the foregoing, section 6.6(a)(1) shall not apply to Inter-Atlantic or its Affiliates.

6.7 **Further Assurances.** The parties shall execute such further documents, and perform such further acts, as may be necessary to transfer and convey the Shares and Assets to Purchaser, on the terms herein contained, and to otherwise comply with the terms of this Agreement and consummate the transactions contemplated hereby.

ARTICLE VII

Indemnification

7.1 **General.** From and after the Closing, the parties shall indemnify each other as provided in this **ARTICLE VII**. No specifically enumerated indemnification obligation with respect to a particular subject matter as set forth below shall limit or affect the applicability of a more general indemnification obligation as set forth below with respect to the same subject matter.

7.2 Seller's Indemnification Obligations. Seller shall indemnify, save and keep each Purchaser Indemnatee harmless against and from all Damages sustained or incurred by any Purchaser Indemnatee, as a result of, or arising out of, or by virtue of:

(a) any inaccuracy in or breach of any representation and warranty made by the Seller to Purchaser herein or in any closing document delivered to Purchaser in connection herewith; and

(b) the breach by Seller of, or failure of Seller to comply with, any of the covenants or obligations under this Agreement to be performed by the Seller (including its obligations under this **ARTICLE VII**).

7.3 Purchaser's Indemnification Obligations. Purchaser shall indemnify, save and keep the Seller Indemnatee harmless against and from all Damages sustained or incurred by any Seller Indemnatee, as a result of or arising out of or by virtue of:

(a) any inaccuracy in or breach of any representation and warranty made by Purchaser to Seller herein or in any closing document delivered to Seller in connection herewith; or

(b) any breach by Purchaser of, or failure by Purchaser to comply with, any of the covenants or obligations under this Agreement to be performed by Purchaser (including without limitation its obligations under this **ARTICLE VII**).

7.4 Cooperation. Subject to the provisions of **Section 7.5**, the Indemnified Party shall have the right, at its own expense, to participate in the defense of any Third Party Claim, and if said right is exercised, the parties shall cooperate in the investigation and defense of said Third Party Claim.

7.5 Third Party Claims. The following provisions shall govern the defense and settlement of Third Party Claims:

(a) Forthwith following the receipt of notice of a Third Party Claim, the party receiving the notice of the Third Party Claim shall (i) notify the other party of its existence setting forth with reasonable specificity the facts and circumstances of which such party has received notice and (ii) if the party giving such notice is an Indemnified Party, specifying the basis hereunder upon which the Indemnified Party's claim for indemnification is asserted. Upon receipt of such notice, the Indemnifying Party may elect to assume the defense of a Third Party Claim with counsel satisfactory to the Indemnified Party by giving a written ten (10) day notice to the Indemnified Party of its election to assume the defense of the Third Party Claim.

(b) If the Indemnifying Party assumes the defense of the Third Party Claim, then, except as hereinafter provided, the Indemnified Party shall not, and the Indemnifying Party shall, have the right to contest, defend, litigate or settle such Third Party Claim. Notwithstanding the foregoing provisions of this **Section 7.5**, the Indemnifying Party shall not be entitled to assume and thereafter conduct the defense of the Third Party Claim if (i) the claim for indemnification relates to or arises in connection with any criminal proceeding, Action, indictment, allegation or investigation, or (ii) the claim seeks an injunction or equitable relief against the Indemnified Party. The Indemnified Party shall have the right to be represented by counsel at its own expense in any contest, defense, Action or settlement conducted by the Indemnifying Party provided that the Indemnified Party shall be entitled to reimbursement therefor if the Indemnifying Party shall not have the right, or shall lose its right, to contest, defend, litigate and settle the Third Party Claim as herein provided. The Indemnifying Party shall lose its right to defend and settle the Third Party Claim if it shall fail to diligently contest the Third Party Claim.

(c) So long as the Indemnifying Party has, and has not lost, its right or obligation to contest, defend, litigate and settle as herein provided, the Indemnifying Party shall have the exclusive right to contest, defend and litigate the Third Party Claim and shall have the exclusive right, in its discretion exercised in good faith, and upon the advice of counsel, to settle any such matter, either before or after the initiation of litigation, at such time and upon such terms as it deems fair and reasonable, provided that at least ten (10) days prior to any such settlement, written notice of its intention to settle shall be given to the Indemnified Party. All expenses (including without limitation attorneys' fees) incurred by the Indemnifying Party in connection with the foregoing shall be paid by the Indemnifying Party. Notwithstanding the foregoing, in connection with any settlement negotiated by an Indemnifying Party, no Indemnified Party shall be required by an Indemnifying Party to (w) enter into any settlement that does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a release from all Liability in respect of such Action, (x) enter into any settlement that attributes by its terms Liability to the Indemnified Party or admits wrongdoing, fault or violation of law on the part of the Indemnified Party, (y) enter into a settlement that imposes any obligation or restriction upon the Indemnified Party (other than customary releases reasonably acceptable to the Indemnified Party), or (z) consent to the entry of any judgment that does not include as a term thereof a full dismissal of the Action with prejudice or involves the granting of injunctive or equitable relief against any indemnified party. No failure by an Indemnifying Party to acknowledge in writing its indemnification obligations under this **ARTICLE VII** shall relieve it of such obligations to the extent they exist.

(d) If an Indemnified Party is entitled to indemnification against a Third Party Claim, and the Indemnifying Party fails to accept a tender of, or assume, the defense of a Third Party Claim pursuant to this **Section 7.5**, or if, in accordance with the foregoing, the Indemnifying Party shall not have, or shall lose, its right to contest, defend, litigate and settle such a Third Party Claim, the Indemnified Party shall have the right, without prejudice to its right of indemnification hereunder, in its discretion exercised in good faith and upon the advice of counsel, to contest, defend and litigate such Third Party Claim, and may settle such Third Party Claim, either before or after the initiation of litigation, at such time and upon such terms as the Indemnified Party deems fair and reasonable, provided that at least ten (10) days prior to any such settlement, written notice of its intention to settle is given to the Indemnifying Party. If, pursuant to this **Section 7.5**, the Indemnified Party so contests, defends, litigates or settles a Third Party Claim, for which it is entitled to indemnification hereunder as hereinabove provided, the Indemnified Party shall be reimbursed by the Indemnifying Party for the reasonable attorneys' fees and other expenses of defending, contesting, litigating or settling the Third Party Claim which are incurred from time to time, forthwith following the presentation to the Indemnifying Party of itemized bills for said attorneys' fees and other expenses.

7.6 Time Limitations. Seller shall have no liability (for indemnification or otherwise) with respect to any breach of a representation or warranty, or covenant or obligation to be performed or compiled with prior to the Closing Date, unless on or before the Survival Date, Purchaser notifies Seller of a claim in writing specifying the factual basis of that claim in reasonable detail to the extent then known by the Purchaser.

ARTICLE VIII

Miscellaneous

8.1 Publicity. Except as otherwise required by law, press releases and other publicity concerning this transaction shall be made only with the prior written agreement of the Seller and Purchaser (and in any event, the parties shall use all reasonable efforts to consult and agree with each other with respect to the content of any such required press release or other publicity).

8.2 Notices. All notices required or permitted to be given hereunder shall be in writing and may be delivered by hand, by facsimile, by nationally recognized private courier, or by United States mail. Notices delivered by mail shall be deemed given three (3) business days after being deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested. Notices delivered by hand by facsimile, or by nationally recognized private courier shall be deemed given on the first business day following receipt; provided, however, that a notice delivered by facsimile shall only be effective if such notice is also delivered by hand, or deposited in the United States mail, postage prepaid, registered or certified mail, on or before two (2) business days after its delivery by facsimile. All notices shall be addressed as follows:

If to Seller:

Avalon Healthcare Holdings, Inc.
3030 N. Rocky Point Drive, W. Suite 800
Tampa, Florida 33607
Attention: Charles T. O'Neil
Fax: () -

with a copy to:

Bush Ross, PA
1801 N. Highland Avenue
Tampa, Florida 33602
Attention: Joseph Probasco
Fax: (813) 223 - 9620

If to Purchaser:

Key Insurance Plans, Inc.
5440 Mariner Street, Suite 110
Tampa, Florida 33609
Attention: Dr. Bruce Frieman
Fax: (813) 288 - 8520

with a copy to:

DLA Piper, LP
101 East Kennedy Blvd, Suite 2200
Tampa, Florida 33602
Attention: Michael Bedke

GrayRobinson, P.A.
201 N. Franklin Street, Suite 2200
Tampa, Florida 33602
Attention: Tina Dunsford, Esquire
Fax: (813) 273-5000

Walroth-Sadurni Law
5201 Blue Lagoon Drive
Penthouse
Miami, Florida 33126

Attention: Stephen P. Walroth-Sadurni
e-Fax: (305) 675- 2331

or to such other respective addresses or addressees as may be designated by notice given in accordance with the provisions of this **Section 8.2**.

8.3 Expenses. Each party hereto shall bear all fees and expenses incurred by such party in connection with, relating to or arising out of the negotiation, preparation, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, including financial advisors', attorneys', accountants' and other professional fees and expenses.

8.4 Entire Agreement. This Agreement, and the instruments to be delivered by the parties pursuant to the provisions hereof constitute the entire agreement between the parties and shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns. Each Appendix, Exhibit, schedule and the Disclosure Schedule, shall be considered incorporated into this Agreement. Any amendments, or alternative or supplementary provisions, to this Agreement, must be made in writing and duly executed by an authorized representative or agent of each of the parties hereto.

8.5 Non-Waiver. The failure in any one or more instances of a party to insist upon performance of any of the terms, covenants or conditions of this Agreement, to exercise any right or privilege in this Agreement conferred, or the waiver by said party of any breach of any of the terms, covenants or conditions of this Agreement, shall not be construed as a subsequent waiver of any such terms, covenants, conditions, rights or privileges, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred. No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party.

8.6 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. This Agreement may be executed through the exchange of facsimile or pdf e-mail signature pages, which shall have the same legal effect as original signatures.

8.7 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, and, for purposes of such jurisdiction, such provision or portion thereof shall be struck from the remainder of this Agreement, which shall remain in full force and effect. This Agreement shall be reformed, construed and enforced in such jurisdiction so as to best give effect to the intent of the parties under this Agreement.

8.8 Applicable Law. This Agreement shall be governed and controlled as to validity, enforcement, interpretation, construction, effect and in all other respects by the internal laws of the state of Florida applicable to contracts made in that state, without giving effect to any choice of law or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of Florida.

8.9 Binding Effect; Benefit. This Agreement shall inure to the benefit of and be binding upon the parties hereto, and their successors and permitted assigns. Nothing in this Agreement, express or implied, shall confer on any Person other than the parties hereto, and their respective successors and

permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, including third party beneficiary rights.

8.10 Assignability. This Agreement shall not be assignable by the Seller without the prior written consent of Purchaser.

8.11 Rule of Construction. The parties acknowledge and agree that each has negotiated and reviewed the terms of this Agreement, assisted by such legal and tax counsel as they desired, and has contributed to its revisions. The parties further agree that the rule of construction that any ambiguities are resolved against the drafting party will be subordinated to the principle that the terms and provisions of this Agreement will be construed fairly as to all parties and not in favor of or against any party. The word "including" means "including, without limitation".

8.12 Governmental Reporting. Anything to the contrary in this Agreement notwithstanding, nothing in this Agreement shall be construed to mean that a party hereto or other Person must make or file, or cooperate in the making or filing of, any return or report to any Governmental Authority in any manner that such Person or such party reasonably believes or reasonably is advised is not in accordance with law.

8.13 Waiver of Trial by Jury. Each of the parties hereto waives the right to a jury trial in connection with any Action seeking enforcement of such party's rights under this Agreement.

8.14 Consent to Jurisdiction. This Agreement has been executed and delivered in and shall be deemed to have been made in the State of Florida. Seller and Purchaser each agree to the exclusive jurisdiction of any state or Federal court within the city of Tampa, Florida, with respect to any claim or cause of action arising under or relating to this Agreement, and waives personal service of any and all process upon it, and consents that all services of process be made by registered or certified mail, return receipt requested, directed to it at its address as set forth in **Section 8.2**, and service so made shall be deemed to be completed when received. Seller and Purchaser each waive any objection based on forum non conveniens and waive any objection to venue of any action instituted hereunder. Nothing in this paragraph shall affect the right of Seller or Purchaser to serve legal process in any other manner permitted by law.

8.15 Amendments. This Agreement shall not be modified or amended except pursuant to an instrument in writing executed and delivered on behalf of each of the parties hereto.

8.16 Headings. The headings contained in this Agreement are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement.

8.17 Approval of entire Agreement by Purchaser and Seller: This Agreement and any amendments are legally binding only by execution and approval of both Purchaser and Seller. If any Sections or Attachments of this Agreement have been amended those amended, will not be effective or legally binding until reviewed and approved by both Purchaser and Seller.

8.18 Change in Governing Law: If any applicable laws or regulations are enacted, amended, promulgated, repealed, or revised, whether or not retroactively, which affect any of the rights, duties, or obligation of the parties hereunder, this Agreement will be deemed amended to the extent required to remain in compliance with such laws and regulations, effective as of the date such laws or regulations become effective.

8.19 Breach and Injunction: In the event of an actual or threatened breach of this Agreement, Purchaser will be entitled to an injunction enforcing this Agreement in addition to all other remedies available by law. All rights, powers and remedies granted to either party by any particular term of this Agreement are in addition to, and not in limitation of, any rights, powers, or remedies which it has under any other term of this Agreement, at common law, at equity, by statute, or otherwise, and all such rights, powers and remedies may be exercised separately or concurrently, in such order and as often as may be deemed expedient by either party.

8.20 Attorneys' Fees. In the event of any action or proceeding arising out of or relating to this Agreement or the breach, termination, validity, interpretation, or enforcement of this Agreement, the prevailing party shall be entitled to recover all costs and reasonable attorneys' fees incurred, including, without limitation, costs and attorneys' fees incurred in any investigations, trials, bankruptcy or insolvency proceedings and appeals.

8.21 Duplicate Agreements. This Agreement may be executed in one or more counter-parts, each of which shall be deemed an original but all together will constitute one and the same instrument.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Stock Purchase Agreement on the date first above written.

SELLER:

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles D. O'Neill
Name: Charles D. O'Neill
Title: CEO/President

PURCHASER:

CUSP, LLC

By: [Signature]
Name: PELO CALBERT
Title: MANAGER

APPENDIX A

DEFINITIONS

For purposes of this Agreement, the following terms have the meanings set forth below.

“Accounts Receivable” means all of the Company’s trade accounts receivable, notes receivable, negotiable instruments and chattel paper.

“Action” means any litigation, suit, action, proceeding, claim, demand, grievance, investigation, hearing, audit, order, decree, injunction, judgment, ruling, directive, charge, award, arbitration award or otherwise.

“Affiliate” with respect to any Person means any other Person who directly or indirectly Controls, is Controlled by, or is under common Control with such Person including in the case of any Person who is an individual, his or her spouse, any of his or her descendants (lineal or adopted) or ancestors, and any of their spouses.

“CERCLA” means Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

“Claims” means all options, proxies, voting trusts, voting agreements, judgments, pledges, charges, escrows, rights of first refusal or first offer, mortgages, indentures, claims, transfer restrictions, liens, equities, security interests and other encumbrances of every kind and nature whatsoever, whether arising by agreement, operation of law or otherwise.

“Closing” means the consummation of the transactions contemplated by this Agreement.

“COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

“Code” means the Internal Revenue Code of 1986, as amended.

“Contracts” means all contracts, leases, agreements and other instruments referred to in Section 3.3(o), and all of the other contracts, leases, agreements and other instruments referred to in this Agreement (including, without limitation, the licenses with respect to Intellectual Property Rights).

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through ownership of securities, by contract or otherwise.

“Damages” means all Actions, charges, complaints, Third Party Claims, demands, injunctions, judgments, orders, decrees, rulings, dues, Liabilities, obligations, Taxes, liens, assessments, levies, losses, diminution in value, fines, penalties, damages, costs, fees and expenses (including reasonable attorneys’, accountants’, investigators’, and experts’ fees and expenses incurred in investigating or defending any of the foregoing or the enforcement of this Agreement).

“Disclosure Schedule” means the schedules delivered by the Seller to Purchaser concurrently herewith and identified by the parties as the Disclosure Schedule.

“Employee Plan” means any bonus, pension, stock option, stock purchase, benefit, welfare, profit-sharing, retirement, disability, vacation, severance, hospitalization, insurance, incentive, deferred compensation and other similar fringe or employee benefit plans, funds, programs or arrangements, whether written or oral, in each of the foregoing cases which cover, are maintained for the benefit of, or relate to any or all current or former employees of the Company, and any other ERISA Affiliate.

“Environmental Claim” means any and all administrative, regulatory or judicial actions, suits, demands, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation (written or oral) by any Person alleging potential Liability (including potential liability for enforcement, investigation costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from: (a) the presence or Release into the environment of any Hazardous Substance; or (b) circumstances forming the basis of any violation or alleged violation of any Environmental Law; or (c) any and all claims by any Person seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Substances.

“Environmental Laws” means all federal, state or local statutes, laws, rules, ordinances, codes, rule of common law, regulations, judgments and orders in effect on the Closing Date and relating to protection of human health or the environment (including ambient air, surface water, ground water, drinking water, wildlife, plants, land surface or subsurface strata), including laws and regulations relating to Releases or threatened Releases of Hazardous Substances, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances.

“Environmental Permits” means all environmental, health and safety permits, licenses, registrations, and approvals and authorizations from Governmental Authorities.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means any affiliate of the Company as determined under Code section 414(b), (c), (m) or (o).

“Extended Representations and Warranties” means the representations and warranties contained in Sections 3.3(v) (Employee Benefit Plans), and 3.3(aa) (Environmental Matters).

“Fiduciary” means a fiduciary, as such term is defined in section 3(21) of ERISA,

“FMLA” means the Family Medical Leave Act of 1993, as amended.

“Financial Statement Date” means December 31, 2010.

“Financial Statements” means the audited consolidated balance sheets, consolidated statements of income and retained earnings, consolidated statements of cash flows and notes to financial statements (together with any supplementary information thereto) of the Company as of and for the years ended December 31, 2007, 2008, 2009 and 2010.

“Fundamental Representations and Warranties” means the representations and warranties contained in Sections 3.3(a) (Organization; Authority; Enforceability), 3.3(d) (Capitalization), 3.3(cc) (Improper Payments), and 3.3(dd) (Brokers).

“GAAP” means United States generally accepted accounting principles.

"Governmental Authority" means any (a) nation, state, county, city, town, borough, village, district or other jurisdiction; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any agency, branch, department, board, commission, court, tribunal or other entity exercising governmental or quasi-governmental powers); (d) multinational organization or body; (e) body exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power, or (f) official of any of the foregoing.

"Hazardous Substances" means: (a) any petroleum or petroleum products, radioactive materials, asbestos in any form, mold, mildew, transformers or other equipment that contain dielectric fluid containing regulated levels of polychlorinated biphenyls (PCBs) and radon gas; and (b) any chemicals, materials or substances which are now or ever have been defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or other words of similar import, under any Environmental Law.

"HIPAA" means the Health Insurance Portability and Accountability Act of 1996, as amended.

"Indebtedness" means all of the following: (a) all obligations of the Company for borrowed money or funded indebtedness or issued in substitution for or exchange for borrowed money or funded indebtedness (including obligations in respect of principal, accrued interest, and any applicable prepayment, breakage or other premiums, fees or penalties); (b) any indebtedness evidenced by any note, bond, debenture or other debt security or letters of credit (or reimbursement agreements in respect thereof); (c) any indebtedness representing the deferred and unpaid balance of the purchase price of any property or services, including capital lease obligations, in each case together with all accrued interest thereon and applicable prepayment, breakage or other premiums, fees or penalties; (d) any indebtedness guaranteed by the Company; (e) bank overdrafts and checks which have been written on an account of the Company but which have not cleared as of the Closing Date; and (f) any obligations with respect to the termination of any interest rate hedging or swap agreements.

"Indemnified Party" means, with respect to a particular matter, a Person who is entitled to indemnification from another party hereto pursuant to ARTICLE VII.

"Indemnifying Party" means mean, with respect to a particular matter, a party hereto who is required to provide indemnification under ARTICLE VII to another Person.

"Intellectual Property Rights" means all (i) foreign and domestic patents, patent applications, patent disclosures and inventions, (ii) Internet domain names, trademarks, service marks, trade dress, trade names, logos and corporate or company names (both foreign and domestic) and registrations and applications for registration thereof together with all of the goodwill associated therewith, (iii) copyrights (registered or unregistered) and copyrightable works (both foreign and domestic) and registrations and applications for registration thereof, (iv) mask works and registrations and applications for registration thereof, (v) computer software, data, data bases and documentation thereof, including rights to third party software used in the business, (vi) trade secrets and other confidential information (including ideas, formulas, compositions, inventions (whether patentable or unpatentable and whether or not reduced to practice), know how, manufacturing and production processes and techniques, research and development information, drawings, specifications, designs, plans, proposals, technical data, copyrightable works, financial and marketing plans and customer and supplier lists and information), (vii) other intellectual property rights and (viii) copies and tangible embodiments thereof (in whatever form or medium).

"Interim Financial Statement Date" means February 28, 2010.

"Interim Financial Statements" means consolidated balance sheet and consolidated statements of income and cash flows of the Company as of and for the 2 month period ended on the Interim Financial Statement Date.

"IRS" means the United States Internal Revenue Service.

"Key Employee" means Charles O'Neill, Andrew Cassidy and Henry Neely.

"Knowledge" means, when used with respect to the Seller, the actual knowledge of Charles O'Neill, Andrew Cassidy, and Henry Neely, after a reasonable inquiry as to the existence or absence of facts that are the subject of such statement, representation or warranty. An individual will be deemed to have "Knowledge" of a particular fact or other matter if (a) such individual is actually aware of such fact or other matter after such individual has made reasonable inquiry as to such fact or other matter or (b) a prudent individual could reasonably be expected to discover or otherwise become aware of such fact or other matter in the exercise of reasonable and prudent diligence and oversight. A Person (other than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving as a director, executive, officer, partner, executor or trustee of such Person (or in any similar capacity) has, or at anytime had, Knowledge of such fact or other matter.

"Liabilities" means any obligation or liability of the Company of any nature whatsoever (direct or indirect, matured or unmatured, absolute, accrued, contingent or otherwise), whether or not required by GAAP to be provided or reserved against on a balance sheet.

"Material Adverse Effect" means a material adverse effect on the business, operations (including results of operations), assets, liabilities or financial condition of the Company, taken as a whole, other than events, changes, effects, conditions or circumstances resulting from or relating to: (a) applicable economic or market conditions of the industries in which the Company operate, (b) any change in accounting requirements or principles or the interpretation thereof, (c) changes in national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack or any calamity or crisis, (d) any change in the financial, banking, credit, securities or commodities markets or prevailing interest rates of the United States or any other jurisdiction or (e) any adverse change, event, development or effect resulting from or relating to compliance with the terms of, or the taking of any action required by, this Agreement, so long as, in the case of clauses (a) through (d) such event, change, circumstance, condition or effect does not adversely affect Company in a materially disproportionate manner relative to similarly situated participants in the industries in which they operate.

"Net Profits" means the amount of cash earnings remaining after the Purchaser has paid all financial obligations including, without limitation, expenses, salaries, rent, taxes, and interest and Purchase has met the capital reserve requirements required by all federal and state regulatory agencies.

"OIR Approval" means the written consent and approval by the State of Florida, Office of Insurance Regulation, to the sale and transfer of the Shares from the Seller to the Purchaser as contemplated by this Agreement.

"Ordinary Course of Business" means an action taken by a Person only if that action: (a) is consistent in nature, scope and magnitude with the past practices of such Person and is taken in the ordinary course of the normal, day-to-day operations of such Person; (b) does not require authorization by the board of directors or shareholders of such Person; and (c) is similar in nature, scope and magnitude to actions customarily taken, without any authorization by the board of directors or shareholders (or by any

Person or group of Persons exercising similar authority), in the ordinary course of the normal, day-to-day operations of other Persons that are in the same or similar line of business as such Person.

"Organizational Documents" means (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the certificate of formation and limited liability company agreement, operating agreement, or like agreement of a limited liability company; (c) the partnership agreement and any statement of partnership of a general partnership; (d) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (e) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (f) any amendment to any of the foregoing.

"Permits" means all licenses, permits, registrations and approvals from or with a Governmental Authority other than the Environmental Permits.

"Permitted Liens" means (a) liens for Taxes and utilities that in each case are not yet due or are not in arrears and (b) construction, mechanics', carriers', workers', repairers' or other similar liens (inchoate or otherwise) if individually or in the aggregate they: (1) are not material; (2) arose or were incurred in the Ordinary Course of Business; (3) have not been filed, recorded or registered in accordance with applicable law; (4) notice of them has not been given to the Company; and (5) the indebtedness secured by them is not in arrears.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, bank, trust company, trust or other entity, whether or not legal entities, or any Governmental Authority.

"Purchase Price" means the aggregate purchase price of the Shares and the Assets.

"Purchaser Indemnitees" means Purchaser and its directors, managers, officers, members, shareholders, partners, agents, representatives, successors and assigns, and the term "Purchaser Indemnitee" means any one of the foregoing Purchaser Indemnitees.

"Related Parties" means the Company's present and former directors, managers, officers, members, shareholders, partners, and their respective Affiliates.

"Release" means any release, spill, emission, emptying, leaking, injection, deposit, disposal, discharge, dispersal, leaching, pumping, pouring, or migration into the atmosphere, soil, surface water, groundwater or property.

"Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes, and the term "Return" means any one of the foregoing Returns.

"Seller Indemnitees" means Seller and its directors, former directors, managers, officers, former officers, members, shareholders, partners, agents, representatives, successors and assigns, and the term "Seller Indemnitee" means any one of the foregoing Seller Indemnitees.

"Significant Customer" means any of the 20 largest customers of the Business, measured in terms of sales volume in dollars for the most recent fiscal year ended.

"Significant Supplier" means any supplier with respect to the Business from whom the Company has collectively purchased \$50,000 or more of goods or services during either of the two most recent fiscal years ended.

"Shares" means the Company's common stock, \$1.00 par value per share.

"Survival Date" means (a) for claims based on an alleged breach of any of the Fundamental Representations and Warranties, the date which is forty-five (45) days after the date on which the applicable statute of limitations would bar such claim, (b) for claims based on an alleged breach of any of the Extended Representations and Warranties, the date that is three (3) years after the Closing Date, and (c) for all other claims based on an alleged breach of a representation and warranty, or covenant or obligation to be performed or complied with prior to the Closing Date, the date that is thirty-six (36) months after the Closing Date.

"Taxes" means all federal, state, local, foreign and other taxes and tax assessments and tax charges, including without limitation all net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, value added, withholding, payroll, employment, unemployment, social security, excise, severance, stamp, occupation, premium, property, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, and any transferee liability in respect of any of the foregoing items, and the term "Tax" means any one of the foregoing Taxes.

"Third Party Claim" means any Action which is asserted or overtly threatened by a Person other than the parties hereto, their successors and permitted assigns, against any Indemnified Party or to which any Indemnified Party is subject.

**SCHEDULE A
TO THE
STOCK PURCHASE AGREEMENT
DATED AS OF _____, 2011
BY AND BETWEEN
AVALON HEALTHCARE HOLDINGS, INC.
AND CUSP, LLC**

ASSETS TO BE PURCHASED

All Tax Losses attributable to Company operations

All Furniture and Fixtures

All Computer Equipment including, without limitation, Servers

All Intellectual Property

**DISCLOSURE SCHEDULES
TO THE
STOCK PURCHASE AGREEMENT
DATED AS OF _____, 2011
BY AND BETWEEN
AVALON HEALTHCARE HOLDINGS, INC.
AND CUSP, LLC**

SCHEDULE 2.2
Provision Governing Payment of Purchase Price

Due to the financial condition of the Company, the parties have agreed that the Purchase Price referenced shall only be paid after twelve months and shall be adjusted according to the terms below:

(a) Purchaser shall cause the Company to pay, discharge and satisfy all Claims, Indebtedness and Liabilities of the Company accrued as of the Closing Date (the "Financial Obligations"). On the tenth (10th) day following the first anniversary of the Closing Date, Purchaser shall deliver to Seller a cashier's check in an amount equal to \$2,750,000.00 less the Financial Obligations paid by the Company during the preceding twelve month period; provided, however, such amount shall not exceed the Purchase Price. To clarify, any claim for healthcare services rendered on or before the Closing Date shall be deemed to be accrued and part of the Financial Obligations; however, any subsequent claim for healthcare services rendered after the Closing Date, regardless of whether related to a pre-existing medical condition of an insured, shall not be deemed a Financial Obligation.

(b) Purchaser shall cause the Company to pay all Financial Obligations between \$2,750,000.00 and \$3,200,000.00; provided however, Purchaser shall not be liable for any claims based on an alleged breach of any of the Fundamental Representations and Warranties or any claims based on an alleged breach of any of the Extended Representations and Warranties.

(c) If the Financial Obligations paid by the Company at any time during the twenty-four month period following Closing exceed \$3,200,000.00, but are less than \$3,400,000.00, the parties shall be responsible as follows:

(i) The Company shall be obligated to pay fifty percent (50%) of the amount of the Financial Obligations between \$3,200,001.00 and \$3,400,000.00 and the Purchaser shall cause the Company to pay such amount;

(ii) Charles T. O'Neill ("O'Neill") shall be obligated to pay twenty-five percent (25%) of the amount of the Financial Obligations between \$3,200,001 and \$3,400,000; and

(iii) Andrew B. Cassidy ("Cassidy") shall be obligated to pay twenty-five percent (25%) of the amount of the Financial Obligations between \$3,200,001.00 and \$3,400,000.00.

(d) If the Financial Obligations paid by the Company during the twenty-four month period following Closing exceed \$3,400,000.00 (such Financial Obligations in excess of \$3,400,000.00 and those claims contemplated in (b)(ii) and (iii) above are hereinafter referred to as the "Shareholder Indemnified Claims"), Charles T. O'Neill shall indemnify the Company for fifty percent (50%) of the amount of such Financial Obligations in excess of \$3,400,000.00 and Andrew B. Cassidy shall indemnify the Company for fifty percent (50%) of the amount of such Financial Obligations in excess of \$3,400,000.00.

(e) The obligations of O'Neill and Cassidy for the Shareholder Indemnified Claims shall be several, not joint. Further, in the event that O'Neill or Cassidy is requested by Purchaser or the Company to satisfy any Shareholder Indemnified Claim, O'Neill and Cassidy shall have the right to assume the defense of any such Shareholder Indemnified Claim in accordance with Sections 7.4 and 7.5 of this Agreement. O'Neill and Cassidy shall not have any liability for any Shareholder Indemnified Claim unless, prior to the second anniversary of the Closing Date, the Company notifies O'Neill and Cassidy of a claim specifying the factual basis for the claim in reasonable detail to the extent then known by the

Company. Purchaser shall provide Seller, O'Neill and Cassidy with a monthly report detailing all Financial Obligations paid by the Company.

(f) O'Neill and Cassidy shall deliver a personal guaranty to the Company guarantying each of their respective obligations to the Company under subparagraphs (c) and (d). The obligations listed above for O'Neill and Cassidy shall terminate at the end of twenty-four months after the Closing Date; provided, however, that any amounts owed, liabilities incurred or Financial Obligations recognized and thus triggering the obligations of O'Neill and Cassidy pursuant to such shall not terminate until such obligations are resolved, dismissed or settled.

FILED

05575



JUN 14 2011

OFFICE OF
INSURANCE REGULATION
Declarated by:

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 116802-11-CO

Application for the Acquisition of all the
Issued and Outstanding Voting Securities of
AVAHEALTH, INC., a Domestic Insurer, by
KEY INSURANCE PLANS, INC.

CONSENT ORDER

THIS CAUSE came on for consideration upon the filing with the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of an application for approval of the acquisition of all of the issued and outstanding voting securities of AVAHEALTH, INC., (hereinafter referred to as "COMPANY"), a domestic insurer, by KEY INSURANCE PLANS, INC. (hereinafter referred to as "APPLICANT") pursuant to Section 628.461, Florida Statutes. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE finds as follows:

1. The OFFICE has jurisdiction over the subject matter and the parties to this proceeding.
2. APPLICANT has applied for, and subject to the present and continuing satisfaction of the requirements, terms and conditions established herein, has satisfactorily met

all of the conditions precedent for the granting of approval by the OFFICE of the proposed acquisition of all of the outstanding capital stock of COMPANY.

3. APPLICANT is a Florida corporation that is one hundred percent (100%) owned by CUSP, LLC (hereinafter referred to as "CUSP") a limited liability company. The application represents that CUSP has as its managers the following individuals: Pedro Caretto, Mario Paez, Ernesto Urdaneta and Enoc Segundo Martinez. The application also represents that Bruce Frieman is a manager at large for CUSP. Said representations are material to the issuance of this Consent Order.

4. COMPANY is a licensed life and health insurer domiciled in the state of Florida and is one hundred percent (100%) owned by AVALON HEALTHCARE HOLDINGS, INC. (hereinafter referred to as "AHH" or "SELLER"), a Florida corporation.

5. On March 14, 2011, CUSP entered into a Stock Purchase Agreement with SELLER, which was subsequently amended and restated and filed with the OFFICE on May 27, 2011, whereby CUSP or its designee would acquire all of the issued and outstanding capital stock of COMPANY. CUSP has represented that its designee shall be APPLICANT. The aforementioned representation is material to the issuance of this Consent Order. Information is missing from Section 2.4 (vii), Schedule A and the Disclosure Schedule that form the Amended and Restated Stock Purchase Agreement. APPLICANT shall submit an executed copy of the Amended and Restated Stock Purchase Agreement to the OFFICE for the OFFICE's review within three (3) business days from the closing of the acquisition of COMPANY by the APPLICANT. The executed Amended and Restated Stock Purchase Agreement submitted to the OFFICE shall contain the missing information within Section 2.4 (vii), Schedule A, the Disclosure Schedule and any other schedules, exhibits or related documents that effectuate the

Amended and Restated Stock Purchase Agreement APPLICANT, SELLER and COMPANY agree that the OFFICE's approval of the acquisition of COMPANY by APPLICANT is conditioned upon the OFFICE's receipt and acceptance of the executed Amended and Restated Stock Purchase Agreement. APPLICANT, SELLER and COMPANY further agree that this Consent Order shall be deemed void should the OFFICE find the executed Amended and Restated Stock Purchase Agreement to be unacceptable.

6. Pursuant to Schedule 2.2 of the Amended and Restated Stock Purchase Agreement, the liability of APPLICANT is limited; however, APPLICANT agrees that it is acquiring all of the issued and capital stock of COMPANY and the aforementioned liability limitation shall only serve to reduce the adjusted purchase price of COMPANY. APPLICANT and CUSP agree that APPLICANT shall be responsible for all liabilities, of any kind, on behalf of COMPANY and APPLICANT shall pay all legitimate liabilities of COMPANY in a timely manner regardless of any reimbursement it may or may not receive pursuant to Schedule 2.2 of the Amended and Restated Stock Purchase Agreement. Additionally, the parties agree that the purchase price of the COMPANY shall be paid by CUSP or APPLICANT.

7. Concurrent with the acquisition, the application represents that COMPANY shall change its name to "Key Insurance Plan, Inc.". Final approval of the name change is subject to the receipt of a Certificate of Status issued by the Florida Office of the Secretary of State reflecting the name change, as well as any other required documentation to validate a name change.

8. APPLICANT and CUSP have made material representations that none of their officers, directors, managers and shareholders holding five percent (5%) or greater ownership interest and none of the post-acquisition officers and directors of COMPANY have been found

guilty of, or have pleaded guilty or nolo contendere to, a felony or a misdemeanor, other than a minor traffic violation, without regard to whether a judgment of conviction was entered by the Court.

9. APPLICANT and CUSP represent that they have, with the exception of Enoc Segundo Martinez, submitted complete background information on each of the persons described in paragraph eight (8) above, and that if such material information has not been provided, any such individual shall be removed within thirty (30) days of receipt of notification from the OFFICE.

10. APPLICANT and/or CUSP shall submit or cause to be submitted to the OFFICE a biographical affidavit, authority for release of information form, finger print cards and background investigative report for Enoc Segundo Martinez within thirty (30) days of the date of the execution of this Consent Order. If the background information for Enoc Segundo Martinez (biographical affidavit, authority for release of information form, fingerprint cards, background investigative report) furnished to the OFFICE or other sources utilized by the OFFICE in its investigation process reveal the representations regarding Enoc Segundo Martinez in paragraph eight (8) above are inaccurate, Enoc Segundo Martinez shall be removed within thirty (30) days after notification by the OFFICE and replaced with a person acceptable to the OFFICE.

11. APPLICANT and CUSP agree that upon receipt of such notification from the OFFICE, pursuant to paragraphs nine (9) and ten (10) above, if APPLICANT and/or CUSP does not timely take the required corrective action, APPLICANT and/or CUSP agree that such failure to act would constitute an immediate danger to the public and the OFFICE may immediately suspend or revoke the Certificate of Authority of COMPANY, without further proceedings pursuant to Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

12. APPLICANT has filed, and the OFFICE has relied upon the representations in the Plan of Operation and the Plan of Operation's supporting documents that APPLICANT submitted with the application. Prior written approval must be secured from the OFFICE prior to any material deviation from said Plan of Operation, including expansion into any other state.

13. As required by Section 624.424, Florida Statutes, COMPANY has not filed complete audited financial reports for 2009 or 2010. Therefore, COMPANY shall file with the OFFICE within sixty (60) days from the closing of the acquisition of COMPANY by APPLICANT, a complete audited financial report pursuant to Section 624.424, Florida Statutes, for the year ended December 31, 2010. The report shall include, but not be limited to, an independent financial audit as of December 31, 2010. Further, COMPANY shall not market or enroll any new business until the 2010 independent financial audit has been filed with the OFFICE and the OFFICE has provided written approval to resume marketing and enrollment.

14. COMPANY shall amend and/or complete its 2010 Health Blank Financial Statement that was filed with the National Association of Insurance Commissioners, including all related reports and documents, to be consistent with the financial audit referenced in paragraph thirteen (13) above. Such amendment shall be filed with the National Association of Insurance Commissioners and the OFFICE within ten (10) days of the filing of the financial audit referenced in paragraph thirteen (13) above with the OFFICE.

15. APPLICANT represents that the information and documentation provided to the OFFICE accurately and completely describe all transactions and agreements pertaining to the acquisition and the future activities of APPLICANT and COMPANY. APPLICANT represents that there are no other agreements, written or oral, related to consideration to the SELLERS or related to the management of the COMPANY that have not been provided to the OFFICE.

16. APPLICANT and SELLER agree to obtain written approval from the OFFICE prior to any material changes made to the Amended and Restated Stock Purchase Agreement from the date it was submitted to the OFFICE to the closing date of the acquisition of COMPANY by APPLICANT.

17. APPLICANT and/or COMPANY shall provide to the OFFICE an acceptable executed disaster coordination/response plan within thirty (30) days of the date of the execution of this Consent Order.

18. APPLICANT shall provide evidence of a four million, five hundred thousand U.S. Dollars (\$4,500,000) capital infusion into COMPANY within three (3) business days of the closing of the acquisition of COMPANY by the APPLICANT.

19. APPLICANT, SELLER and COMPANY agree that this Consent Order shall be deemed void should closing not take place within five (5) business days from the date of the execution of this Consent Order.

20. APPLICANT has filed pro forma financial statements for COMPANY that indicate that, in addition to the capital infusion referenced in paragraph eighteen (18) above, APPLICANT will need to provide additional capital infusions into COMPANY. Without said capital infusions, the pro forma's reflect that COMPANY would be both impaired, pursuant to Section 624.408, Florida Statutes, and in noncompliance with the writing ratio requirements outlined in Section 624.4095, Florida Statutes. CUSP shall provide additional capital infusions, as necessary, in order to maintain compliance with Florida Statutes. Said capital infusions are material to the approval of this transaction.

21. COMPANY shall file with the OFFICE quarterly and annual financial statements in accordance with Section 624.424, Florida Statutes. COMPANY shall file monthly financial

statements until further notice from the OFFICE. The monthly financial statements are due on or before the twenty-fifth (25th) day of the following month from the period ending date. The monthly financial statements shall include the Jurat page, Assets, Liabilities, Capital and Surplus, Statement of Revenue and Expenses, Cash Flow and Exhibit of Premiums, Enrollment and Utilization. The Statement of Revenue and Expenses and Cash Flow shall be filed on a cumulative year-to-date basis for monthly statements. All statements shall be in the current National Association of Insurance Commissioners form. The COMPANY may petition the OFFICE to release COMPANY from its obligation to file monthly financial statements. The OFFICE shall not unreasonably deny COMPANY's petition regarding monthly financial statement requirements.

22. COMPANY is subject to the holding company registration requirements of Rule 690-143.045 through Rule 690-143.047, Florida Administrative Code. COMPANY shall file a holding company registration statement with the OFFICE within fifteen (15) days after the end of the month in which COMPANY is acquired by APPLICANT. COMPANY shall keep the holding company registration statement current. Affiliates shall mean any entities defined by Rule 690-143.045 Florida Administrative Code and includes CUSP, LLC.

23. COMPANY shall comply with Section 628.371, Florida Statutes, and Rule 690-143.047, Florida Administrative Code as relates to the payment of any dividends.

24. COMPANY shall obtain written approval from the OFFICE prior to making any loans or cash infusions to affiliates.

25. Within sixty (60) days from the date of the execution of this Consent Order, COMPANY shall file with the Division of Insurance Fraud, Department of Financial Services,

an acceptable update to its anti-fraud plan pursuant to Section 626.9891, Florida Statutes and Rule 69D-2, Florida Administrative Code.

26. COMPANY shall submit all management contracts, administrative service contracts, provider contracts, and affiliated contracts, as well as amendments to such contracts, to the OFFICE for written approval prior to the execution and/or consummation of such contract.

27. The deadlines set forth in this Consent Order may be extended by written approval of the OFFICE. Additionally, the various reporting requirements and any other provision or requirement set forth in this Consent Order may be altered or terminated by written approval of the OFFICE. Approval of any deadline extension is subject to statutory or administrative regulation limitations.

28. Approval of this application does not alter or vacate any existing Consent Order(s) or corrective action plan(s) that may have been entered into or between the OFFICE and COMPANY, except to the extent that the terms of prior Consent Orders or corrective action plans conflict with the terms of this Consent Order.

29. APPLICANT, CUSP and SELLER affirm and represent that all requirements set forth herein, and all statements, explanations, representations, and documents provided to the OFFICE in connection with the application, including all attachments and supplements thereto, are material to the issuance of this Consent Order. APPLICANT, CUSP and SELLER further affirm and represent that the information, documents and explanations provided to the OFFICE are true and fully describe all transactions, agreements and undertakings with regard to the acquisition and future operation of COMPANY.

30. Executive Order 13224 signed by President George W. Bush on September 23, 2001, blocks the assets of terrorists and terrorist support organizations identified by the United State Department of the Treasury, Office of Foreign Assets Control. The Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests. The list of identified terrorists and terrorist support organizations is periodically updated at the Treasury Department's Office of Foreign Assets Control website, <http://www.treas.gov/ofac>. COMPANY shall maintain and adhere to procedures necessary to detect and prevent prohibited transactions with individuals and entities which have been identified at the Treasury Department's Office of Foreign Assets Control website.

31. APPLICANT, CUSP, SELLER, and/or COMPANY shall report to the OFFICE within sixty (60) days from the date of the execution of this Consent Order a certification evidencing compliance with all of the requirements of this Consent Order. Any exceptions shall be so noted and contained in the certification. Exceptions noted in the certification shall also include a timeline defining when the outstanding requirements of the Consent Order will be complete. Said certification shall be submitted to the OFFICE via electronic mail and directed to the attention of the Assistant General Counsel representing the OFFICE in this matter and as named in this Consent Order.

32. APPLICANT, CUSP, SELLER and COMPANY agree that failure to adhere to one or more of the terms and conditions contained herein shall result, without further proceedings, in the revocation of COMPANY's Certificate of Authority in this state in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

33. Each party to this action shall bear its own costs and fees.

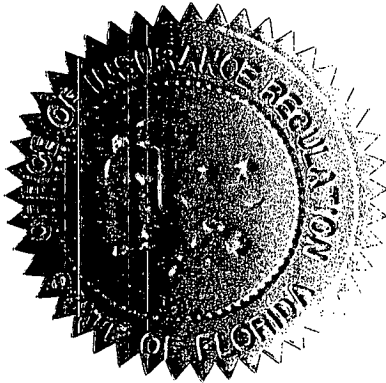
34. APPLICANT, CUSP, SELLER and COMPANY expressly waive a hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which parties may be entitled by law or rules of the OFFICE. APPLICANT, CUSP, SELLER and COMPANY hereby knowingly and voluntarily waive all rights to challenge or to contest this Consent Order, in any forum now or in the future available to it, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

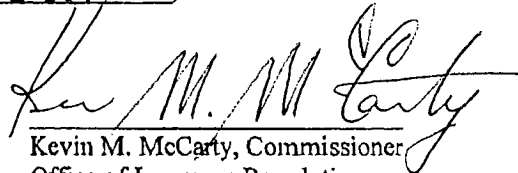
35. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has executed a copy of this Consent Order bearing the signature of APPLICANT, CUSP, SELLER and COMPANY or its authorized representatives, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, APPLICANT, CUSP, SELLER and COMPANY agree that the signatures as affixed to this Consent Order shall be under the seal of a Notary Public.

WHEREFORE, subject to the terms and conditions set forth above, the OFFICE hereby approves the application for the acquisition of one hundred percent (100%) of the issued and outstanding capital stock of AVAHEALTH, INC. by KEY INSURANCE PLANS, INC., and subsequent to the effective date of the acquisition, the name change of AVAHEALTH, INC. to KEY INSURANCE PLAN, INC. By approving this transaction, the OFFICE does not approve as part of this transaction any administrative, management, provider or affiliate contracts submitted with the application.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 14th day of June, 2011.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereby, KEY INSURANCE PLANS, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind KEY INSURANCE PLANS, INC. to the terms and conditions of this Consent Order.

KEY INSURANCE PLANS, INC.

By: Bruce Frieman

Print Name: BRUCE FRIEMAN

Corporate Seal

Title: CHIEF EXECUTIVE OFFICER

Date: JUNE 13, 2011

On 6/13/11 before me, Anne Westley, personally appeared Dr. Bruce Frieman, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 13th day of June 2011.

Signature Anne Westley

(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

1/9/2015



ANNE WESTLEY
NOTARY PUBLIC
STATE OF FLORIDA
Comm# EE053808
Expires 1/9/2015

By execution hereby, CUSP, LLC consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind CUSP, LLC, to the terms and conditions of this Consent Order.

CUSP, LLC

By: _____

Print Name: _____

Title: _____

Date: _____

Corporate Seal

On 6/13/11 before me, Anne Westley, personally appeared Pedro Caretto, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 13th day of June 2011.

Signature _____

(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

1/9/2015



ANNE WESTLEY
NOTARY PUBLIC
STATE OF FLORIDA
Comm# EE053806
Expires 1/9/2015

By execution hereof, AVALON HEALTHCARE HOLDINGS, INC., consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind AVALON HEALTH HOLDINGS, INC, to the terms and conditions of this Consent Order and has personal knowledge of the application and the information provided therein.

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles T. O'Neill

Print Name: Charles T. O'Neill

Title: CEO/President

Date: 6/14/11

Corporate Seal

On Tue, June 14, 2011 before me, Charles T O'Neill, personally appeared and signed the document and is, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 14 day of June 2011.

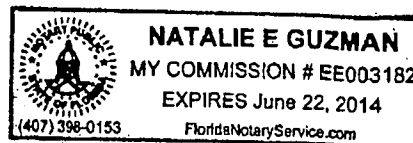
Signature

Natalie E. Guzman
(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires

June 22, 2014



By execution hereby, AVAHEALTH, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind AVAHEALTH, INC., to the terms and conditions of this Consent Order.

AVAHEALTH, INC.

By:

Print Name:

Title:

Date:

Corporate Seal

On Tue, June 14, 2011 before me, Charles T O'Neill, personally appeared and signed the document and is personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 14 day of June 2011.

Signature

(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

June, 22, 2014



COPIES FURNISHED TO:

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612 Larson Building
Tallahassee, Florida 32399-4206
Email: Jason.Nelson@floir.com

Statutory Basis Financial Statements
and Other Financial Information

Avahealth, Inc.

*Years ended December 31, 2008 and 2007
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

Avahealth, Inc.

Statutory Basis Financial Statements
and Other Financial Information

Years ended December 31, 2008 and 2007

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Report of Independent Auditors

The Board of Directors
Avahealth, Inc.

We have audited the accompanying statements of admitted assets, liabilities, and capital and surplus - statutory basis of Avahealth, Inc. (the Company), as of December 31, 2008 and 2007, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Avahealth, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Page Two

Our audits were made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The supplemental disclosures included in other financial information as of and for the year ended December 31, 2008, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. This other financial information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of Avahealth, Inc. and for filing with the Florida Office of Insurance Regulation and should not be used for any other purpose.

Thomas Howell Ferguson P.A.

May 28, 2009

Avahealth, Inc.

Statements of Admitted Assets, Liabilities, and Capital and
Surplus - Statutory Basis

	December 31,	
	2008	2007
Admitted assets		
Cash and invested assets:		
Cash and cash equivalents	\$ 2,233,494	\$ 2,987,688
Accrued investment income	571	1,602
Healthcare and other accounts receivable	48,081	43,580
Federal income tax recoverable	75,033	64,066
Reinsurance recoverables	366,574	-
Receivable from parent	1,195,192	-
Total admitted assets	<u>\$ 3,918,945</u>	<u>\$ 3,096,936</u>
Liabilities and capital and surplus		
Liabilities:		
Claims and claim adjustment expenses payable	\$ 1,067,644	\$ 370,091
Advance premiums	911,240	234,190
Other accrued expenses	80,964	17,859
Payable to parent	-	284,736
Ceded reinsurance premiums payable	-	59,213
Total liabilities	<u>2,059,848</u>	<u>966,089</u>
Capital and surplus	<u>1,859,097</u>	<u>2,130,847</u>
Total liabilities and capital and surplus	<u>\$ 3,918,945</u>	<u>\$ 3,096,936</u>

See accompanying notes.

Avahealth, Inc.

Statements of Operations - Statutory Basis

	Years ended December 31,	
	2008	2007
Revenues:		
Premiums earned, net	\$ 9,191,923	\$ 3,415,057
Net investment income	49,600	100,467
Other income	38,048	15,899
	<u>9,279,571</u>	<u>3,531,423</u>
Expenses:		
Physician and provider services	5,085,332	1,449,208
Administrative and marketing expenses	6,673,613	2,000,484
	<u>11,758,945</u>	<u>3,449,692</u>
(Loss) income before federal income taxes	(2,479,374)	81,731
Federal income tax expense (benefit)	-	(64,066)
Net (loss) income	<u>\$ (2,479,374)</u>	<u>\$ 145,797</u>

See accompanying notes.

Avahealth, Inc.

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2008 and 2007

	<u>Common Stock</u>		<u>Paid-In</u>	<u>Retained</u>	
	<u>Shares</u>	<u>Par Value</u>	<u>Surplus</u>	<u>Earnings</u>	<u>Total</u>
Balance as of December 31, 2006	100	\$ 100	\$ 4,799,900	\$ (3,144,297)	\$ 1,655,703
Change in par value of common stock	1,499,900	1,499,900	(1,499,900)	-	-
Capital contributions	-	-	300,000	-	300,000
Change in nonadmitted assets	-	-	-	29,347	29,347
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,797</u>	<u>145,797</u>
Balance as of December 31, 2007	1,500,000	1,500,000	3,600,000	(2,969,153)	2,130,847
Capital contributions	-	-	2,207,000	-	2,207,000
Change in nonadmitted assets	-	-	-	624	624
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,479,374)</u>	<u>(2,479,374)</u>
Balance as of December 31, 2008	<u>1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 5,807,000</u>	<u>\$ (5,447,903)</u>	<u>\$ 1,859,097</u>

See accompanying notes.

Avahealth, Inc.

Statements of Cash Flows - Statutory Basis

	Years ended December 31,	
	2008	2007
Operating activities		
Premiums collected, net of reinsurance	\$ 9,838,495	\$ 3,604,205
Net investment income received	50,631	104,412
Physician and provider services, net	(4,787,159)	(1,345,427)
Administrative and marketing expense paid	(6,668,417)	(1,982,186)
Other income received	38,048	15,899
Federal income taxes paid	(10,967)	-
Net cash (used in) provided by operating activities	(1,539,369)	396,903
Financing and miscellaneous activities		
Capital contributions	2,207,000	300,000
Other miscellaneous (uses) sources	(1,421,824)	168,041
Net cash provided by financing and miscellaneous activities	785,176	468,041
Net (decrease) increase in cash	(754,193)	864,944
Cash at beginning of year	2,987,687	2,122,744
Cash at end of year	\$ 2,233,494	\$ 2,987,688

See accompanying notes.

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

Years ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Avahealth, Inc. (the Company) is a healthcare insurance company domiciled in the state of Florida, and a wholly-owned subsidiary of Avalon Healthcare Holdings, Inc. (AHH). The Company began insurance operations on April 1, 2006, and writes health insurance coverage exclusively in the state of Florida. In November 2007, Avalon Healthcare, Inc. changed its name to Avahealth, Inc.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Florida Office of Insurance Regulation (the Office). Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Cash in the statements of cash flows includes cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.

- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.
- Recoverable amounts, if any, on unpaid claims under reinsurance agreements are netted against claims and claim adjustment expenses payable and not reported as an asset as would be required under GAAP.

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are billed monthly and are recognized as revenue over the period in which the Company is obligated to provide benefits to insureds. Premiums not earned at the end of the year are recorded as unearned premiums. Premiums collected in advance of the policy effective date are recorded as advance premiums.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less, and certificates of deposit with original maturities of one year or less and are principally stated at cost, which approximates fair value.

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash, cash equivalents, reinsurance recoveries, and premium revenue. The Company maintains its cash and cash equivalents at several financial institutions. Deposits with financial institutions are covered by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, FDIC coverage increased from \$100,000 to \$250,000 per depositor until December 31, 2009. Bank deposit accounts, at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts.

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses payable include the accrual for health care costs incurred but not paid and the estimated liability for health care claims incurred but not reported. The liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims, and represents an estimate of the unpaid liabilities incurred through December 31, 2008 and 2007. The liability is reviewed by an independent actuary.

Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimate is continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

2. Regulatory Requirements

As a health insurer licensed in Florida, the Company is required under Florida Statutes, Section 624.408, to maintain minimum net worth of the greater of \$1,500,000 or 4% of total liabilities plus 6% of liabilities relative to health insurance. At December 31, 2008 and 2007, the Company is in compliance with this requirement.

The Company is required to maintain an amount on deposit pursuant to Florida Statutes to help secure the payment of claims. As of December 31, 2008 and 2007, a certificate of deposit of \$100,000 has been assigned to the Office to satisfy this requirement. Those amounts are included in cash and cash equivalents in the accompanying statements of admitted assets, liabilities, and capital and surplus at December 31, 2008 and 2007.

3. Claims and Claim Adjustment Expenses Payable

The change in claims and claim adjustment expenses (CAE) payable at December 31 is as follows:

	<u>2008</u>	<u>2007</u>
Claims and CAE payable at beginning of year	\$ 370,091	\$ 222,729
Incurred related to:		
Current year	5,164,885	1,542,313
Prior years	<u>(79,553)</u>	<u>(93,105)</u>
	<u>5,085,332</u>	<u>1,449,208</u>
Paid related to:		
Current year	4,097,754	1,193,123
Prior years	<u>290,025</u>	<u>108,723</u>
	<u>4,387,779</u>	<u>1,301,846</u>
Claims and CAE payable at end of year	\$ <u>1,067,644</u>	\$ <u>370,091</u>

The Company's provision for claims and CAE payable was examined by an independent actuary. While such provision represents actuarial estimates, and the net amounts ultimately paid will be more or less than the net amounts estimated at December 31, 2008 and 2007, management believes that adequate provision for the ultimate net costs of claims and CAE incurred has been made through the end of each year.

In 2008 and 2007, incurred claims and CAE attributable to insured events of prior years have decreased by \$79,553 and \$93,105, respectively, as a result of reestimation of unpaid claims and CAE. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

4. Reinsurance

The Company reinsures certain "excess" risks with reinsurance companies by ceding portions of risks and premiums. Reinsurance does not discharge the Company from its liability to members for defined coverages. In the event that the reinsurance company might be unable to meet its obligation under the existing reinsurance agreement, the Company would be liable for such amounts. Management only reinsures with highly rated reinsurance companies. The reinsurer is obligated to the Company for the excess claim costs as defined in the reinsurance agreement.

Effective April 1, 2008, the Company executed a reinsurance agreement which covers fully insured groups, individuals of major medical business, and employee leasing companies. The reinsurance agreement generally provides coverage for individual business losses in excess of \$200,000 up to \$5,000,000 per member per policy period through three layers of coverage for individual insurance policies. For group business, the reinsurance agreement provides coverage for losses in excess of \$150,000 up to \$5,000,000 per member per policy period through the three layers of coverage.

Effective April 1, 2007, the Company entered into a reinsurance agreement which covers fully insured groups, individuals of major medical business, and employee leasing companies. The reinsurance agreement generally provides coverage for losses in excess of \$100,000 up to \$5,000,000 per member per policy period through three layers of coverage for individual business. For group business, the reinsurance agreement provides coverage for losses in excess of \$125,000 up to \$5,000,000 per member per policy period through the three layers of coverage.

For the years ended December 31, 2008 and 2007, reinsurance ceded under the agreements totaled \$409,531 and \$172,965, respectively, and is reported as a reduction of premiums on the accompanying statements of operations. Ceded losses under the agreements for the year ended December 31, 2008, totaled \$371,710 (none in 2007).

5. Transactions with Parent

The Company has entered into a management agreement with AHH in which AHH provides marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, and provider member relations. AHH contracts with an unaffiliated service company to provide claims administration and assistance with member and provider relations. Expenses under the agreement with AHH that have been charged to administrative and marketing expenses totaled \$6,340,076 and \$1,842,310 in 2008 and 2007, respectively. Additionally, the Company provides health insurance coverage for the employees of AHH. Premiums earned on AHH's policy were \$132,246 and \$110,362 in 2008 and 2007, respectively. At December 31, 2008 and 2007, the net amount receivable (payable) under the management agreement and insurance policy was \$220,192 and \$(284,736), respectively, and is included in receivable from and payable to parent on the statements of admitted assets, liabilities, and capital and surplus.

During 2008 and 2007, AHH made additional capital contributions to the Company of \$2,207,000 and \$300,000, respectively. However, at December 31, 2008, \$975,000 of the 2008 capital contributions had not been received in cash and is included in receivable from parent.

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

5. Transactions with Parent (continued)

This receivable was collected subsequent to year end and has been recorded as an admitted asset in accordance with Statements on Statutory Accounting Principles No. 72, *Surplus and Quasi-Reorganizations*.

6. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in claims and CAE payable and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as administrative and marketing expenses in the accompanying statements of operations.

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

	December 31,	
	2008	2007
Gross DTAs	\$ 1,843,775	\$ 964,457
Gross DTLs	-	-
Net DTAs	1,843,775	964,457
Nonadmitted DTAs	(1,843,775)	(964,457)
Net admitted DTAs	\$ -	\$ -
Increase in nonadmitted DTAs	\$ 879,318	\$ 964,457

B. Unrecognized DTLs:

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provisions for income taxes incurred are as follows:

	Years ended December 31,	
	2008	2007
Current year income tax expense	\$ -	\$ -
Prior year over accrual	-	(64,066)
Current income taxes incurred	\$ -	\$ (64,066)

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

6. Income Taxes (continued)

The tax effect of temporary differences at December 31, 2008, that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

DTAs	Statutory	Tax	Difference	Tax Effect
Claims and CAE payable	\$ 1,192,513	\$ 218,543	\$ 973,970	\$ 331,150
Unearned premiums	911,240	728,992	182,248	61,964
Bad debt	-	4,110	4,110	1,397
Net operating gain	-	4,262,541	4,262,541	1,449,264
Gross DTAs				<u>\$ 1,843,775</u>
Nonadmitted DTAs				<u>\$ 1,843,775</u>

The changes in the main components of DTAs are as follows:

DTAs Resulting from Book/Tax Differences	Years ended December 31,		
	2008	2007	Change
Claims and CAE payable	\$ 331,150	\$ 2,426	\$ 328,724
Unearned premiums	61,964	16,758	45,206
Bad debt reserve	1,397	-	1,397
Net operating loss	1,449,264	945,273	503,991
Gross DTAs	<u>\$ 1,843,775</u>	<u>\$ 964,457</u>	<u>\$ 879,318</u>
Nonadmitted DTAs	<u>\$ 1,843,775</u>	<u>\$ 964,457</u>	<u>\$ 879,318</u>

The change in gross DTAs and DTLs of \$879,318 is the change in net deferred income taxes before the consideration of nonadmitted DTAs and DTLs.

D. Reconciliation of federal income tax rate to actual effective rate:

The significant book-to-tax adjustments were as follows:

	2008	Effective Tax Rate	2007	Effective Tax Rate
Provision computed at statutory rate	\$ (843,270)	34.00 %	\$ 30,165	34.00 %
Prior year adjustment	(36,048)	1.45	(1,058,688)	(1,193.26)
Total	<u>\$ (879,318)</u>	<u>35.45 %</u>	<u>\$ (1,028,523)</u>	<u>(1,159.26)%</u>
Federal income tax	\$ -	- %	\$ (64,066)	(72.21)%
Change in deferred taxes	(879,318)	35.45	(964,457)	(1,087.05)
Statutory income taxes	<u>\$ (879,318)</u>	<u>35.45 %</u>	<u>\$ (1,028,523)</u>	<u>(1,159.26)%</u>

Avahealth, Inc.

Notes to Statutory Basis Financial Statements

6. Income Taxes (continued)

E. Operating loss and tax credit carryforwards:

1. At December 31, 2008, the Company had \$4,262,541 of unused net operating loss carryforwards available to offset against future taxable income.
2. There were no income taxes incurred in the current year and prior years that will be available for recoupment in the event of future net losses.

F. Consolidated federal income tax return:

The Company files a consolidated income tax return with the following entities:

Avalon Healthcare Holdings, Inc.
The Avalon Agency, Inc.
Weldon-Abbott Agency, Inc.

7. Capital and Surplus

As of December 31, 2008, the Company has 5,000,000 shares of \$1 par value common stock authorized, of which 1,500,000 shares are issued and outstanding. The parent company, AHH, is the sole shareholder.

As discussed in Note 5, AHH has made additional capital contributions totaling \$2,207,000 and \$300,000 for the years ended December 31, 2008 and 2007, respectively.

The maximum amount of dividends that may be paid by insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations, it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the years ended December 31, 2008 and 2007.

8. Financial Condition

The Company experienced net losses of approximately \$2,479,000 and \$2,550,000 for the years ended December 31, 2008 and 2006, respectively, and had net income of approximately \$146,000 for the year ended December 31, 2007. Additionally, the Company has received additional capital contributions from its parent of \$2,207,000 and \$300,000 in 2008 and 2007, respectively, in order to maintain its minimum surplus requirement. Management has formulated plans and undertaken certain actions to mitigate these negative financial trends. These plans and actions primarily include significant growth in premiums, management of development and marketing costs including the ability to spread these acquisition costs over a larger premium base, and the receipt of additional capital contributions. The Company's ability to achieve profitability in the long term will be dependent on the successful implementation of management's plans and actions.

Other Financial Information

ANNUAL STATEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities		0.000		0.000
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.000		0.000
1.22 Issued by U.S. government sponsored agencies		0.000		0.000
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :				
1.41 States, territories and possessions general obligations		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations		0.000		0.000
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA		0.000		0.000
1.512 Issued or guaranteed by FNMA and FHLMC		0.000		0.000
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA		0.000		0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521		0.000		0.000
1.523 All other		0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)		0.000		0.000
2.2 Unaffiliated foreign securities		0.000		0.000
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated		0.000		0.000
3.4 Other equity securities:				
3.41 Affiliated		0.000		0.000
3.42 Unaffiliated		0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)		0.000	0	0.000
6. Contract loans		0.000	0	0.000
7. Receivables for securities		0.000	0	0.000
8. Cash, cash equivalents and short-term investments		0.000	2,233,494	100.000
9. Other invested assets		0.000		0.000
10. Total invested assets	0	100.000	2,233,494	100.000

See report of independent auditors.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIESFor The Year Ended December 31, 2008
(To Be Filed by April 1)

Of The AVAHEALTH, Inc.

ADDRESS (City, State and Zip Code) Tampa, FL 33607

NAIC Group Code 0000 NAIC Company Code 12315 Federal Employer's Identification Number (FEIN) 20-3075951

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 3,918,945

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Cash/Equivalents	\$ 2,233,494	57.0 %
2.02		\$	0.0 %
2.03		\$	0.0 %
2.04		\$	0.0 %
2.05		\$	0.0 %
2.06		\$	0.0 %
2.07		\$	0.0 %
2.08		\$	0.0 %
2.09		\$	0.0 %
2.10		\$	0.0 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds		1	2	Preferred Stocks		3	4
3.01	NAIC-1	\$ 0	0.0 %	3.07	P/RP-1	\$	0.0 %
3.02	NAIC-2	\$ 0	0.0 %	3.08	P/RP-2	\$	0.0 %
3.03	NAIC-3	\$ 0	0.0 %	3.09	P/RP-3	\$	0.0 %
3.04	NAIC-4	\$ 0	0.0 %	3.10	P/RP-4	\$	0.0 %
3.05	NAIC-5	\$ 0	0.0 %	3.11	P/RP-5	\$	0.0 %
3.06	NAIC-6	\$ 0	0.0 %	3.12	P/RP-6	\$	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments. \$ 0.0 %

4.03 Foreign-currency-denominated investments \$ 0.0 %

4.04 Insurance liabilities denominated in that same foreign currency \$ 0.0 %

SUPPLEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1	\$	0.0 %
5.02 Countries rated NAIC-2	\$	0.0 %
5.03 Countries rated NAIC-3 or below	\$	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC - 1:		
6.01 Country 1:	\$	0.0 %
6.02 Country 2:	\$	0.0 %
Countries rated NAIC - 2:		
6.03 Country 1:	\$	0.0 %
6.04 Country 2:	\$	0.0 %
Countries rated NAIC - 3 or below:		
6.05 Country 1:	\$	0.0 %
6.06 Country 2:	\$	0.0 %

	1	2
7. Aggregate unhedged foreign currency exposure	\$	0.0 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

	1	2
8.01 Countries rated NAIC-1	\$	0.0 %
8.02 Countries rated NAIC-2	\$	0.0 %
8.03 Countries rated NAIC-3 or below	\$	0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC - 1:		
9.01 Country 1:	\$	0.0 %
9.02 Country 2:	\$	0.0 %
Countries rated NAIC - 2:		
9.03 Country 1:	\$	0.0 %
9.04 Country 2:	\$	0.0 %
Countries rated NAIC - 3 or below:		
9.05 Country 1:	\$	0.0 %
9.06 Country 2:	\$	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Rating		
10.01	\$	0.0 %
10.02	\$	0.0 %
10.03	\$	0.0 %
10.04	\$	0.0 %
10.05	\$	0.0 %
10.06	\$	0.0 %
10.07	\$	0.0 %
10.08	\$	0.0 %
10.09	\$	0.0 %
10.10	\$	0.0 %

SUPPLEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	1	2
11.02 Total admitted assets held in Canadian investments	\$	0.0 %
11.03 Canadian-currency-denominated investments	\$	0.0 %
11.04 Canadian-denominated insurance liabilities	\$	0.0 %
11.05 Unhedged Canadian currency exposure	\$	0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02 Aggregate statement value of investments with contractual sales restrictions	\$		0.0 %
Largest three investments with contractual sales restrictions:			
12.03	\$		0.0 %
12.04	\$		0.0 %
12.05	\$		0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Name of Issuer	2	3
13.02	\$		0.0 %
13.03	\$		0.0 %
13.04	\$		0.0 %
13.05	\$		0.0 %
13.06	\$		0.0 %
13.07	\$		0.0 %
13.08	\$		0.0 %
13.09	\$		0.0 %
13.10	\$		0.0 %
13.11	\$		0.0 %

SUPPLEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [☒] No []

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$		0.0 %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03	\$		0.0 %
14.04	\$		0.0 %
14.05	\$		0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [☒] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests	\$		0.0 %
Largest three investments in general partnership interests:			
15.03	\$		0.0 %
15.04	\$		0.0 %
15.05	\$		0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [☒] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02	\$		0.0 %
16.03	\$		0.0 %
16.04	\$		0.0 %
16.05	\$		0.0 %
16.06	\$		0.0 %
16.07	\$		0.0 %
16.08	\$		0.0 %
16.09	\$		0.0 %
16.10	\$		0.0 %
16.11	\$		0.0 %

SUPPLEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	\$	0.0 %
16.13	Mortgage loans over 90 days past due	\$	0.0 %
16.14	Mortgage loans in the process of foreclosure	\$	0.0 %
16.15	Mortgage loans foreclosed	\$	0.0 %
16.16	Restructured mortgage loans	\$	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan to Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.02 91 to 95%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.03 81 to 90%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.04 71 to 80%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.05 below 70%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description	1	2	3
18.01		\$		0.0 %
18.02		\$		0.0 %
18.03		\$		0.0 %
18.04		\$		0.0 %
18.05		\$		0.0 %
18.06		\$		0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	\$	0.0 %
	Largest three investments held in mezzanine real estate loans:		
19.03		\$	0.0 %
19.04		\$	0.0 %
19.05		\$	0.0 %

SUPPLEMENT FOR THE YEAR 2008 OF THE AVAHEALTH, Inc.

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	0.0 %	\$	\$	\$
20.02 Repurchase agreements	\$	0.0 %	\$	\$	\$
20.03 Reverse repurchase agreements	\$	0.0 %	\$	\$	\$
20.04 Dollar repurchase agreements	\$	0.0 %	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	0.0 %	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		3	Written	
	1	2		4	
21.01 Hedging	\$	0.0 %	\$	0.0 %	
21.02 Income generation	\$	0.0 %	\$	0.0 %	
21.03 Other	\$	0.0 %	\$	0.0 %	

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
22.01 Hedging	\$0	0.0 %	\$	\$	\$
22.02 Income generation	\$	0.0 %	\$	\$	\$
22.03 Replications	\$	0.0 %	\$	\$	\$
22.04 Other	\$0	0.0 %	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
23.01 Hedging	\$0	0.0 %	\$	\$	\$
23.02 Income generation	\$	0.0 %	\$	\$	\$
23.03 Replications	\$	0.0 %	\$	\$	\$
23.04 Other	\$0	0.0 %	\$	\$	\$

The Board of Directors
Avahealth, Inc.

In planning and performing our audit of the statutory basis financial statements of Avahealth, Inc. (the Company) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, such that there is more than a remote likelihood that a misstatement of the entity's statutory basis financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and for filing with the Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

May 28, 2009

The Board of Directors
Avahealth, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Avahealth, Inc. (the Company) for the year ended December 31, 2008, and have issued our report thereon dated May 28, 2009. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Florida Board of Public Accountancy.
- b. The engagement partner and engagement manager, who are certified public accountants, have 31 years and 12 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and approximately 83 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Company intends to file its audited statutory financial statements and our report thereon with the Florida Office of Insurance Regulation (the Office) and that the Insurance Commissioner of Florida will be relying on that information in monitoring and regulating the statutory financial condition of the Company.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and the Insurance Commissioner should understand that the objectives of an audit of statutory financial statements in accordance with generally accepted auditing standards is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Office. Consequently, under generally accepted auditing standards, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit.

The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Office.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditors' report.

- d. We will retain the workpapers prepared in the conduct of our audit until the Office has filed a Report of Examination covering 2008, but not longer than seven years. After notification to the Company, we will make the workpapers available for review by the Office at the offices of the Company, at our offices, at the Office or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Office, photocopies of pertinent audit workpapers may be made (under the control of the accountant) and such copies may be retained by the Office.

Thomas Howell
Ferguson P.A.

Page Three

- e. The engagement partner has served in that capacity with respect to the Company since the year ended December 31, 2005, is licensed by the Florida Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is furnished solely for filing with the Florida Office of Insurance Regulation and should not be used for any other purpose.

Thomas Howell Ferguson P.A.

May 28, 2009

Thomas Howell
Ferguson P.A.

▲ Certified Public Accountants
2615 Centennial Blvd., Suite 200 (32308)
P.O. Drawer 14569
Tallahassee, FL 32317-4569

▲ Phone: (850) 668-8100
Fax: (850) 668-8199
email: thf@thf-cpa.com

To the Audit Committee
Avahealth, Inc.

This letter is intended to inform the Audit Committee of Avahealth, Inc. about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Audit Committee.

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangements letter dated August 12, 2008.
Accounting Practices	Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Alternative Treatments Discussed with Management We did not discuss with management any alternative treatments within statutory accounting principles for accounting policies and practices related to material items during the current audit period.

Area	Comments
Management's Judgments and Accounting Estimates	<p>Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include claims and claim adjustment expenses payable.</p> <p>Claims and claim adjustment expenses payable include the accrual for health care costs incurred but not paid and claims incurred but not reported at December 31, 2008. This liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims and represents the estimate of the unpaid liabilities incurred through the financial statement date. The Company's recorded liability is reviewed by an independent actuary who has issued an unqualified opinion on the reasonableness of the recorded amount. We have reconciled the data provided to the actuary to the Company's accounting information. This estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.</p> <p>The Audit Committee may wish to monitor throughout the year the process used to compute and record these accounting estimates.</p>

Area	Comments
Financial Statement Disclosures	<p data-bbox="786 445 1393 506">The following items relate to certain disclosures in the financial statements:</p> <ul style="list-style-type: none"><li data-bbox="812 531 1393 1010">• Regulatory requirements and restrictions – Florida Statutes require the Company to maintain minimum capital and surplus of the greater of \$1,500,000 or 4% of total liabilities plus 6% of liabilities relative to health insurance. The Company was in compliance with these requirements at December 31, 2008. However, during 2008, it was necessary for the Company to receive approximately \$2.2 million of capital and surplus contributions from Avalon Healthcare Holdings, Inc. (AHHI), its parent, to maintain the required minimum capital and surplus throughout the year.<li data-bbox="812 1052 1393 1251">• Related parties – The Company entered into a management agreement with AHHI. In addition, the Company provides health insurance coverage for AHHI's employees. These transactions are disclosed in Note 5 to the statutory financial statements.<li data-bbox="812 1293 1393 1528">• Investments – The Company is exposed to certain risks and uncertainties as a result of the current credit crisis and resulting impact on the larger U.S. economy. The nature of those risks and uncertainties may affect changes in cash flows as a result of reduced liquidity in financial markets.<li data-bbox="812 1570 1393 1768">• Financial condition – The Company has experienced adverse financial trends and conditions as described in Note 8 to the statutory financial statements. Management's actions and plans relating to these matters are also described in Note 8.

Area	Comments
Audit Adjustments	There were two client prepared adjustments made to the original trial balance presented to us to begin our audit. The adjustments related to claims and claim adjustment expenses payable and paid-in capital and surplus. The net effect of the adjustments decreased total admitted assets by \$325,000, increased total liabilities by \$19,958, decreased capital and surplus by \$305,042, and increased net loss by \$19,958.
Uncorrected Misstatements	During the course of our audit, we accumulated five uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statutory basis financial statements and to the related financial statement disclosures. These misstatements were to adjust various amounts included in the Company's financial statements to correct management fee expense, stop-loss premiums, nonadmitted premium receivables, bad debt expense, and reinsurance recoverables. These adjustments, if recorded, would increase total admitted assets and total capital and surplus by \$13,689 and total net loss would decrease by \$21,685.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Area	Comments
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit. We received full cooperation and appreciate the assistance provided by the Company's financial and accounting personnel.
Letter Communicating Significant Deficiencies and Material Weaknesses	Our communications on internal control is provided in a separate letter dated May 28, 2009.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the Company are provided in Exhibit A.

This report is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Avahealth, Inc.

Thomas Howell Ferguson P.A.

May 28, 2009

Report on Examination

of

Avahealth, Inc.

Tampa, Florida

as of

December 31, 2008

By The

Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Avahealth, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
August 11, 2009

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of Avahealth, Inc. (the "Company"), a single-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

This examination covered the period of January 1, 2008 through December 31, 2008. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.

MATERIAL PROSPECTIVE RISKS

During this financial condition examination, we assessed the adequacy of the Company's management controls and the extent to which the Company's current business processes might negatively affect its future solvency. Since commencing insurance operations in 2006, the Company's premium revenues have increased; however, its operations have resulted in a cumulative net loss. At December 31, 2008, its required minimum capital and surplus was \$1,500,000 and its actual capital and surplus was \$1,822,107 including an accrued capital contribution of \$975,000 collected in 2009 (as further discussed on page 13). The prospective risk exists that the Company will not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

COMPANY HISTORY

The Company was incorporated in Florida on July 8, 2005 and commenced insurance operations on April 1, 2006. It was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

In February of 2008, the Company filed amended articles of incorporation to change its name from Avalon Healthcare, Inc. to Avahealth, Inc. and registered the fictitious name Avalon Healthcare, Inc. with the Florida Department of State.

Dividends and Capital Contributions

No dividends were distributed by the Company during 2008. The Company reported capital contributions from its parent in the total amount of \$2,207,000 during 2008.

CORPORATE RECORDS

The recorded minutes of the meetings of the shareholder and Board of Directors were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601(1), F.S. However, the Company was unable to demonstrate that it held an annual shareholder meeting for the election of directors as required by Section 607.0701(1), F.S.

MANAGEMENT AND CONTROL

As of December 31, 2008, the Company was wholly-owned by Avalon Healthcare Holdings, Inc.

The Company's senior officers, directors and Executive Committee members were as shown below.

Senior Officers

Name	Title
Charles T. O'Neill	President and Chief Executive Officer
Andrew B. Cassidy	Chief Financial Officer and Treasurer
Henry H. Neely	Vice President and Secretary

Board of Directors

Name	Location
Joseph Gauta, M.D.	Naples, Florida
Richard W. Haydon	Tampa, Florida
Paul W. Kowalski	Tampa, Florida
Judith A. Lyons	Tampa, Florida
Henry H. Neely	Tampa, Florida
Charles T. O'Neill	Tampa, Florida

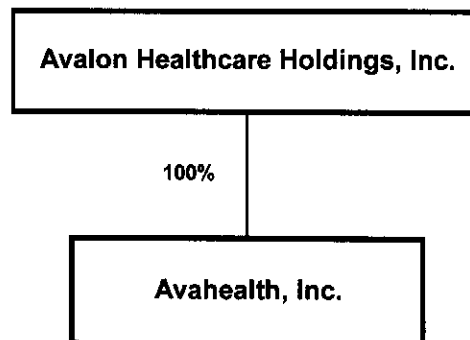
Executive Committee

Charles T. O'Neill
Henry H. Neely

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on April 1, 2009.

An organizational chart as of December 31, 2008 reflecting the holding company system is shown below.

**Avahealth, Inc.
Organizational Chart
December 31, 2008**



Avalon Healthcare Holdings, Inc. provided management services to the Company pursuant to a January 1, 2008 agreement. In 2008, executive management and administration, marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, provider and member relations and personnel management services were provided in return for fees of \$6.3 million.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$250,000 with a deductible of \$5,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$150,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees participation in a Section 401(k) retirement plan sponsored by Avalon Healthcare Holdings, Inc.

TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Company was authorized to transact insurance solely in the State of Florida.

COMPANY GROWTH

The Company reported the following for years 2006, 2007 and 2008:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
In thousands:			
Net premiums	\$659.9	\$3,415.1	\$9,191.9
Total revenues	\$667.6	\$3,431.0	\$9,204.5
Net income (loss)	(\$2,549.7)	\$145.8	(\$2,479.4)
Total capital and surplus	\$1,655.7	\$2,130.8	\$1,859.1

REINSURANCE

The Company maintained excess of loss reinsurance coverage with HCC Life Insurance Company. Coverage was on a loss-occurring basis with an aggregate loss limit of \$5 million on covered policies in excess of \$200,000 for individual policies and \$150,000 for group policies. The Company did not assume insurance during the period examined.

STATUTORY DEPOSITS

The Company maintained a cash deposit of \$100,000 with the State of Florida as required by Section 624.411, F.S.

Avahealth, Inc.
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$2,233,494	\$0	\$2,233,494
Investment income due and accrued	570	0	570
Amounts recoverable from reinsurers	365,741	0	365,741
Other amounts receivable under reinsurance contracts	833	0	833
Current federal and foreign income tax recoverable	75,033	0	75,033
Receivables from parent, subsidiaries and affiliates	1,195,192	0	1,195,192
Health care and other amounts receivable	48,081	(36,990)	11,091
Total assets	\$3,918,944	(\$36,990)	\$3,881,954

Avahealth, Inc.
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$1,019,005	\$0	\$1,019,005
Unpaid claims adjustment expenses	19,904	0	19,904
Aggregate health policy reserves	28,735	0	28,735
Premiums received in advance	911,240	0	911,240
General expenses due or accrued	80,963	0	80,963
Total liabilities	2,059,847	0	2,059,847
Capital and Surplus			
Common capital stock	1,500,000	0	1,500,000
Gross paid in and contributed surplus	5,807,000	0	5,807,000
Unassigned funds	(5,447,903)	(36,990)	(5,484,893)
Total capital and surplus	1,859,097	(36,990)	1,822,107
Total liabilities, capital and surplus	\$3,918,944	(\$36,990)	\$3,881,954

Avahealth, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2008

Net premium income	\$9,191,923
Aggregate write-ins for other non-health revenues	12,540
<u>Total revenues</u>	<u>9,204,463</u>
Hospital and medical benefits	4,377,655
Other professional services	1,911
Outside referrals	29,800
Emergency room and out-of-area	272,483
Prescription drugs	377,975
<u>Total hospital and medical</u>	<u>5,059,824</u>
General administrative expenses	6,673,613
<u>Total underwriting deductions</u>	<u>11,733,437</u>
Net underwriting gain (loss)	(2,528,974)
Net investment income	49,600
<u>Net income (loss)</u>	<u>(\$2,479,374)</u>

Avahealth, Inc.
Statement of Changes in Capital and Surplus
For The Year Ended December 31, 2008

Capital and surplus - December 31, 2007	\$2,130,846
Net income (loss)	(2,479,374)
Change in nonadmitted assets	625
Paid in capital	2,207,000
	<hr/> 1,859,097
Examination adjustments	(36,990)
	<hr/>
Capital and surplus - December 31, 2008	<hr/> \$1,822,107 <hr/>

Avahealth, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2008 - per annual statement				\$1,859,097
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Health care and other amounts receivable	\$48,081	\$11,091	(\$36,990)	
Net change in capital and surplus				<u>(36,990)</u>
Capital and surplus, December 31, 2008 - per examination				<u><u>\$1,822,107</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Receivables From Parent, Subsidiaries and Affiliates	\$1,195,192
Gross Paid In and Contributed Surplus	\$5,807,000

The amount reported by the Company in its 2008 annual statement as 'gross paid in and contributed surplus' included an accrued capital contribution of \$975,000 collected in 2009 and reported as a receivable at December 31, 2008 without the approval of the Office. Pursuant to paragraph 8 of Statement of Statutory Accounting Principles (SSAP) No. 72, such receivables may be considered as admitted assets with the approval of the domiciliary commissioner.

Health Care and Other Amounts Receivable	\$11,091
---	-----------------

The \$48,081 reported by the Company has been decreased by \$36,990. In its 2008 annual statement, the Company reported an asset consisting of amounts due from certain of its policyholders. The policyholder receivables were reported as 'health care and other amounts receivable' in the amount of \$36,990, and resulted from the Company's payments to provider hospitals of the full amounts of covered claims, including the portions for which the policyholders were obligated. Upon examination, the asset was nonadmitted on the basis that it was not allowable as an admitted asset under Part I of Chapter 625, F.S.

SUMMARY OF RECOMMENDATIONS

Material Prospective Risk

As reported on page 2, the prospective risk exists that the Company will not generate premium revenues and earnings sufficient to assure its future solvency and long-term success. **We recommend that the Company develop controls and business processes sufficient to mitigate this risk.**

Annual Shareholder Meeting

As reported on page 3, the Company was unable to demonstrate that it held an annual shareholder meeting for the election of directors. **We recommend that the Company comply with Section 607.0701(1), F.S.**

Accrued Capital Contribution

As reported on page 13, the amount reported by the Company in its 2008 annual statement as 'gross paid in and contributed surplus' included an accrued capital contribution of \$975,000 collected in 2009 and reported as a receivable at December 31, 2008 without the approval of the Office. **We recommend that, in accordance with paragraph 8 of SSAP No. 72, the Company admit such receivables in future statements only with the approval of the Office.**

Health Care and Other Amounts Receivable

As reported on page 13, the Company incorrectly reported an asset, consisting of policyholder receivables in the total amount of \$36,990, which was not allowable as an admitted asset under Part I of Chapter 625, F.S. **We recommend that the Company not admit the policyholder receivables in future statements filed with the Office.**

SUBSEQUENT EVENTS

Richard W. Haydon resigned from the Company's board of directors effective July 31, 2009.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Avahealth, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$1,822,107, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2008 was \$1,500,000.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; and Kerry A. Krantz, Actuary.

Respectfully submitted,


Darlene L. Lenhart-Schaeffer, AFE
Florida Office of Insurance Regulation



HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2009
OF THE CONDITION AND AFFAIRS OF THE

AVAHEALTH, INC.

NAIC Group Code	<u>0000</u>	NAIC Company Code	<u>12316</u>	Employer's ID Number	<u>20-3075951</u>
	(Current)		(Prior)		
Organized under the Laws of	<u>FL</u>	State of Domicile or Port of Entry	<u>FL</u>		
Country of Domicile	<u>United States of America</u>				
Licensed as business type:	<u>Life, Accident & Health</u>				
Is HMO Federally Qualified? Yes [] No []					
Incorporated/Organized	<u>07/09/2005</u>	Commenced Business	<u>04/01/2006</u>		
Statutory Home Office	<u>3030 North Rocky Point Dr. W, Suite 800</u>	<u>Tampa, FL 33607</u>			
	(Street and Number)	(City or Town, State and Zip Code)			
Main Administrative Office	<u>3030 North Rocky Point Dr. W, Suite 800</u>				
	(Street and Number)				
	<u>Tampa, FL 33607</u>	<u>813-549-0742</u>			
	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)			
Mail Address	<u>3030 North Rocky Point Dr. W, Suite 800</u>	<u>Tampa, FL 33607</u>			
	(Street and Number or P.O. Box)	(City or Town, State and Zip Code)			
Primary Location of Books and Records	<u>3030 North Rocky Point Dr. W, Suite 800</u>				
	(Street and Number)				
	<u>Tampa, FL 33607</u>	<u>813-549-0742</u>			
	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)			
Internet Website Address	<u>www.avalonhealthcare.com</u>				
Statutory Statement Contact	<u>Henry Harrison Neely</u>	<u>813-549-0742</u>			
	(Name)	(Area Code) (Telephone Number)			
	<u>hneely@avalonhealthcare.com</u>	<u>813-549-0747</u>			
	(E-mail Address)	(FAX Number)			
OFFICERS					
President	<u>Charles Thomas O'Neill</u>	Treasurer	<u>Andrew Bradshaw Cassidy</u>		
Secretary	<u>Henry Harrison Neely</u>				
OTHER					
DIRECTORS OR TRUSTEES					
<u>Charles Thomas O'Neill</u>	<u>Henry Harrison Neely</u>	<u>Judith Anne Lyons</u>			
<u>Paul William Kowalski</u>	<u>Joseph Garcia</u>	<u>Joyce Brown Suarez</u>			
State of	<u>FL</u>	SS:			
County of	<u>Hillsborough</u>				

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

<u>Charles T. O'Neill</u>	<u>Andrew B. Cassidy</u>	<u>Henry H. Neely</u>
---------------------------	--------------------------	-----------------------

Subscribed and sworn to before me this
day of

- a. Is this an original filing? Yes [] No [X]
b. If no,
1. State the amendment number.....1
2. Date filed.....03/31/2010
3. Number of pages attached.....23

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D) _____	0		0	0
2. Stocks (Schedule D):				
2.1 Preferred stocks _____	0		0	0
2.2 Common stocks _____	0		0	0
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens _____			0	0
3.2 Other than first liens _____			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ _____ encumbrances) _____	0		0	0
4.2 Properties held for the production of income (less \$ _____ encumbrances) _____	0		0	0
4.3 Properties held for sale (less \$ _____ encumbrances) _____	0		0	0
5. Cash (\$ _____ 3,041,281, Schedule E - Part 1), cash equivalents (\$ _____ 0, Schedule E - Part 2) and short-term investments (\$ _____ 0, Schedule DA) _____	3,041,281		3,041,281	2,233,494
6. Contract loans, (including \$ _____ premium notes) _____			0	0
7. Other invested assets (Schedule BA) _____	0		0	0
8. Receivables for securities _____			0	0
9. Aggregate write-ins for invested assets _____	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) _____	3,041,281	0	3,041,281	2,233,494
11. Title plants less \$ _____ charged off (for Title insurers only) _____			0	0
12. Investment income due and accrued _____	600		600	579
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection _____			0	0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ _____ earned but unbilled premiums) _____			0	0
13.3 Accrued retrospective premiums _____			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers _____	457,401		457,401	365,741
14.2 Funds held by or deposited with reinsured companies _____	6,875,779		6,875,779	0
14.3 Other amounts receivable under reinsurance contracts _____	1,699		1,699	833
15. Amounts receivable relating to uninsured plans _____			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon _____	75,033		75,033	75,033
16.2 Not deferred tax asset _____			0	0
17. Guaranty funds receivable or on deposit _____			0	0
18. Electronic data processing equipment and software _____			0	0
19. Furniture and equipment, including health care delivery assets (\$ _____) _____			0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates _____			0	0
21. Receivables from parent, subsidiaries and affiliates _____	1,004,035		1,004,035	1,195,192
22. Health care (\$ _____ 83,392) and other amounts receivable _____	83,391		83,391	48,081
23. Aggregate write-ins for other than invested assets _____	0	0	0	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) _____	11,539,219	0	11,539,219	3,918,944
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts _____			0	0
26. Total (Lines 24 and 25) _____	11,539,219	0	11,539,219	3,918,944
DETAILS OF WRITE-INS				
0901. _____				
0902. _____				
0903. _____				
0998. Summary of remaining write-ins for Line 9 from overflow page _____	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above) _____	0	0	0	0
2301. Prepaid License _____			0	0
2302. _____				
2303. _____				
2398. Summary of remaining write-ins for Line 23 from overflow page _____	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above) _____	0	0	0	0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ 0 reinsurance ceded)	1,294,525		1,294,525	1,019,005
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	69,062		69,062	19,904
4. Aggregate health policy reserves	100,522		100,522	28,735
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserves			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance	885,165		885,165	911,240
9. General expenses due or accrued	109,193		109,193	30,963
10.1 Current federal and foreign income tax payable and interest thereon (including \$ 0 on realized capital gains (losses))			0	0
10.2 Not deferred tax liability			0	0
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others			0	0
13. Remittance and items not allocated			0	0
14. Borrowed money (including \$ 0 current) and interest thereon \$ 0 (including \$ 0 current)			0	0
15. Amounts due to parent, subsidiaries and affiliates			0	0
16. Payable for securities			0	0
17. Funds held under reinsurance treaties (with \$ 0 authorized reinsurers and \$ 0 unauthorized reinsurers)	9,071,913		9,071,913	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured plans			0	0
21. Aggregate write-ins for other liabilities (including \$ 0 current)	0	0	0	0
22. Total liabilities (Lines 1 to 21)	11,530,370	0	11,530,370	2,059,847
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX	1,500,000	1,500,000
25. Preferred capital stock	XXX	XXX	0	0
26. Gross paid in and contributed surplus	XXX	XXX	5,807,000	5,807,000
27. Surplus notes	XXX	XXX	0	0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	(8,298,151)	(5,447,903)
30. Less treasury stock, at cost:				
30.1 shares common (value included in Line 24 \$)	XXX	XXX		
30.2 shares preferred (value included in Line 25 \$)	XXX	XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	8,849	1,859,097
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	11,539,219	3,918,944
DETAILS OF WRITE-INS				
2101.				
2102.				
2103.				
2199. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2199)(Line 21 above)	0	0	0	0
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2399. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2399)(Line 23 above)	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2899. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2899)(Line 28 above)	XXX	XXX	0	0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	XXX	80,334	48,755
2. Net premium income (including \$ _____ non-health premium income)	XXX	6,901,283	9,191,923
3. Change in unearned premium reserves and reserve for rate credits	XXX	0	0
4. Fee-for-service (net of \$ _____ medical expenses)	XXX	0	0
5. Risk revenue	XXX	0	0
6. Aggregate write-ins for other health care related revenues	XXX	0	0
7. Aggregate write-ins for other non-health revenues	XXX	25,950	12,540
8. Total revenues (Lines 2 to 7)	XXX	6,927,233	9,204,463
Hospital and Medical:			
9. Hospital/medical benefits	0	8,291,148	4,377,655
10. Other professional services		0	1,811
11. Outside referrals	0	348,088	29,800
12. Emergency room and out-of-area	0	253,195	272,483
13. Prescription drugs	0	727,791	377,975
14. Aggregate write-ins for other hospital and medical	0	0	0
15. Incentive pool, withhold adjustments, and bonus amounts		0	0
16. Subtotal (Lines 9 to 15)	0	9,620,233	5,059,824
Less:			
17. Net reinsurance recoveries	0	4,325,233	0
18. Total hospital and medical (Lines 16 minus 17)	0	5,295,000	5,059,824
19. Non-health claims (net)			
20. Claims adjustment expenses, including \$ _____ cost containment expenses		0	0
21. General administrative expenses	0	4,484,324	6,673,613
22. Increase in reserves for life and accident and health contracts (including \$ _____ increase in reserves for life only)		0	0
23. Total underwriting deductions (Lines 18 through 22)	0	9,779,324	11,733,437
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(2,852,091)	(2,529,974)
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		2,443	49,600
26. Net realized capital gains (losses) less capital gains tax of \$ _____			
27. Net investment gains (losses) (Lines 25 plus 26)	0	2,443	49,600
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ _____) (amount charged off \$ _____)]			
29. Aggregate write-ins for other income or expenses	0	0	0
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	(2,850,248)	(2,479,374)
31. Federal and foreign income taxes incurred	XXX		
32. Net income (loss) (Lines 30 minus 31)	XXX	(2,850,248)	(2,479,374)
DETAILS OF WRITE-INS			
0601.	XXX		
0602.	XXX		
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)	XXX	0	0
0701. Fee Income	XXX	25,950	12,540
0702. Pharmaceutical Rebate	XXX		0
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798)(Line 7 above)	XXX	25,950	12,540
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498)(Line 14 above)	0	0	0
2901.			
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998)(Line 29 above)	0	0	0

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year	2 Prior Year
CAPITAL AND SURPLUS ACCOUNT		
33. Capital and surplus prior reporting year.....	1,859,097	2,130,846
34. Net income or (loss) from Line 32.....	(12,850,248)	(2,479,374)
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....		
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....		
39. Change in nonadmitted assets.....	0	625
40. Change in unauthorized reinsurance.....	0	0
41. Change in treasury stock.....	0	0
42. Change in surplus notes.....	0	0
43. Cumulative effect of changes in accounting principles.....		
44. Capital Changes:		
44.1 Paid in.....	0	0
44.2 Transferred from surplus (Stock Dividend).....	0	0
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....	1,000,000	2,207,000
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	0	0
48. Net change in capital and surplus (Lines 34 to 47).....	(1,850,248)	(271,749)
49. Capital and surplus end of reporting period (Line 33 plus 48).....	8,849	1,859,097
DETAILS OF WRITE-INS		
4701.		
4702.		
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798)(Line 47 above).....	0	0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

CASH FLOW

	1	2
	Current Year	Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	71,216	9,838,435
2. Net investment income	2,413	50,632
3. Miscellaneous income	25,950	12,540
4. Total (Lines 1 through 3)	99,579	9,901,607
5. Benefit and loss related payments	5,111,140	4,761,651
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	4,435,776	5,668,417
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	0	10,967
10. Total (Lines 5 through 9)	9,546,916	11,441,035
11. Net cash from operations (Line 4 minus Line 10)	(9,447,337)	(1,539,368)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	0	0
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	0	0
13. Cost of investments acquired (long-term only):		
13.1 Bonds	0	0
13.2 Stocks	0	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	0	0
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	0	0
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	1,000,000	2,207,000
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	9,255,124	(1,421,825)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	10,255,124	785,175
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	907,787	(754,193)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	2,233,494	2,987,687
19.2 End of year (Line 18 plus Line 19.1)	3,041,281	2,233,494

Note: Supplemental disclosures of cash flow information for non-cash transactions:

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XXX Medicaid	Other Health	Other Non-Health
1. Net premium income	5,901,293	5,901,293								
2. Change in unearned premium reserves and reserve for rate credit	0	0								
3. Fee-for-service (net of \$ medical expenses)	0	0								
4. Risk revenue	0	0								
5. Aggregate write-ins for other health care related revenues	0	0								
6. Aggregate write-ins for other non-health care related revenues	0	0								
7. Total revenues (Lines 1 to 6)	5,901,293	5,901,293								
8. Hospital/medical benefits	5,231,148	5,231,148								
9. Other professional services	0	0								
10. Outside referrals	340,089	340,089								
11. Emergency room and out-of-area	253,195	253,195								
12. Prescription drugs	727,781	727,781								
13. Aggregate write-ins for other hospital and medical	0	0								
14. Incentive pool, withhold adjustments and bonus amounts	0	0								
15. Subtotal (Lines 8 to 14)	9,620,233	9,620,233								
16. Net reinsurance recoveries	4,295,233	4,295,233								
17. Total medical and hospital (Lines 15 minus 16)	5,325,000	5,325,000								
18. Non-health claims (net)	0	0								
19. Claims adjustment expenses including \$ cost containment expenses	0	0								
20. General administrative expenses	4,484,924	4,484,924								
21. Increase in reserves for accident and health contracts	0	0								
22. Increase in reserves for life contracts	0	0								
23. Total underwriting deductions (Lines 17 to 22)	9,779,924	9,779,924								
24. Total underwriting gain or (loss) (Line 7 minus Line 23)	(2,854,631)	(2,854,631)								
DETAILS OF WRITE-INS										
0901.										
0902.										
0903.										
Summary of remaining write-ins for Line 5 from overflow page	0	0								
Totals (Lines 0901 thru 0903 plus 0998) (Line 5 above)	0	0								
0998.										
0901.	25,889	25,889								
0902.	0	0								
0903.	0	0								
Summary of remaining write-ins for Line 6 from overflow page	0	0								
Totals (Lines 0901 thru 0903 plus 0998) (Line 6 above)	0	0								
1301.										
1302.										
1303.										
Summary of remaining write-ins for Line 13 from overflow page	0	0								
Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above)	0	0								

**ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.
UNDERWRITING AND INVESTMENT EXHIBIT**

PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1 + 2 - 3)
1. Comprehensive (hospital and medical)	16,238,306		9,337,023	6,901,283
2. Medicare Supplement				0
3. Dental only				0
4. Vision only				0
5. Federal Employees Health Benefits Plan	0			0
6. Title XVIII - Medicare	0			0
7. Title XIX - Medicaid	0			0
8. Other Health				0
9. Health subtotal (Lines 1 through 8)	16,238,306	0	9,337,023	6,901,283
10. Life	0			0
11. Property/casualty	0			0
12. Totals (Lines 9 to 11)	16,238,306	0	9,337,023	6,901,283

**ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.
UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2 - CLAIMS INCURRED DURING THE YEAR										
	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (In-Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XXIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct	9,354,673	9,354,673								
1.2 Reinsurance assumed	0	0								
1.3 Reinsurance ceded	0	0								
1.4 Net	9,354,673	9,354,673	0	0	0	0	0	0	0	0
2. Paid medical incentive pools and bonuses	0	0								
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	1,294,525	1,294,525	0	0	0	0	0	0	0	0
3.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
3.4 Net	1,294,525	1,294,525	0	0	0	0	0	0	0	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	0	0								
4.2 Reinsurance assumed	0	0								
4.3 Reinsurance ceded	0	0								
4.4 Net	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0	0								
6. Net healthcare receivables (a)	9,980	9,980								
7. Amounts recoverable from reinsurers December 31, current year	0	0								
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	1,018,005	1,018,005	0	0	0	0	0	0	0	0
8.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
8.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
8.4 Net	1,018,005	1,018,005	0	0	0	0	0	0	0	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct	0	0								
9.2 Reinsurance assumed	0	0								
9.3 Reinsurance ceded	0	0								
9.4 Net	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year	0	0								
11. Amounts recoverable from reinsurers December 31, prior year	0	0								
12. Incurred Benefits:										
12.1 Direct	9,620,233	9,620,233	0	0	0	0	0	0	0	0
12.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
12.4 Net	9,620,233	9,620,233	0	0	0	0	0	0	0	0
13. Incurred medical incentive pools and bonuses	0	0								

(a) Excludes \$ _____ basis or advances to providers not yet expensed.

**ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.
UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR										
	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Tag XXX Medicaid	Other Health	Other Non-Health
1. Reported in Process of Adjustment:										
1.1 Direct	1,284,525	1,284,525								
1.2 Reinsurance assumed	0	0								
1.3 Reinsurance ceded	0	0	0		0	0	0	0	0	0
1.4 Net	1,284,525	1,284,525	0		0	0	0	0	0	0
2. Incurred but Unreported:										
2.1 Direct	0									
2.2 Reinsurance assumed	0									
2.3 Reinsurance ceded	0		0	0	0	0	0	0	0	0
2.4 Net	0	0	0	0	0	0	0	0	0	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1 Direct	0									
3.2 Reinsurance assumed	0									
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
3.4 Net	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1 Direct	1,284,525	1,284,525	0	0	0	0	0	0	0	0
4.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
4.4 Net	1,284,525	1,284,525	0	0	0	0	0	0	0	0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.
UNDERWRITING AND INVESTMENT EXHIBIT
PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability		5	6
	1	2	3	4		
	On Claims Incurred Prior to January 1 of Current Year	On Claims Incurred During the Year	On Claims Unpaid December 31 of Prior Year	On Claims Incurred During the Year	Claims Incurred in Prior Years (Column 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	1,082,880	3,946,590	10,190	1,284,335	1,693,070	1,019,005
2. Medicare Supplement					0	
3. Dental Only					0	
4. Vision Only					0	
5. Federal Employees Health Benefits Plan					0	
6. Title XVIII - Medicare					0	
7. Title XIX - Medicaid					0	
8. Other health					0	
9. Health subtotal (Lines 1 to 8)	1,082,880	3,946,590	10,190	1,284,335	1,693,070	1,019,005
10. Healthcare receivables (a)		9,990			0	
11. Other non-health					0	
12. Medical incentive pools and bonus amounts					0	
13. Totals (Lines 9 + 10 + 11 + 12)	1,082,880	3,956,580	10,190	1,284,335	1,693,070	1,019,005

(a) Excludes \$ _____ loans or advances to providers not yet expensed.

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Section A - Paid Health Claims - Comprehensive (Hospital & Medical)

	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	0	0	0	0	0
2. 2005					
3. 2006	XXX				
4. 2007	XXX	128	237	238	237
5. 2008	XXX	XXX	1,176	1,466	1,466
6. 2009	XXX	XXX	XXX	4,507	5,989
				XXX	6,988

Section B - Incurred Health Claims - Comprehensive (Hospital & Medical)

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	0	0	0	0	0
2. 2005					
3. 2006	XXX	336	237	238	237
4. 2007	XXX	XXX	1,531	1,466	1,466
5. 2008	XXX	XXX	XXX	5,525	5,600
6. 2009	XXX	XXX	XXX	XXX	7,683

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Comprehensive (Hospital & Medical)

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Claim Adjustment Expense Payments (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year	7 Claims Unpaid	8 Unpaid Claims Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2005	160	128	0.0	0.0	128	0.0	0.0	0.0	0.0	0.0
2. 2006	3,588	1,284	0.0	0.0	1,284	19.4	19.4	128	128	3.4
3. 2007	9,182	4,788	0.0	0.0	4,788	55.8	55.8	1,284	1,284	13.8
4. 2008	6,988	7,461	0.0	0.0	7,461	106.4	106.4	4,788	4,808	69.3
5. 2009								68	8,834	126.0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Grand Total

	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	0	0	0	0	0
2. 2005	0	0	0	0	0
3. 2006	XXX	128	237	238	237
4. 2007	XXX	XXX	1,176	1,465	1,466
5. 2008	XXX	XXX	XXX	4,507	5,389
6. 2009	XXX	XXX	XXX	XXX	6,389

Section B - Incurred Health Claims - Grand Total

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	0	0	0	0	0
2. 2005	0	0	0	0	0
3. 2006	XXX	388	237	238	237
4. 2007	XXX	XXX	1,531	1,466	1,466
5. 2008	XXX	XXX	XXX	5,525	5,800
6. 2009	XXX	XXX	XXX	XXX	7,883

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Grand Total

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payment	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2005	0	0	0	0.0	0	0.0	0	0	0	0.0
2. 2006	680	128	128	18.4	128	18.4	0	0	128	18.4
3. 2007	3,588	1,284	1,284	35.8	1,284	35.8	0	0	1,284	35.8
4. 2008	9,192	4,798	4,798	52.2	4,798	52.2	10	0	4,808	52.3
5. 2009	6,991	7,481	7,481	108.4	7,481	108.4	1,284	86	8,854	128.0

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XX Medicaid	Other
1. Unearned premium reserves	0								
2. Additional policy reserves (a)	100,522	100,522							
3. Reserve for future contingent benefits	0								
4. Reserve for rate credits or experience rating refunds (including \$ for investment income)	0								
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0
6. Totals (gross)	100,522	100,522	0	0	0	0	0	0	0
7. Reinsurance ceded	0								
8. Totals (Net)(Page 3, Line 4)	100,522	100,522	0	0	0	0	0	0	0
9. Present value of amounts not yet due on claims	0								
10. Reserve for future contingent benefits	0								
11. Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0
12. Totals (gross)	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded	0								
14. Totals (Net)(Page 3, Line 7)	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.									
0502.									
0503.									
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0591 thru 0593 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0
1101.									
1102.									
1103.									
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0

(a) includes \$ premium deficiency reserve.

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.
UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ _____ for occupancy of own building) _____			209,532		209,532
2. Salary, wages and other benefits _____			2,402,974		2,402,974
3. Commissions (less \$ _____ ceded plus \$ _____ assumed) _____			2,827,630		2,827,630
4. Legal fees and expenses _____			77,781		77,781
5. Certifications and accreditation fees _____					0
6. Auditing, actuarial and other consulting services _____			323,145		323,145
7. Traveling expenses _____			53,784		53,784
8. Marketing and advertising _____			105,441		105,441
9. Postage, express and telephone _____			67,081		67,081
10. Printing and office supplies _____			16,924		16,924
11. Occupancy, depreciation and amortization _____					0
12. Equipment _____			13,055		13,055
13. Cost or depreciation of EDP equipment and software _____			54,535		54,535
14. Outsourced services including EDP, claims, and other services _____			1,389,171		1,389,171
15. Boards, bureaus and association fees _____			10,620		10,620
16. Insurance, except on real estate _____			66,149		66,149
17. Collection and bank service charges _____			151,458		151,458
18. Group service and administration fees _____					0
19. Reimbursements by uninsured plans _____					0
20. Reimbursements from fiscal intermediaries _____					0
21. Real estate expenses _____					0
22. Real estate taxes _____					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes _____			757		757
23.2 State premium taxes _____			285,305		285,305
23.3 Regulatory authority licenses and fees _____			1,660		1,660
23.4 Payroll taxes _____					0
23.5 Other (excluding federal income and real estate taxes) _____			190,341		190,341
24. Investment expenses not included elsewhere _____					0
25. Aggregate write-ins for expenses _____	0	0	(3,762,419)	0	(3,762,419)
26. Total expenses incurred (Lines 1 to 25) _____	0	0	4,484,924	0	(a) 4,484,924
27. Less expenses unpaid December 31, current year _____		69,052	109,193		178,245
28. Add expenses unpaid December 31, prior year _____			80,963		80,963
29. Amounts receivable relating to uninsured plans, prior year _____					0
30. Amounts receivable relating to uninsured plans, current year _____					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) _____	0	(69,052)	4,456,694	0	4,387,642
DETAILS OF WRITE-INS					
2501. Other Administrative Expenses _____			(3,762,419)		(3,762,419)
2502. _____					
2503. _____					
2598. Summary of remaining write-ins for Line 25 from overflow page _____	0	0	0	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above) _____	0	0	(3,762,419)	0	(3,762,419)

(a) Includes management fees of \$ _____ to affiliates and \$ _____ to non-affiliates.

STATEMENT AS OF DECEMBER 31, 2009 OF AVAHEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

A. Accounting Practices

AVAHEALTH, INC. DBA Avalon Healthcare, Inc. (Avalon) is a health insurance company domiciled in the State of Florida and licensed to do business in the State of Florida. Avalon markets individual and group health insurance products through brokers and its own representatives.

The accompanying statutory basis financial statements of AVAHEALTH, INC. are presented on the basis of accounting practices prescribed or permitted by the Florida Office of Insurance Regulation. The Florida Office of Insurance Regulation recognizes only statutory accounting practices prescribed or permitted by the State of Florida for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Florida Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Florida.

B. Use of Estimates

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policies

Health premiums are earned ratably over the terms of the related insurance policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

- 1) Short term investments are stated at amortized cost.
- 2) Avalon owns no bonds.
- 3) Avalon owns no common stocks.
- 4) Avalon owns no preferred stocks.
- 5) Avalon has no mortgage loans.
- 6) Avalon has no loan-backed securities.
- 7) Avalon has no investments in subsidiaries, controlled and affiliated companies.
- 8) Avalon has no investments in joint ventures, partnerships and limited liability companies.
- 9) Avalon holds no derivatives.
- 10) Avalon anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54, Individual and Group Accident and Health Contracts.
- 11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.
- 12) Avalon has made no change to its capitalization policy.
- 13) Avalon has a pharmaceutical rebate receivables in the amount of \$9,960.

D. Other Disclosures

Avalon entered into a Yearly Renewable Term (YRT) Reinsurance Agreement with London Life Reinsurance Company effective January 1, 2009. In accordance with SSAP No. 61, the following items have been reported on the December 31, 2009 Quarterly Statement:

- 1) Funds held by or deposited with reinsurance companies (Line 14.2, Column 1 on the Assets) includes an amount receivable for funds withheld by the ceding entity "YRT Reinsurance Recoverable" totaling \$6,875,779.
- 2) Funds held under reinsurance treaties (Line 17, Column 1 on the Liabilities, Capital and Surplus) includes an amount payable for funds withheld by the ceding entity "YRT Reinsurance Payable" totaling \$8,071,913.
- 3) Claims Unpaid (Line 1, Column 1 on the Liabilities, Capital and Surplus) is reported net of deductions to claim reserves "YRT Reinsurance Funds Withheld" totaling \$2,196,134.
- 4) Net Premium Income (Line 2, Column 2 on the Statement of Revenue and Expenses) is reported net of amounts payable to the reinsurer totaling \$8,512,727.
- 5) Net Reinsurance recoveries (Line 17, Column 2 on the Statement of Revenue and Expenses) includes policy benefit payments payable by the reinsurer "YRT Reinsurance Policy Benefits" totaling \$4,325,233.
- 6) General administrative expenses (Line 21, Column 2 on the Statement of Revenue and Expenses) is reported net of profit commission "YRT Reinsurance Profit Commission" totaling \$1,395,324, is reported net of an allowance for general expenses "YRT Reinsurance Admin Expenses" totaling \$2,792,170 and includes a YRT Reinsurance Risk Charge totaling \$85,122.

In accordance with the Model Audit Rule, Avalon confirms the following will begin with the submission of the 2010 Annual Health Statement:

- 1) The lead audit partner contracted to perform the independent audit will not have served in the capacity of lead auditor for more than five consecutive years.
- 2) An annual Management's Report of Internal Control over Financial Reporting will be submitted.
- 3) The existing Audit committee for AvaHealth, Inc. composed of members of the Board of Directors of the parent company Avalon Healthcare Holdings, Inc. will meet the member independence requirement if the requisite thresholds have been exceeded.

2. Accounting Changes and Corrections of Errors

Not Applicable

3. Business Combinations and Goodwill

Not Applicable

4. Discontinued Operations

None

5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

None

B. Debt Restructuring

STATEMENT AS OF DECEMBER 31, 2009 OF AVAHEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

None

C. Reverse Mortgages

None

D. Loan-Backed Securities

None

E. Repurchase Agreements

None

F. Real Estate

None

6. Joint Ventures, Partnerships and Limited Liability Companies

A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

7. Investment Income

A. Avalon did not exclude any due and accrued income from surplus.

B. The total amount excluded was \$0.00.

8. Derivative Instruments

Avalon did not hold any derivative instruments during 2009.

9. Income Taxes

A. Avalon had a net deferred income tax asset (DTA) of \$964,457 recognized in Avalon's Assets, Liabilities, Surplus and Other.

B. Avalon had no deferred tax liabilities.

C. Avalon incurred no current income taxes.

D. Avalon had no significant book to tax adjustments.

E. Not applicable

F. Additional Disclosures

None

G. Consolidated Income Tax Return

Avalon is a member of an affiliated group included in the consolidated federal income tax return of Avalon Healthcare Holdings, Inc. The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. The tax liability is allocated in the ratio of the subsidiary's tax liability on a separate return basis to the total taxes of all the members on a separate return basis. Each member is required to use current operating losses and other credits first without considering the current year's profits and losses of other members of the affiliated group. Avalon Healthcare Holdings, Inc. is required to pay the Company for excess tax credits and losses to the extent they are utilized in the consolidated return. Inter-company tax balances are settled within 30 days of receiving notice of such payment from Avalon Healthcare Holdings, Inc.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

A. Avalon paid a monthly management fee to the Parent Company, Avalon Healthcare Holdings, Inc., beginning on October 1, 2005, totaling \$600,000 for 2005, \$2,600,000 for 2006, \$1,842,310 for 2007, \$6,340,078 for 2008, and \$8,100,503 for 2009.

B. See A.

C. Not applicable

D. As of December 31, 2009, \$1,004,035 was due from the Parent Company, Avalon Healthcare Holdings, Inc.

E. None

F. The Parent Company, Avalon Healthcare Holdings, Inc. provides management and administrative services to Avalon. Avalon Healthcare Holdings, Inc. charges Avalon a management fee for these services. The management fee is allocated proportionally to the various general expense categories based upon the percentage of the total expenses actually incurred.

G. All issued shares of Avalon are owned by the Parent Company, Avalon Healthcare Holdings, Inc., an insurance holding company domiciled in the State of Delaware.

H. Avalon does not own any share of the stock of its Parent Company, Avalon Healthcare Holdings, Inc.

I. Avalon has no investments in its Parent, Subsidiaries and Affiliates.

J. Avalon did not recognize any impairment write-down for its investments in subsidiaries, controlled or affiliated companies during the statement period.

STATEMENT AS OF DECEMBER 31, 2009 OF AVAHEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

11. DEBT

Avalon Healthcare Holdings, Inc. assumed a \$1,500,000 revolving line of credit through Synovus Bank and acquired an additional Notes Payable in the amount of \$1,500,000.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

Not applicable

13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

- A. Avalon has 5,000,000 shares authorized, 1,500,000 shares issued and outstanding at a par value of \$1.00 per share. All shares are common shares owned by the Parent Company, Avalon Healthcare Holdings, Inc.
- B. Avalon has no preferred stock outstanding.
- C. Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the state of Florida.
- D. Within the limitations of (c) above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.
- E. There were no restrictions placed on Avalon's surplus, including for whom the surplus is being held.
- F. There were no advances to surplus not repaid.
- G. The total amount of stock held by the company, including stock of affiliated companies, for special purposes are:
None
- H. There were no changes in the balances of any special surplus funds from the prior period.
- I. The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses was:
Not applicable
- J. Surplus Notes
Not Applicable
- K. Impact of quasi-reorganization
Not Applicable
- L. The effective date(s) of all quasi-reorganizations in the prior 10 years
Not Applicable

14. CONTINGENCIES

- A. Contingent Commitments
None
- B. Assessments
None
- C. Gain Contingencies
None
- D. Other Contingencies
None

15. Leases

- A. Lessee Leasing Arrangements
 - i) Avalon Healthcare Holdings leases office space from Realty Associates Iowa Corporation commencing on March 1, 2007 for a term of 60 months. Rental expense allocated to Avalon as of December 31, 2009 was \$209,532.
 - ii) Avalon's anticipated allocated share of rent for leases having non-cancelable lease terms greater than one year is \$209,532 for 2010.
 - iii) No change.
- B. Lessor Leases
No Change

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

- A. Financial Instruments With Off-Balance Sheet Risk
None
- B. Financial Instruments With Concentrations of Credit Risk
None

STATEMENT AS OF DECEMBER 31, 2009 OF AVAHEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

A. Transfers of Receivables Reported as Sales

None

B. Transfer and Servicing of Financial Assets

None

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

A. ASO Plans

Not Applicable

B. ASC Plans

Not Applicable

C. Medicare or Similarly Structured Cost Based Reimbursement Contract

Not Applicable

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS

Not Applicable

20. SEPTEMBER 11 EVENTS

Not Applicable

21. OTHER ITEMS

A. Extraordinary Items

None

B. Troubled Debt Restructuring: Debtors

None

C. Other Disclosures

As of December 31, 2009, Avalon had \$100,000 on deposit with the State of Florida as required by law.

D. Balance That is Reasonably Possible to be Uncollectible

None

E. Business Interruption Insurance Recoveries

None

22. EVENTS SUBSEQUENT

Type I None

Type II None

23. REINSURANCE

A. Ceded Reinsurance Report

Section 1 -- General Interrogatories

1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes () No (X)

2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes () No (X)

Section 2 -- Ceded Reinsurance Report -- Part A

1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits?

Yes () No (X)

2) Does the company have any reinsurance agreements in effect such that the amount of losses paid or accrued through the 2) statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

Section 3 -- Ceded Reinsurance Report -- Part B

STATEMENT AS OF DECEMBER 31, 2009 OF AVAHEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary the company may consider the current or anticipated experience of the business reinsured in making this estimate.

\$ N/A

2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes () No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments?

B. Uncollectible Reinsurance

Not Applicable

C. Commutation of Ceded Reinsurance

Not Applicable

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Not Applicable

25. Change in Incurred Claims and Claim Adjustment Expenses

No Change

26. Intercompany Pooling Arrangements

Not Applicable

27. Not Applicable

28. Health Care Receivables

A. Pharmaceutical Rebate Receivables

\$9,960

B. Risk Sharing Receivables

None

29. Participating Policies

Not Applicable

30. Premium Deficiency Reserves

Not Applicable

31. Anticipated Salvage and Subrogation

Not Applicable

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? _____ Yes [] No [X]

1.2 If yes, indicate premium earned on U. S. business only _____ \$ _____

1.3 What portion of item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? _____ \$ _____

1.31 Reason for excluding _____

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in item (1.2) above. _____ \$ _____

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. _____ \$ _____ 0

1.6 Individual policies:

Most current three years:

1.61 Total premium earned _____ \$ _____ 0

1.62 Total incurred claims _____ \$ _____ 0

1.63 Number of covered lives _____ 0

All years prior to most current three years:

1.64 Total premium earned _____ \$ _____ 0

1.65 Total incurred claims _____ \$ _____ 0

1.66 Number of covered lives _____ 0

1.7 Group policies:

Most current three years:

1.71 Total premium earned _____ \$ _____ 0

1.72 Total incurred claims _____ \$ _____ 0

1.73 Number of covered lives _____ 0

All years prior to most current three years:

1.74 Total premium earned _____ \$ _____ 0

1.75 Total incurred claims _____ \$ _____ 0

1.76 Number of covered lives _____ 0

2. Health Test

	1 Current Year	2 Prior Year
2.1 Premium Numerator _____	5,901,283	9,191,923
2.2 Premium Denominator _____	5,901,283	9,191,923
2.3 Premium Ratio (2.1/2.2) _____	1.000	1.000
2.4 Reserve Numerator _____	1,395,047	0
2.5 Reserve Denominator _____	1,395,047	1,047,740
2.6 Reserve Ratio (2.4/2.5) _____	1.000	0.000

3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? _____ Yes [] No [X]

3.2 If yes, give particulars: _____

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? _____ Yes [] No [X]

4.2 If not previously filed furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? _____ Yes [] No [X]

5.1 Does the reporting entity have stop-loss reinsurance? _____ Yes [X] No []

5.2 If no, explain _____

5.3 Maximum retained risk (see instructions)

5.31 Comprehensive Medical _____ \$ _____ 360,000

5.32 Medical Only _____ \$ _____

5.33 Medicare Supplement _____ \$ _____

5.34 Dental & Vision _____ \$ _____

5.35 Other Limited Benefit Plan _____ \$ _____

5.36 Other _____ \$ _____

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements: _____

7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? _____ Yes [X] No []

7.2 If no, give details _____

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year _____ 3,650

8.2 Number of providers at end of reporting year _____ 5,500

9.1 Does the reporting entity have business subject to premium rate guarantees? _____ Yes [] No [X]

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees between 15-36 months _____ \$ _____

9.22 Business with rate guarantees over 36 months _____ \$ _____

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

GENERAL INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes [] No [X]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses \$ _____
- 10.22 Amount actually paid for year bonuses \$ _____ 0
- 10.23 Maximum amount payable withholds \$ _____
- 10.24 Amount actually paid for year withholds \$ _____
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, _____ Yes [] No [X]
- 11.13 An Individual Practice Association (IPA), or, _____ Yes [] No [X]
- 11.14 A Mixed Model (combination of above)? _____ Yes [] No [X]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? _____ Yes [X] No []
- 11.3 If yes, show the name of the state requiring such net worth _____ Florida
- 11.4 If yes, show the amount required \$ _____ 1,500,000
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity? _____ Yes [X] No []
- 11.6 If the amount is calculated, show the calculation _____
12. List service areas in which reporting entity is licensed to operate:
- | 1 |
|----------------------|
| Name of Service Area |
- 13.1 Do you act as a custodian for health savings accounts? _____ Yes [] No [X]
- 13.2 If yes, please provide the amount of custodial funds held as of the reporting date. \$ _____
- 13.3 Do you act as an administrator for health savings accounts? _____ Yes [] No [X]
- 13.4 If yes, please provide the balance of funds administered as of the reporting date. \$ _____

ANNUAL STATEMENT FOR THE YEAR 2009 OF THE AVAHEALTH, Inc.

FIVE-YEAR HISTORICAL DATA

	1 2009	2 2008	3 2007	4 2006	5 2005
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	11,539,219	3,918,944	3,096,935	2,128,291	4,234,173
2. Total liabilities (Page 3, Line 22)	11,530,370	2,058,847	966,089	472,589	0
3. Statutory surplus	1,500,000		1,500,000	1,500,000	0
4. Total capital and surplus (Page 3, Line 31)	8,849	1,859,097	2,130,846	1,655,702	4,234,173
Income Statement (Page 4)					
5. Total revenues (Line 8)	5,927,233	9,204,463	3,430,966	667,615	0
6. Total medical and hospital expenses (Line 18)	5,295,000	5,058,824	1,449,210	380,425	0
7. Claims adjustment expenses (Line 20)	0	0	0	15,000	0
8. Total administrative expenses (Line 21)	4,484,924	5,673,613	2,000,482	2,932,351	603,477
9. Net underwriting gain (loss) (Line 24)	(2,852,691)	(2,528,974)	(18,736)	(2,660,161)	(603,477)
10. Net investment gain (loss) (Line 27)	2,443	48,600	100,465	110,498	38,816
11. Total other income (Lines 28 plus 29)	0	0	0	0	0
12. Net income or (loss) (Line 32)	(2,850,248)	(2,479,374)	145,795	(2,549,663)	(564,661)
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	(9,447,337)	(1,538,368)	395,618	(2,198,038)	
Risk-Based Capital Analysis					
14. Total adjusted capital	8,849	1,859,097	2,130,846	1,655,702	4,234,173
15. Authorized control level risk-based capital	393,722	431,021	771,607	182,941	6,351
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	6,946	5,770	2,369	667	0
17. Total members months (Column 6, Line 7)	80,334	48,755	16,607	2,890	0
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)	76.7	55.0	42.4	57.6	0.0
20. Cost containment expenses	0.0	0.0	0.0	0.0	0.0
21. Other claims adjustment expenses	0.0	0.0	0.0	2.3	0.0
22. Total underwriting deductions (Line 23)	141.7	127.6	101.0	504.3	0.0
23. Total underwriting gain (loss) (Line 24)	(41.3)	(27.5)	(0.5)	(403.1)	0.0
Unpaid Claims Analysis (USI Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5)	1,093,070	291,025	108,723	0	
25. Estimated liability of unpaid claims-(prior year (Line 13, Col. 6))	1,019,005	355,091	207,729	0	
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)	0	0			0
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)	0	0			
28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)	0	0			
29. Affiliated short-term investments (subtotal included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	
30. Affiliated mortgage loans on real estate					0
31. All other affiliated					0
32. Total of above Lines 26 to 31	0	0	0	0	0

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? _____

Yes () No ()

If no, please explain: _____



FILED

MAY 5 2010

**OFFICE OF
INSURANCE REGULATION**

Deeketed by: ER

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

AVAHEALTH, INC.

CASE NO.: 110187-10-CO

CONFIDENTIAL

Pursuant to Section 624.82,
Florida Statutes

CONSENT ORDER FOR ADMINISTRATIVE SUPERVISION

THIS CAUSE came on for consideration upon review by the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of the financial condition of AVAHEALTH, INC., also doing business as AVALON HEALTHCARE, INC. (hereinafter referred to as "AVAHEALTH" or "the company"). After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the parties and subject matter of this action.
2. AVAHEALTH is a domestic life and health insurer licensed to do business in Florida and subject to regulation by the OFFICE, pursuant to Chapter 624, Florida Statutes. AVAHEALTH is one hundred percent (100%) owned by Avalon HealthCare Holdings, Inc. (hereinafter referred to as AVAHEALTH HOLDINGS).
3. The OFFICE and AVAHEALTH agree that grounds exist for AVAHEALTH to be placed in administrative supervision to protect the assets of AVAHEALTH and to protect the

interests of its insureds, and AVAHEALTH consents to be placed in administrative supervision, pursuant to Chapter 624, Part VI, Florida Statutes.

4. The OFFICE's action is predicated on the current financial condition of AVAHEALTH.

5. On March 2, 2010, AVAHEALTH, Inc. submitted its December 31, 2009 annual financial statement filings as required by Section 624.424, Florida Statutes. The Statement of Actuarial Opinion filed in accordance with Section 625.121(3), Florida Statutes, on March 29, 2010 for the December 31, 2009 annual financial statement, contained a Qualified Opinion issued by the Appointed Actuary, Gregory G. Fann, FSA, MAAA.

6. Based on the amended February 28, 2010 monthly financial statement filed on March 25, 2010, AVAHEALTH does not have sufficient assets to meet the minimum surplus requirements, pursuant to Section 624.408, Florida Statutes.

7. AVAHEALTH acknowledged in a letter dated March 26, 2010 that AVAHEALTH will not resume selling and or writing business without the consent of the OFFICE.

8. Based on the amended December 31, 2009 annual financial statement filed on March 31, 2010, AVAHEALTH does not have sufficient assets to meet the minimum surplus requirements, pursuant to Section 624.408, Florida Statutes.

9. On April 2, 2010, an Actuarial Memorandum for the year ended December 31, 2009 was filed with the OFFICE by AVAHEALTH. The Actuarial Memorandum was reviewed by an Actuary within the OFFICE and a determination made that although the Actuarial Memorandum supported the Statement of Actuarial Opinion submitted on March 29, 2010, the

Actuarial Memorandum did not address the reinsurance ceded credit implicitly taken by the company.

10. While this supervision is in effect, AVAHEALTH may not, without prior written approval of the OFFICE, engage in any of the actions enumerated in Section 624.83, Florida Statutes.

11. In addition, AVAHEALTH shall not increase any officer's or director's compensation above the level they were at as of April 23, 2010, or pay bonuses to any officer, director, or employee without the prior written approval of the OFFICE.

12. AVAHEALTH shall not enter into any new or amend any existing agreements with any affiliate(s), as defined in Rule 690-143.045, Florida Administrative Code, without prior written consent of the OFFICE.

13. AVAHEALTH shall not waste assets, or expend funds other than in the ordinary course of business in excess of ten thousand U.S. dollars (\$10,000) without the prior written consent of the Deputy Supervisor. If, after the Deputy Supervisor's approval of a transaction has been granted, the OFFICE becomes aware of additional facts or circumstances, which materially affect its prior approval of the transaction, the OFFICE reserves the authority to require such corrective action as it may deem necessary or advisable. Transactions in the ordinary course of business shall include, but not be limited to, payment of provider claims. AVAHEALTH need not obtain prior written consent for payment of provider claims, although the OFFICE and the Deputy Supervisor may prospectively review such payments.

14. AVAHEALTH shall file monthly financial statements until the OFFICE provides written documentation indicating monthly financial statements are no longer required. The monthly financial statements are due on or before the twenty-fifth (25th) day of the following

month from the period ending date. The monthly financial statements include the Jurat page, Assets, Liabilities, Capital and Surplus, Statement of Revenue and Expenses, Cash Flow, Exhibit of Premiums, Enrollment and Utilization.

15. Should AVAHEALTH be unable to file any monthly, quarterly or annual financial statement by the due date, it shall cease soliciting or accepting new or renewal premium until such time as the delinquent financial statement and any required capital infusion has been filed with the OFFICE.

16. AVAHEALTH shall file financial statements with the OFFICE for its parent company, AVAHEALTH HOLDINGS, on a quarterly basis until the OFFICE provides written documentation indicating quarterly financial statements are no longer required. The financial statements for AVAHEALTH HOLDINGS shall be due 45 days after the quarter end.

17. In the event that AVAHEALTH files an insolvent financial statement, evidence of capital infusion is required to be filed with the insolvent financial statement to correct such insolvency.

18. AVAHEALTH and AVAHEALTH HOLDINGS shall notify the OFFICE of any pending litigation against either company within one week of notification of such litigation. Within five days of execution of this Consent Order, AVAHEALTH and AVAHEALTH HOLDINGS shall provide a list of any known pending litigation.

19. AVAHEALTH shall provide a list of all contracts with renewal dates to the Deputy Supervisor.

20. AVAHEALTH shall provide an updated actuarial certification, as described in Section 625.121(3), Florida Statutes, for all quarterly financial statements.

21. Within thirty days (30) days after entry of this Consent Order, AVAHEALTH shall file a corrective action plan which shall contain, but not be limited to:

- (a) How the company will remedy any impairment of capital and surplus as required by Section 624.408, Florida Statutes;
- (b) Financial pro-forma financial statements that include a balance sheet, income statement, and a statement of cash flows;
- (c) Details on all possible scenarios being considered, including, but not limited to, complete transfer of control of AVAHEALTH, winding down of operations and runoff of claims, transfer of book of business or continuing operations.

AVAHEALTH shall provide the OFFICE with an updated corrective action plan, due immediately, should a material change occur in the company's corrective action plan.

22. During the period of administrative supervision, AVAHEALTH's Board of Directors shall meet no less than monthly and shall not meet except with reasonable notice to, and in the attendance of, the Deputy Supervisor. The Deputy Supervisor's attendance is permitted in-person or by telephone.

23. The OFFICE shall appoint a Deputy Supervisor pursuant to Section 624.87, Florida Statutes. The Deputy Supervisor shall represent the OFFICE and shall be under the control of the OFFICE. The OFFICE shall negotiate a contract with the Deputy Supervisor. AVAHEALTH shall compensate the OFFICE's Deputy Supervisor for fees and expenses. Further, AVAHEALTH shall provide office space and reasonable accommodations to the Deputy Supervisor. If AVAHEALTH enters into a transaction approved by the OFFICE which reduces the need for on-site supervision, the Deputy Supervisor will visit the AVAHEALTH

office on an as-needed basis. AVAHEALTH shall continue to timely provide the Deputy Supervisor with access to electronic records needed to oversee the remaining operations while working off-site.

24. AVAHEALTH shall be placed under administrative supervision for a period of one hundred twenty (120) days from the date of execution of this Consent Order, which will allow AVAHEALTH to pursue an agreement with another entity to acquire all or part of the assets of AVAHEALTH, or an agreement which transfers the insureds of AVAHEALTH to another insurer. Such administrative supervision may be extended at the OFFICE's sole discretion for as long as is necessary for the company to successfully implement and complete a corrective action plan approved by the OFFICE. Such extensions shall be renewed in one hundred twenty (120) day increments at the OFFICE's sole discretion.

25. AVAHEALTH shall allow the Deputy Supervisor complete and unrestricted access to all offices maintained, rights of action, books, papers, data processing records, evidences of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, office supplies and equipment, and all real property of AVAHEALTH, wherever situated, whether in possession of AVAHEALTH or its officers, directors, employees, managers, consultants, trustees, agents, attorneys or affiliates, as provided in Section 624.318, Florida Statutes.

26. AVAHEALTH HOLDINGS shall allow the Deputy Supervisor complete and unrestricted access to all offices and records of AVAHEALTH HOLDINGS.

27. AVAHEALTH shall allow the OFFICE to amend affiliated agreements as deemed necessary by the OFFICE.

28. Any officer, director, manager, trustee, attorney, agent, actuary, broker, employee, independent contractor, consultant or affiliate of AVAHEALTH and any other person who possesses or possessed any executive authority over, or who exercises, or exercised, any control over any segment of the affairs of AVAHEALTH, or the affairs of affiliates of AVAHEALTH, shall fully cooperate with the Deputy Supervisor.

29. AVAHEALTH shall be responsible for administrative supervision expenses pursuant to Section 624.87, Florida Statutes. AVAHEALTH shall reimburse the OFFICE for any reasonable expenses of supervision, and will pay directly all contractors, including any Deputy Supervisor retained by the OFFICE for assistance with the Administrative Supervision. Such reimbursement shall be made bi-weekly or as otherwise directed by the Deputy Supervisor.

30. Any officer, director, manager, trustee, attorney, agent, actuary, broker, employee, independent contractor, consultant or affiliate of AVAHEALTH and any other person who possesses or possessed any executive authority over, or who exercises, or exercised, any control over any segment of the affairs of AVAHEALTH, or the affairs of affiliates of AVAHEALTH, shall not undertake, engage in, commit to, initiate, or continue any activity beyond those that are routine to the day-to-day conduct of its business, without the prior written consent of the Deputy Supervisor (which shall not be unreasonably withheld.) This agreement does not prohibit AVAHEALTH, or any person associated with AVAHEALTH, from entering into discussions with persons regarding potential financial or business proposals. However, AVAHEALTH and its associated persons must obtain written consent from the Deputy Supervisor or the OFFICE prior to entering into an agreement with such person. The OFFICE agrees to use its best efforts to promptly review and respond to any written request by AVAHEALTH to enter into such an agreement.

31. AVAHEALTH agrees that the OFFICE and the Department of Financial Services (hereinafter referred to as the "DEPARTMENT") may have examiners, or other designees present at the offices of AVAHEALTH to supervise activities, obtain independent information, verify transactions, and verify the conditions and status of AVAHEALTH and its progress in developing and complying with its plan for winding down operations and any other duty as designated by the OFFICE. AVAHEALTH shall cooperate with and facilitate the presence and work of such examiners, or designees.

32. The OFFICE may in its sole discretion initiate delinquency proceedings against AVAHEALTH pursuant to Chapter 631, Florida Statutes. AVAHEALTH agrees to waive its right to contest the initiation of delinquency proceedings by the DEPARTMENT in any forum and waives notice and hearing on the DEPARTMENT's Petition to Appoint Receiver.

33. AVAHEALTH agrees that in the event that delinquency proceedings are commenced, the DEPARTMENT shall have sole discretion to determine whether AVAHEALTH shall be placed in rehabilitation or liquidation.

34. AVAHEALTH acknowledges that AVAHEALTH has executed a Consent to Order of Receivership which was approved by a resolution of the board of directors of AVAHEALTH. Nothing in this Consent Order modifies such Consent to Order of Receivership

35. The OFFICE agrees to use its best efforts to promptly review and respond to any written request by AVAHEALTH to engage in any action discussed above.

36. AVAHEALTH and the OFFICE agree that this Administrative Supervision is confidential as provided in Section 624.82, Florida Statutes.

37. AVAHEALTH expressly waives a hearing in this matter of Administrative Supervision and subsequent extensions of this Administrative Supervision, the making of Findings of Fact and Conclusions of Law by the OFFICE as contained herein.

38. AVAHEALTH agrees that if the OFFICE expends staff time or funds because further proceedings are required to enforce the terms of this Consent Order, or if administrative proceedings are initiated by AVAHEALTH regarding this Administrative Supervision, and the OFFICE prevails in such proceedings, AVAHEALTH shall reimburse the OFFICE for reasonable attorney's fees and costs. Otherwise, each party to this agreement shall bear its own costs and attorney's fees.

39. AVAHEALTH hereby knowingly and voluntarily waives receipt of written notice under Section 624.81(1), Florida Statutes, of the grounds for the OFFICE to effectuate administrative supervision.

40. The deadlines set forth in this Consent Order may be extended by written approval of the OFFICE.

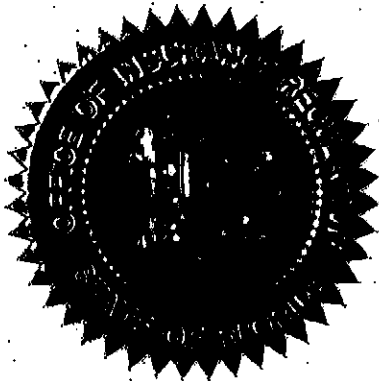
41. AVAHEALTH and AVAHEALTH HOLDINGS agree that they have entered into this Consent Order voluntarily, without coercion from the OFFICE or any agent, employee or designee of the OFFICE, and that it has obtained legal counsel from its attorney(s) prior to entering into this agreement.

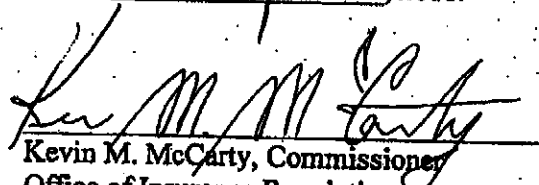
42. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has executed a copy of this Consent Order bearing the signature of AVAHEALTH or their authorized representatives and AVAHEALTH HOLDINGS or their authorized representatives, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically or via facsimile machine. Further, AVAHEALTH and AVAHEALTH

HOLDINGS agree that their signatures as affixed to this Consent Order shall be under the seal of a Notary Public.

WHEREFORE, the agreement between AVAHEALTH, AVAHEALTH HOLDINGS and the OFFICE, the terms and conditions of which are set forth above, is APPROVED. FURTHER, all terms and conditions contained herein to place AVAHEALTH in Administrative Supervision are hereby ORDERED.

DONE and ORDERED this 5th day of May, 2010.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereof, AVALON HEALTHCARE HOLDINGS, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind AVALON HEALTHCARE HOLDINGS, INC. to the terms and conditions of this Consent Order. The undersigned also certifies that he/she has provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for the company and as authorized by the Board of Directors of AVALON HEALTHCARE HOLDINGS, INC. by resolution on 5/3/2010.

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles D. O'Neill

Name: Charles D. O'Neill
(Please type or print)

Title: CEO

Date: 5/3/10

[Corporate Seal]

STATE OF Florida

COUNTY OF Hillsborough

The foregoing affidavit was sworn to and subscribed before me this 3rd day of May, 2010,

by Charles O'Neill as CEO
(Name of person) (Type of authority...e.g. officer, trustee attorney in fact)

for AVALON HEALTHCARE HOLDINGS, INC.
(Company name)

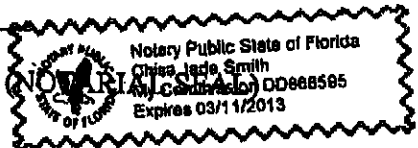
[Signature]
(Signature of notary)

3-11-2013
(Print, Type, or Stamp Commissioned Name of Notary)

Personally Known _____ OR Produced Identification FL DL

Type of identification produced FL DL

My Commission Expires:
3-11-2013



COPIES FURNISHED TO:

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Email: marc.ito@flor.com

**JOINT WRITTEN ACTION
OF THE SOLE SHAREHOLDER
AND THE SOLE MEMBER OF THE BOARD OF DIRECTORS
OF
AVAHEALTH, INC.**

The undersigned, being the sole member of the Board of Directors and the sole shareholder of AVAHEALTH, INC., a Florida corporation (the "Corporation"), acting pursuant to the terms of §§607.0704 and .0821, *Florida Statutes*, and by agreement of the undersigned not otherwise proscribed by the Corporation's Articles of Incorporation or By-Laws, hereby take the following written actions in lieu of holding a meeting regarding same:

1. Approval of Consent Order for Administrative Supervision. The Board of Directors has determined it to be advisable and in the best interests of the Corporation, and the Board of Directors and the sole shareholder hereby approve, that the Corporation enter into, execute, deliver and perform all obligations required by that certain Consent Order for Administrative Supervision, a copy of which is attached hereto as Exhibit A, by and among the Corporation and Florida's Office of Insurance Regulation.

2. Procedural Matters. The Board of Directors and the sole shareholder hereby authorize, empower and direct the Corporation's President, Charles T. O'Neill, to act on behalf of the Corporation and to execute and deliver any agreements, instruments or documents, and to do any and all other acts and things which the President deems necessary or advisable to carry out, perform or effect the transactions hereby approved and authorized, and to carry out the intent and purpose of the forgoing written actions.

3. Counterparts. This written action may be executed in any number of counterparts, by means of multiple signature pages each containing less than all required signatures, and by means of facsimile signatures, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signatures on the following page]

Effective as of May 3, 2010

5/3/2010

AVAHEALTH, INC.

SOLE SHAREHOLDER:

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles T. O'Neill
Charles T. O'Neill, Chief Executive Officer

SOLE MEMBER OF THE BOARD OF DIRECTORS

Charles T. O'Neill
Charles T. O'Neill, Director

[Signature page to Written Action of the Sole Shareholder and Board of Directors of AVAHEALTH, INC.]

EXHIBIT A

to the

**JOINT WRITTEN ACTION
OF THE SOLE SHAREHOLDER
AND THE SOLE MEMBER OF THE BOARD OF DIRECTORS
OF
AVAHEALTH, INC.**

**WRITTEN ACTION OF THE BOARD OF DIRECTORS
OF
AVALON HEALTHCARE HOLDINGS, INC.**

The undersigned, being all of the members of the Board of Directors (the "Board") of AVALON HEALTHCARE HOLDINGS, INC., a Delaware corporation (the "Company"), acting in accordance with the laws of the State of Delaware and pursuant to Delaware General Corporation Law, and by agreement of the undersigned not otherwise proscribed by the Company's Certificate of Incorporation or Bylaws, hereby take the following written actions in lieu of holding a meeting to consider and act upon the same:

1. Approval of Common Stock Subscription Agreement. The Board has determined it to be advisable and in the best interests of the Company, and the Board hereby approves, that the Company enter into, execute, deliver and perform all obligations required by that certain Consent Order for Administrative Supervision, a copy of which is attached hereto as Exhibit A, by and among the Company's wholly owned subsidiary, AvaHealth, Inc., and Florida's Office of Insurance Regulation.

2. Procedural Matters. The Board hereby authorizes the Company's Chief Executive Officer, Charles T. O'Neill, to execute and deliver, on behalf of the Company, any and all agreements, instruments or documents, and to do any and all other acts and things, on behalf of the Company, which he may deem necessary or advisable to carry the intent and purpose of the foregoing written actions.

3. Counterparts. This Written Action of the Board may be executed in any number of counterparts, by means of multiple signature pages, each containing less than all required signatures, and by means of facsimile signatures, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signatures on Following Page]

5/3/2010

Effective as of May 3, 2010

DIRECTORS:


Charles T. O'Neill, Director


Andrew B. Cassidy, Director

[Signature Page to Written Action of Directors]

EXHIBIT A

to the

**WRITTEN ACTION OF THE BOARD OF DIRECTORS
OF
AVALON HEALTHCARE HOLDINGS, INC.**

AVAHEALTH, INC.

2010

Annual Report
Pursuant to Section 624 Florida Statutes

AVAHEALTH, INC.

**AUDITED STATUTORY
ANNUAL FINANCIAL STATEMENTS**

December 31, 2010

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AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (AICPA)

FLORIDA INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (FICPA)

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors and Stockholders of AvaHealth, Inc.

We have audited the accompanying statement of the statutory basis admitted assets, liabilities, capital and surplus (deficit) of AvaHealth, Inc., as of December 31, 2010, and the related statement of operations – statutory basis, statement of cash flows – statutory basis and statement of changes in capital and surplus (deficit) – statutory basis for the year ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, Summary of Significant Accounting Policies, Statutory Reporting, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the *State of Florida Office of Insurance Regulation* which is a comprehensive basis of accounting other than generally accepted accounting principles.

Pursuant to 624.424, Florida Statutes, the statutory basis financial statements were prepared in conformity with the *National Association of Insurance Commissioners Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the State of Florida, which is a comprehensive basis of accounting other than generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT
(concluded)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Reconciliation of Differences, is presented for purposes of additional analysis as required by the *Office of Insurance Regulation*, and is a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus (deficit) of AvaHealth, Inc., as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with the basis of accounting described in Note 2.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 8 to the financial statements, the Company has experienced operating losses and negative cash flows from operations in each of the last 5 five years, and its total liabilities exceeds its total assets as of December 31, 2010. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 9 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

This report is intended solely for the information and use of the board of directors, stockholders and management of AvaHealth, Inc. and for filing with the State of Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Waters CPA Group, P.A.

July 29, 2011

AvaHealth, Inc.

STATEMENT OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS (DEFICIT) – STATUTORY BASIS December 31, 2010

ASSETS

ADMITTED ASSETS

Cash	\$ 869,363
Other receivables	<u>579</u>
Total current assets	<u>869,942</u>
TOTAL ADMITTED ASSETS	<u>\$ 869,942</u>

LIABILITIES AND CAPITAL AND SURPLUS (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 105,465
Accrued expenses	7,436
Claims payable	2,363,216
Claims adjustment	21,000
Advance premiums	73,453
Aggregate policy reserve	100,579
Broker commissions payable	500,000
Reserve payable	450,000
Other current liabilities	<u>55,576</u>
Total current liabilities	<u>3,676,725</u>
Total liabilities	<u>3,676,725</u>

CAPITAL AND SURPLUS (DEFICIT)

Common stock, \$1.00 par value, 5,000,000 shares authorized; 1,500,000 shares issued and outstanding	1,500,000
Paid-in surplus	6,807,000
Unassigned deficit	(8,298,151)
Net loss	<u>(2,815,632)</u>
Total capital and surplus (deficit)	<u>(2,806,783)</u>
TOTAL LIABILITIES AND CAPITAL AND SURPLUS (DEFICIT)	<u>\$ 869,942</u>

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENTS OF OPERATIONS – STATUTORY BASIS Year ended December 31, 2010

REVENUES

Premiums, net	\$ 12,960,084
---------------	---------------

COST OF REVENUES

Physician and provider services	<u>8,099,518</u>
---------------------------------	------------------

GROSS PROFIT	<u>4,860,566</u>
---------------------	-------------------------

OPERATING EXPENSES

Management fee	4,564,233
----------------	-----------

Bad debt expense	68,864
------------------	--------

Insurance premium tax	235,537
-----------------------	---------

Bank service charges	104,368
----------------------	---------

Collection expenses	80
---------------------	----

Health reimbursement administrative expense	1,580
---	-------

Licenses & permits	3,934
--------------------	-------

Postage	111
---------	-----

Professional fees	63,559
-------------------	--------

Broker commissions	500,000
--------------------	---------

Reserve	450,000
---------	---------

Administrative and marketing expense	1,686,861
--------------------------------------	-----------

Miscellaneous expense	<u>5,297</u>
-----------------------	--------------

Total Operating Expenses	<u>7,684,424</u>
--------------------------	------------------

OPERATING LOSS	(2,823,858)
-----------------------	--------------------

OTHER INCOME

Interest	<u>8,226</u>
----------	--------------

NET LOSS	<u>\$ (2,815,632)</u>
-----------------	------------------------------

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS (DEFICIT) - STATUTORY BASIS December 31, 2010

	Common Stock	Paid-in Surplus	Treasury Stock	(Deficit)	Total
Balances at December 31, 2009	\$ 1,500,000	\$ 6,807,000	\$ -	\$ (8,298,151)	\$ 8,849
Net Loss	-	-	-	(2,815,632)	(2,815,632)
Additional Paid in Surplus	-	-	-	-	-
Less: Non-Admitted Assets	-	-	-	-	-
Balances at December 31, 2010	<u>\$ 1,500,000</u>	<u>\$ 6,807,000</u>	<u>\$ -</u>	<u>\$ (11,113,783)</u>	<u>\$ (2,806,783)</u>

See accompanying notes and independent auditor's report

AvaHealth, Inc.

STATEMENT OF CASH FLOWS - STATUTORY BASIS Year ended December 31, 2010

Cash flows from operating activities

Net loss	\$ (2,815,632)
Decrease in accounts receivable	73,431
Decrease in other receivables	7,343,219
Decrease in deferred tax asset	75,033
Increase in payables	86,677
Decrease in accrued expenses	(2,200)
Increase in other current liabilities	930,540
Decrease in claims payable	(8,051,274)
Decrease in advance premiums	<u>(811,712)</u>
Net cash (used) by operating activities:	<u>(3,171,918)</u>

Cash flows from financing activities

Decrease in receivable from parent	<u>1,000,000</u>
Net cash provided by financing activities	<u>1,000,000</u>

Net change in cash (2,171,918)

Cash and cash equivalents, beginning of year 3,041,281

Cash and cash equivalents, end of year \$ 869,363

See accompanying notes and independent auditor's report

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 1: REPORTING ENTITY

Nature of Operations

AvaHealth, Inc., (hereinafter referred to as “the Company”) is an accident and health insurance company, licensed in the State of Florida by the Office of Insurance Regulation (OIR) on September 22, 2005, pursuant to sections 624.401, 624.404 and 624.413 Florida Statutes. The Company was incorporated in the State of Florida on July 8, 2005 and is located at 5440 Mariner Street, Suite 101, Tampa, Florida, 33609.

The Company offers coordinated health insurance coverage and related services through a variety of plans for individuals and groups marketed through licensed agents and brokers.

Currently the services are offered exclusively in the State of Florida.

The total number of members as of December 31, 2010 were as follows:

Individual	3,017
Small Group	89
Large Group	0

The Company’s website is located at www.avalonhealthcare.com.

AvaHealth, Inc. is 100% owned by Avalon Healthcare Holdings, Inc. (hereinafter referred to as “AHH”), a Delaware corporation.

The Company is a member of an insurance holding company system as defined by Rule 690-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S. and the Rule 690-143.046, F.A.C., on April 1, 2009.

On July 1, 2009, the Company entered into an Management Agreement (“Agreement”) with AHH whereby AHH will provide the Company executive management and administrative services, marketing, accounting, claims processing, claims administration, claims analysis and reporting and utilization management services.

Management fees of \$4,564,233 were paid to AHH during the year ended December 31, 2010. However, during 2010, the Company ceased paying management fees to AHH and paid the administrative expenses directly to company vendors.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company's financial statements and accompanying notes are prepared in accordance with statutory accounting principles (SAP) as required by the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed or permitted by the State of Florida Office of Insurance Regulation. The accounting principles applied in the preparation of the statutory-basis financial statements varies from accounting principles generally accepted in the United States of America ("GAAP"). The departures from GAAP relate primarily to the method of accounting used for certain assets and liabilities which are recorded under GAAP but are excluded from assets, liabilities, capital and surplus (deficit) for statutory purposes. The statement of *Reconciliation of Differences Between Audited Financial Report and Annual Statement* on page 22-23 shows the GAAP presentation with the statutory adjustments, if any. Adjustments generally relate to non-admitted assets of prepaid expenses, related party receivables, deferred tax assets and EDP equipment as follows:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statement of admitted assets, liabilities, capital and surplus (deficit) and are charged directly to unassigned surplus (deficit). Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Cash in the statement of cash flows includes cash, cash equivalents and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years and a valuation allowance would be established for deferred tax assets not realizable.

- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.
- Recoverable amounts, if any, on unpaid claims under reinsurance agreements are netted against claims and claim adjustment expenses payable and not reported as an asset as would be required under GAAP.
- Consolidation: Wholly-controlled subsidiaries are not consolidated for individual entity statutory reporting. Under GAAP, financial statements of wholly-controlled subsidiaries are consolidated with the parent.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Statutory cash equivalents have a maturity of one year or less. Cash and cash equivalents include cash, time deposits, money market funds, commercial paper and certain U.S. Securities. As of December 31, 2010, \$769,363 was held in Synovus and Regions Banks, Tampa, Florida, business checking accounts and \$100,000 was held on deposit with the State of Florida.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Solvency Deposit

Pursuant to Florida Statute 625.041, the Company is required to maintain an amount on deposit to help secure payment of claims. As of December 31, 2010, a certificate of deposit of \$100,000 has been assigned to the Office to satisfy this requirement. This amount is included in cash and cash equivalents.

Prepaid Expenses

Prepaid expenses such as insurance premiums and contracts, are recorded as an asset on the balance sheet and amortized to expense in a systematic manner based on the period of coverage. As of December 31, 2010, there were no prepaid expenses. This is a non-admitted asset for statutory purposes.

Premium Receivables and Revenue Recognition

Premiums are billed monthly and are recognized as revenue over the period in which the Company is obligated to provide benefits to insured's. Any medical premiums collected in advance are recorded as unearned premiums. Other revenue is recognized when earned. Unearned premiums received in advance as of December 31, 2010 were \$73,453.

Off-Balance Sheet Risk and Concentration of Credit Risk

From time to time the Company maintains deposits in financial institutions in excess of federally insured limits. The Statement of Financial Accounting Standards No. 105 identifies these deposits as a concentration of risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The financial stability of these institutions is monitored on an ongoing basis. On October 3, 2008, FDIC coverage increased from \$100,000 to \$250,000 per depositor. The Company has not experienced any losses in such accounts.

Credit risk consists primarily of its cash, cash equivalents, reinsurance recoveries and premium revenue.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy Acquisition Costs

Policy acquisition costs related to contracts such as broker commissions, premium taxes and other costs are expensed as incurred. These costs had been paid by AHH according to the terms of the management agreement. However, in 2010, AHH became insolvent and the expenses were paid by the Company.

Property and Equipment

Property and equipment are stated at cost. According to SSAP 16, EDP equipment and operating system software are depreciated using the straight line method over an estimated useful life not to exceed 3 years. Furniture and fixtures are depreciated according to SSAP 19 using the straight line method over the useful life of the asset.

Depreciation estimates calculated for financial statement purposes are based on straight line mid-month convention. All property and equipment of the Company was fully depreciated prior to 2010 and no new assets were acquired during 2010. There were no indications of valuation impairment during the period ended December 31, 2010.

Income Taxes and Deferred Tax

The Company is a C-corporation and calculates its state and federal income tax liabilities based upon the statutory rates currently in effect. It recognizes an asset or liability for the deferred tax consequences of temporary differences between tax bases of assets or liabilities and their reported amounts in the financial statements. Also, an operating loss, certain deductible items that are subject to limitations, and some tax credits arising but not utilized in the current year may be carried back for refund of taxes in prior years or carried forward to reduce taxes paid in future years. The realization of deferred tax assets is contingent upon the generation of taxable income in the future and the current tax rates and laws in effect for the year in which differences are expected to reverse. Management assesses future taxable income and tax planning strategies to determine the ultimate realization of deferred tax assets.

The Company is required to file statutory financial statements with the State of Florida Department of Insurance Regulation. Under Statement of Statutory Accounting Principles (SSAP) Statement No. 10, *Income Taxes, Deferred Taxes*, deferred taxes are limited to the

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes and Deferred Tax (continued)

admitted portion of the deferred tax asset up to 10% of statutory capital and surplus (deficit) excluding net deferred assets.

State income taxes are classified as taxes, licenses and fees in the NAIC Annual statement and as administrative and marketing expenses in the accompanying statement of operations.

- A. Components of the maximum allowable 2010 deferred tax assets (DTA's) and deferred tax liabilities (DTL's) are as follows:

Gross DTA's	\$ 2,850,000
DTA Allowance	(2,850,000)
Gross DTL's	_____ -
Net DTA's	_____ -
Nonadmitted DTA's	_____ -
Net admitted DTA's	\$ _____ -
Increase in nonadmitted DTA's	\$ _____ -

- B. Unrecognized DTL's:

There are no unrecognized DTL's in 2010.

- C. Current tax and change in deferred tax:

Current Tax:

Current year income tax expense	-
Prior year over accrual	_____ -
Current Income taxes incurred	\$ _____ -

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes and Deferred Tax (continued)

D. Operating loss and tax credit carryforwards:

1. As of December 31, 2010, the Company has approximately \$10,838,162 of unused net operating loss carryforwards available to offset against future taxable income. The valuation account is estimated at \$2,800,000.
2. There were no income taxes incurred in the current year and prior years that will be available for recoupment in the event of future net losses.

E. Consolidated federal income tax return:

The company files a consolidated income tax return with the following entities:

Avalon Health Holdings, Inc.
The Avalon Agency, Inc.
Weldon-Abbott Agency, Inc.

A 2009 federal tax return has been filed. An extension for the 2010 tax return has been filed.

Estimates

The preparation of financial statements in conformity with statutory accounting principles and generally accepted accounting principles requires the use of estimates that affect certain reported amounts and disclosures. These estimates are based on management's knowledge and experience. Assumptions are also based on actuarially accepted quantitative and/or analytical methods in determining incurred and unreported claims (IBNR), deferred income taxes and various other accruals. Accordingly, actual results could differ from estimates.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Medical and Other Expenses Payable and Medical Cost Recognition

Aggregate Policy Reserves

Aggregate policy reserves represent a reserve for unearned premium income, a reserve for rate credits, experience rating refunds and rate stabilization reserve. As of December 31, 2010 the aggregate health claim reserve was \$100,578.

Health Claim Reserves Incurred but Not Reported

The Company's medical claims expense incurred but not reported (IBNR) are based on accepted actuarial methods and a review of the claims processed through April 30, 2011. A significant portion of medical costs include future hospital and future medical services payments. The liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims. However, increased costs, catastrophes, competition, utilization and new governmental regulations can cause the actual health care cost to exceed the estimate. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate.

As experience develops and new information becomes known, the estimate and liability are continually reviewed and adjusted. Prior to 2010, an independent actuary issued a report on the adequacy of the provision. In 2010, there was no independent actuary report on the reasonableness of the IBNR. However, an informal review of the claims provision was made by an independent actuary as of April, 2011.

Based on the lag reports provided by The Loomis Company, third party claims processor, and the informal actuary review of claims and an analysis of paid claims through April 30, 2011, the health claims payable as of December 31, 2010 was estimated to be \$2,363,216.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Health Claim Reserves Incurred but Not Reported (continued)

The change in claims and claim adjustment expenses (CAE) payable at December 31, 2010 is as follows:

Claims and CAE payable at beginning of year \$ 3,490,659

Incurred related to:

Current year	8,432,798
Prior years	<u>(333,280)</u>
Total current year incurred	<u>8,099,518</u>

Paid related to:

Current year	(5,852,294)
Prior years	<u>(3,374,667)</u>
Total paid	<u>(9,226,961)</u>

Claims and CAE payable at end of year \$ 2,363,216

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management

General Insurance

The Company maintains comprehensive general liability, directors' and officers' liability, property, and business automobile insurance.

Reinsurance

The Company reinsured certain "excess" risks with reinsurance companies by ceding portions of risks and premiums. Reinsurance does not discharge the Company from its liability to members for defined coverages. In the event that the reinsurance company might be unable to meet its obligation under the existing reinsurance agreement, the Company would be liable for such amounts. Management only reinsures with highly rated reinsurance companies. The reinsurer is obligated to the Company for the excess claim costs as defined in the reinsurance agreement.

Effective April 1, 2009, the Company executed a reinsurance agreement with HCC Life Insurance Company, which covers fully insured groups, individuals of major medical business, and employee leasing companies. The reinsurance agreement generally provides coverage for losses in excess of \$150,000 for group and \$200,000 for individuals up to \$5,000,000 per member per policy period through the three layers of coverage. This reinsurance agreement was terminated on March 31, 2010.

For the year ended December 31, 2010, reinsurance ceded under the agreements with London Life totaled \$4,595,228 and is reported as a reduction of premiums on the accompanying statement of operations. Ceded losses under the agreements for the year ended December 31, 2010 have not been settled. The risk reinsurance with London Life Insurance Company lapsed in February, 2010. London Life Insurance confirmed that the Company did not owe a risk premium as of December 31, 2010.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory Reporting

In 2001, the State of Florida adopted the National Association of Insurance Commissioners (NAIC) Risk Based Capital Act of 1995 reporting requirements. The State of Florida requires that insurance companies domiciled in the State of Florida prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual subject to any deviations prescribed or permitted by the State of Florida Director of Insurance Regulation.

NOTE 3: EQUIPMENT

SSAP No. 19 establishes statutory principles for the recording of furniture, fixtures and equipment (excluding electronic data processing equipment and software that is addressed in SSAP No. 16), leasehold improvements paid by the reporting entity as lessee, and depreciation of property and amortization of leasehold improvements.

SSAP No. 16 sets forth the requirements in establishing the amount of admitted EDP equipment and operating system software (net of accumulated depreciation). The aggregate amount of admitted assets shall be limited to three percent of the reporting entity's capital and surplus (deficit) as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating software and net deferred tax assets.

Computer Software	\$ 1,312
Less Accumulated Depreciation	<u>(1,312)</u>
Assets less Depreciation	0
Less Non-Admitted Assets	<u>(0)</u>
Admitted Assets	<u><u>\$ 0</u></u>

NOTE 4: CURRENT LIABILITIES

Amounts due and payable within one year are classified as current liabilities. As of December 31, 2010 accounts payable, including medical claims payable was \$3,676,725.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 5: Broker Liability, Other Liabilities

Broker Liability

As stated in Note 1 *Nature of Operations*, the Company entered into a management agreement with AHH in which AHH agreed to provide marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, and provider member relations. AHH contracted with an unaffiliated service company to provide claims administration and assistance with member and provider relations. Expenses under the management agreement with AHH that have been charged to administrative and marketing expenses totaled \$1,686,861 in 2010. Due to the insolvency of AHH in 2010, broker commissions were not paid on a timely basis. Based on the review of partial accounting records through March 31, 2011 of broker payments, an estimated liability of \$500,000 was recorded as of December 31, 2010. The Company is currently negotiating outstanding balances with the brokers.

Other Liability

Due to the insolvency of AHH, management is aware that Company unreported liabilities may exist and a contingent reserve of \$450,000 has been established solely as a safety reserve for financial statement purposes as of December 31, 2010.

NOTE 6: RELATED PARTY TRANSACTIONS

The company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F. S. and Rule 690-143.046 F.A.C., on April 1, 2009. Member ownership of AHH is reported in the Summary of Ownership and Relationships on page 24. AHH and AvaHealth, Inc. have certain common officers and directors in common.

Transactions with Parent

"Related party" shall mean that the party is related by reasons of common ownership or control by the organization furnishing the services, facilities, or supplies. AvaHealth, Inc. is owned 100% by AHH.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 6: RELATED PARTY TRANSACTIONS (continued)

As stated in Note 1 *Nature of Operations*, the Company entered into a management agreement with AHH in which AHH provides marketing, accounting and financial support, claims processing and administration, claims analysis and statistical reporting, utilization management, and provider member relations. AHH contracted with an unaffiliated service company to provide claims administration and assistance with member and provider relations. Expenses under the management agreement with AHH that have been charged to administrative and marketing expenses totaled \$1,686,861 in 2010. On December 31, 2010, the receivable of \$1,392,095 from AHH, which consisted of payments of administrative expenses, was reclassified as administrative expense on the Company's books and is included in this total.

NOTE 7: STOCKHOLDERS' EQUITY

Statutory Equity

As of December 31, 2010, the company had 5,000,000 shares of \$1 par value common stock authorized of which 1,500,000 shares were issued and outstanding. The parent company, AHH, is the sole shareholder. AHH made capital contributions totaling \$0 and \$1,000,000 for the years ended December 31, 2010 and December 31, 2009, respectively.

The maximum amount of dividends that may be paid by insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations, it may only pay dividends that are approved in advance by the Office. The company did not declare or pay any dividends during the year ended December 31, 2010.

Pursuant to Section 624.408, Florida Statutes, each health insurer shall at all times maintain a minimum surplus in the amount that is the greater of \$1,500,000, or 4% of total liabilities plus 6% of liabilities relative to health insurance. During 2010, the Company's statutory capital and surplus (deficit) was \$(2,806,783), which was not in compliance with 624.408, F.S. Minimum levels of equity are required to monitor an entity's solvency.

According to 624, F.S., the Company is required to file financial statements with the Office of Insurance Regulation of the State of Florida. The financial statements are prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office of

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 7: STOCKHOLDERS' EQUITY (continued)

Insurance Regulation. These financial statements are a departure from generally accepted accounting principles and the significant differences include certain assets (prepaid expenses and related liabilities, deposits, deferred tax, furniture, fixtures and equipment) not admitted under statutory accounting practices.

Net Loss and Capital and Surplus (Deficit) of the Company on the basis of Statutory Accounting Principles (SAP) is as follows:

Statutory Accounting Practices:

Net Loss	\$ (2,815,632)
Total Capital and Surplus (Deficit)	\$ (2,806,783)

Generally Accepted Accounting Principles (GAAP)

Net Loss	\$ (2,815,632)
Equity (Deficit)	\$ (2,806,783)

See the "Reconciliation of Differences Audited Financial Report and Annual Statement" on page 22, for the GAAP, Statutory Annual Statement and prior year Statutory Annual statement.

NOTE 8: FINANCIAL CONDITION AND CONSENT ORDER

Operating Losses

The Company experienced net losses of \$2,815,632 for the year ended December 31, 2010, a loss of \$2,850,248 for 2009, a loss of \$2,479,374 for 2008 a loss of \$2,343,939 for 2006 and a loss of \$564,125 for 2005. The Company had net income of \$145,797 for the year ended December 31, 2007. The company received additional capital contributions from its parent of \$1,000,000 in 2009, \$2,207,000 in 2008 and \$300,000 in 2007.

AvaHealth, Inc.

Notes to Financial Statements December 31, 2010

NOTE 8: FINANCIAL CONDITION AND CONSENT ORDER

Consent Orders

On May 5, 2010 the Company was placed under a Consent Order (Cse No. 110187-10-CO) pursuant to Section 624.82, Florida Statutes for the purpose of confidential administrative supervision for 120 days. The consent order has been extended in order for the Company to successfully implement and complete a corrective action plan approved by the Office of Insurance Regulation. Extensions shall be renewed in one hundred twenty (120) day increments at the Office's sole discretion.

NOTE 9: SUBSEQUENT EVENT

Stock Sale and Management Agreement

On March 14, 2011, the company entered into a Stock Purchase Agreement ("SPA") with CUSP, LLC to sell 100% of the stock to a CUSP, LLC, affiliate, Key Insurance Plans, Inc. ("KIP"). As required by Section 4.1 (c) of the "SPA", on April 1, 2011, the Company entered into a management agreement with AHH for management of the Company beginning on the date that the "SPA" is fully executed and continuing through the Closing Date (June 21, 2011). "KIP" shall be entitled to designate one or more persons to serve as executive management representatives for reviewing and approving business decisions involving the operations of administrative and management decisions of AvaHealth. The assigned "KIP" representative shall be included in all activities, meetings, correspondence and decision-making processes as any other executive level manager of AvaHealth, including without limitation any correspondence with the Office of Insurance Regulation, Centers for Medicare and Medicaid Services and other licensing regulatory agencies. "KIP" Representatives shall become actively involved in the operations of AvaHealth; provided, however, during the period of the Office of Insurance Regulation's review of the purchase of Avahealth's shares, "KIP" will not make any material change in the operation of AvaHealth or Avalon or in the management of AvaHealth unless the Office of Insurance Regulation has specifically approved the change. Each "KIP" representative shall act in a strictly advisory capacity and shall have no authority to make any decisions for or on behalf of Avalon or AvaHealth.

Capital Infusion

On June 21, 2011, the sale closed. On July 1, 2011 a reserve account of \$4,500,000 was established by "KIP".

AvaHealth, Inc.
Reconciliation of Differences Between
Audited Financial Report
and Annual Statement
December 31, 2010

BALANCE SHEET

	<u>GAAP</u>	<u>NON ADMITTED</u>	<u>NET ADMITTED</u>	<u>ANNUAL STATEMENT</u>	<u>2009 ANNUAL STATEMENT</u>
Current Assets					
Cash and Cash Equivalents (Note 2)	\$ 869,363	\$ 0	\$ 869,363	\$ 869,363	\$ 3,041,281
Total Current Assets	<u>869,363</u>	<u>0</u>	<u>869,363</u>	<u>869,363</u>	<u>3,041,281</u>
Other Assets					
Premiums Receivable (Note 2)	0	0	0	0	83,391
Deferred and Recoverable Taxes (Note 2)	0	0	0	0	75,033
Reinsurance Receivable	0	0	0	0	7,334,879
Other Receivables	579	0	579	579	600
Other Assets (Note 2)	0	0	0	0	0
Receivables from Parent	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,004,035</u>
Total Other Assets	<u>579</u>	<u>0</u>	<u>579</u>	<u>0</u>	<u>8,497,938</u>
Property					
Equipment (Note 3)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 869,942</u>	<u>\$ 0</u>	<u>\$ 869,942</u>	<u>\$ 869,942</u>	<u>\$ 11,539,219</u>
Current Liabilities					
Accounts Payable	\$ 105,465	\$ 0	\$ 105,465	\$ 105,465	\$ 99,557
Accrued Expenses General (Note 2)	7,436	0	7,436	7,436	9,636
Health Claims Payable (Note 5)	2,363,216	0	2,363,216	2,363,216	1,294,525
Claims Adjustment	21,000	0	21,000	21,000	69,052
Advance Premiums (Note 2)	73,453	0	73,453	73,453	885,165
Reinsurance Payable	0	0	0	0	9,071,913
Aggregate Policy Reserve (Note 2)	100,579	0	100,579	100,579	100,522
Broker Commission Payable	500,000	0	500,000	500,000	0
Reserve Payable	450,000	0	450,000	450,000	0
Other Current Liabilities	<u>55,576</u>	<u>0</u>	<u>55,576</u>	<u>55,576</u>	<u>0</u>
Total Current Liabilities	<u>3,676,725</u>	<u>0</u>	<u>3,676,725</u>	<u>3,676,725</u>	<u>11,530,370</u>
TOTAL LIABILITIES	<u>3,676,725</u>	<u>0</u>	<u>3,676,725</u>	<u>3,676,725</u>	<u>11,530,370</u>
Equity (Deficiency)					
Common Stock	1,500,000	0	1,500,000	1,500,000	1,500,000
Additional Paid In Capital (Paid in Surplus)	6,807,000	0	6,807,000	6,807,000	6,807,000
Loss	(2,815,632)	0	(2,815,632)	(2,815,632)	(2,850,248)
Retained Earnings (Unassigned Deficit)	<u>(8,298,151)</u>	<u>0</u>	<u>(8,298,151)</u>	<u>(8,298,151)</u>	<u>(5,447,903)</u>
Total Equity (Deficiency)	<u>(2,806,783)</u>	<u>0</u>	<u>(2,806,783)</u>	<u>(2,806,783)</u>	<u>8,849</u>
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)	<u>\$ 869,942</u>	<u>\$ 0</u>	<u>\$ 869,942</u>	<u>\$ 869,942</u>	<u>\$ 11,539,219</u>

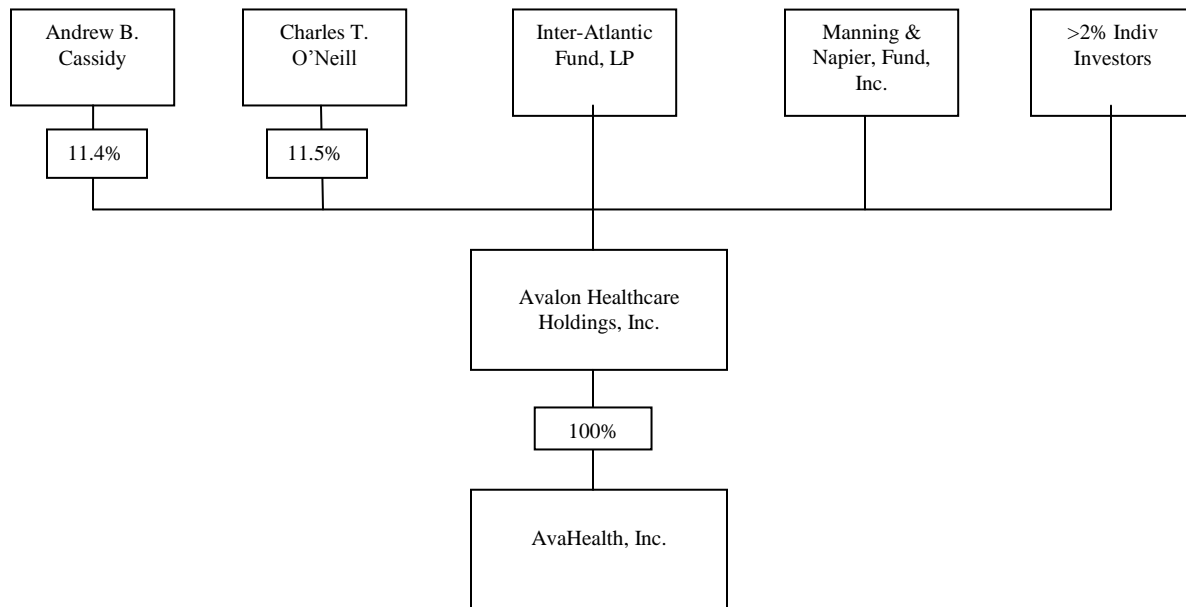
AvaHealth, Inc.
Reconciliation of Differences Between
Audited Financial Report
and Annual Statement
December 31, 2010

STATEMENT OF OPERATIONS

	<u>GAAP</u>	<u>NON ADMITTED</u>	<u>NET ADMITTED</u>	<u>ANNUAL STATEMENT</u>	<u>2009 ANNUAL STATEMENT</u>
Premiums, Net	\$ 12,960,084	0	\$ 12,960,084	\$ 12,960,084	\$ 6,927,233
Physician and Provider Services	<u>(8,099,518)</u>	<u>0</u>	<u>(8,099,518)</u>	<u>(8,099,518)</u>	<u>(5,295,000)</u>
Gross Profit	<u>4,860,566</u>	<u>0</u>	<u>4,860,566</u>	<u>4,860,566</u>	<u>1,632,233</u>
Operating Expenses	<u>(7,684,424)</u>	<u>0</u>	<u>(7,684,424)</u>	<u>(7,684,424)</u>	<u>(4,484,924)</u>
Operating Loss	(2,823,858)	0	(2,823,858)	(2,823,858)	(2,852,691)
Other Income and Interest	8,226	0	8,226	8,226	2,443
Income Tax (Expense) Refund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET LOSS	\$ (2,815,632)	0	\$ (2,815,632)	\$ (2,815,632)	\$ (2,850,248)
CAPITAL SURPLUS ADJUSTMENT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
STATUTORY LOSS	<u>\$ (2,815,632)</u>	<u>0</u>	<u>\$ (2,815,632)</u>	<u>\$ (2,815,632)</u>	<u>\$ (2,850,248)</u>

AvaHealth, Inc.

Summary of Ownership and Relationships



AvaHealth, Inc. is 100% owned by Avalon Healthcare Holdings, Inc., a Delaware corporation. Andrew B. Cassidy and Charles T. O'Neill are officers of AvaHealth, Inc. and owners and officers of Avalon Healthcare Holdings, Inc.



12195 WEST LINEBAUGH AVENUE
TAMPA, FLORIDA 33626

TELEPHONE: (813) 855-4461
FAX: (813) 855-7536

WWW.WATERSCPAGROUP.COM

AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (AICPA)

FLORIDA INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS (FICPA)

**To the Board of Directors and Stockholders
AvaHealth, Inc.**

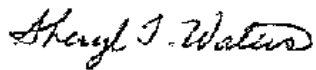
ACCOUNTANTS' DECLARATIONS AND QUALIFICATIONS

We have issued our report dated July 29, 2011 on the statement of admitted assets, liabilities, capital and surplus (deficit) - statutory basis of AvaHealth, Inc. as of December 31, 2010, and the related statement of operations – statutory basis, statement of cash flows – statutory basis and statement of changes in capital and surplus (deficit) – statutory basis for the years then ended. Pursuant to 624, Florida Statutes we make the following declarations:

1. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC Engagement Partner, and the audit team with Waters CPA Group, P.A. are independent with respect to AvaHealth, Inc. and conform to the standards of independence of the profession. Waters CPA Group, P.A. is a member of the Peer Review Section of the American Institute of Certified Public Accountants. The firm is current with the Peer Review requirements and received an unqualified opinion.
2. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, Engagement Partner, is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Financial Planner (CFP™), Certified in Financial Forensics (CFF), Certified Professional Coder (CPC). Sheryl has over 30 years of accounting and auditing experience in the healthcare industry, as well as, governmental entities and insurance related industries. She is the recipient of the American Institute of Certified Public Accountants' Governmental and Auditing Certificate of Education Achievement. Sheryl T. Waters, CPA is experienced in governmental and insurance compliance auditing.
3. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, Engagement Partner, understands the annual Audited Financial Report, and the auditor's opinion thereon is filed in compliance with the Florida Statutes. The auditor understands that the Office of Insurance Regulation will be relying on this information in the monitoring and the regulation of the financial position of AvaHealth, Inc.

ACCOUNTANTS' DECLARATIONS AND QUALIFICATIONS
(Concluded)

4. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, consents to the requirements of Florida Statutes 641.26 which require that the auditor consent and agree to make the work papers available for review by the Office of Insurance Regulation.
5. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC, has been licensed in the State of Florida as a Certified Public Accountant since January 27, 1994. Her license number is 19412.
6. Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC has not been disqualified as an independent auditor by the Office of Insurance Regulation.



WATERS CPA GROUP, P.A.
Sheryl T. Waters, CPA, CFE, CFF, CFP™, CPC
Engagement Partner

July, 29 2011

AvaHealth, Inc.

STATEMENT OF ACTUARIAL CERTIFICATION

**Pursuant to
Florida Statutes 641.26, Rule 4-191.075
December 31, 2008**

**There was no independent actuary report for the year
ended December 31, 2010.**

AvaHealth, Inc.

REPORT OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

**Pursuant to
Rule 690-137.002
December 31, 2010**

This statement serves as notice to the officers, members of the board of directors and to the Office of Insurance Regulation that Avahealth, Inc. has material deficiencies in its internal control structure. The Company materially misstated its financial condition as reported to the Office as of the balance sheet date currently under examination and failed to comply with the filing regulations. The insurer does not meet the minimum capital and surplus requirements as outlined in Florida Statutes.

See the Internal Control Letter dated July 29, 2011

AvaHealth, Inc.

NOTIFICATION OF ADVERSE FINANCIAL CONDITION

Pursuant to

Florida Rules 690.137.02 Florida Administrative Code

December 31, 2010

This statement serves as notice to the officers, members of the board of directors and to the Office of Insurance Regulation that Avahealth, Inc. materially misstated its financial condition as reported to the Office as of the balance sheet date currently under examination. The insurer does not meet the minimum capital and surplus requirements as outlined in Florida Statutes.

See the Internal Control Letter dated July 29, 2011

AvaHealth, Inc.

EVIDENCE OF ADEQUATE INSURANCE

Pursuant to

Compliance with Rule 4-191-069

December 31, 2010

AvaHealth, Inc.

**Certification Statement
December 31, 2010**

Certification of Officers


We hereby certify that we have examined the accompanying financial statements and supplementary data of AvaHealth, Inc. and, to the best of our knowledge and belief, the same are accurate and complete.

_____ **Date** _____
Charles T. O'Neill, President



FILED

AUG 1 2011

OFFICE OF
INSURANCE REGULATION
Decketed by: 

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

AVAHEALTH, INC.
_____ /

CASE NO.: 110187-10-CO

CONFIDENTIAL
Pursuant to Section 624.82,
Florida Statutes

**CONSENT ORDER EXTENDING PERIOD OF CONFIDENTIAL ADMINISTRATIVE
SUPERVISION**

1. THIS CAUSE came on for consideration upon review by the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of the financial condition of AVAHEALTH, INC., also doing business as AVALON HEALTHCARE, INC. (hereinafter referred to as "AVAHEALTH" or "the company"). After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

2. The OFFICE has jurisdiction over the parties and subject matter of this action.

3. The OFFICE and AVAHEALTH entered into Consent Order 110187-10-CO on May 5, 2010 (attached as Exhibit "A" and hereby incorporated by reference). Under the terms of that Consent Order, AVAHEALTH was placed in administrative supervision to protect the assets of AVAHEALTH and to protect the interests of its policyholders.

4. On August 18, 2010, the OFFICE executed a Consent Order extending the administrative supervision of AVAHEALTH by one hundred twenty (120) days (see attached Exhibit "B").

5. On December 7, 2010, the OFFICE executed a Consent Order extending the administrative supervision of AVAHEALTH by one hundred twenty (120) days (see attached Exhibit "C").

6. On March 23, 2011, the OFFICE once again executed a Consent Order extending the administrative supervision of AVAHEALTH by one hundred twenty (120) days (see attached Exhibit "D").

7. Administrative supervision of AVAHEALTH is currently set to expire on August 4, 2011.


8. As of the date of this Consent Order, conditions justifying administrative supervision exist which necessitate an extension of the period of confidential administrative supervision.

9. Paragraph twenty four (24) of Consent Order 110187-10-CO (attached as Exhibit "A") states that, "AVAHEALTH shall be placed under administrative supervision for a period of one hundred twenty (120) days from the date of execution of this Consent Order, which will allow AVAHEALTH to pursue an agreement with another entity to acquire all or part of the assets of AVAHEALTH, or an agreement which transfers the insureds of AVAHEALTH to another insurer. Such administrative supervision may be extended at the OFFICE's sole discretion for as long as is necessary for the company to successfully implement and complete a corrective action plan approved by the OFFICE. Such extensions shall be renewed in one hundred twenty (120) day increments at the OFFICE's sole discretion."

WHEREFORE, because the OFFICE has determined that conditions justifying continued administrative supervision exist, the administrative supervision of AVAHEALTH is hereby extended for an additional one hundred twenty (120) days, until December 2, 2011. All terms and conditions contained herein are hereby ORDERED, and all other provisions of Consent Order 110187-10-CO remain unchanged by this Consent Order.

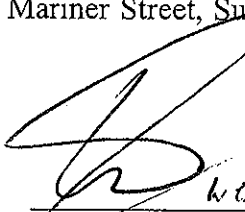
DONE and ORDERED this 1st day of August, 2011.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Order was sent by Certified Mail to AvaHealth, Inc., Bruce Frieman, President, 5440 Mariner Street, Suite 110, Tampa, FL 33609, this 2ND day of August, 2011.



Witness Troncoso for

Jason Nelson
Assistant General Counsel
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-4206
(850) 413-4112
Jason.Nelson@flor.com

COPIES FURNISHED TO:

Bruce Frieman, President
AvaHealth, Inc.
5440 Mariner Street, Suite 110
Tampa, FL 33609

John F. Black
Meridian Consulting, Inc.
P.O. Box 14989
Tallahassee, FL 32317-4989
Phone: (850) 386-9898, Ext. 103
E-Mail: jblack@merid-consulting.com

Mary Beth Senkewicz, Deputy Commissioner
Life & Health/Specialty
Office of Insurance Regulation
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Tallahassee, Florida 32399-0327

Toma Wilkerson, acting Director
Life & Health Financial Oversight
Office of Insurance Regulation
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Tallahassee, Florida 32399-0327

Paul Johns, Financial Administrator
Life & Health Financial Oversight
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Tallahassee, Florida 32399-0327

Jason Nelson, Assistant General Counsel
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Tallahassee, Florida 32399-0426
Phone: (850) 413-4112
Email: Jason.Nelson@flor.com



OFFICE OF INSURANCE REGULATION

FINANCIAL SERVICES
COMMISSION

RICK SCOTT
GOVERNOR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ADAM PUTNAM
COMMISSIONER OF
AGRICULTURE

KEVIN M. MCCARTY
COMMISSIONER

November 23, 2011

Dr. Bruce Frieman, President
AvaHealth, Inc.
5440 Mariner Street Suite 110
Tampa, FL 33609

Re: AvaHealth, Inc. ("AvaHealth") Request to Resume Writing Business

Dear Dr. Frieman:

In a letter dated March 26, 2011, AvaHealth voluntarily agreed that it would not resume selling or writing business without the consent of the Office. On September 28, 2011, AvaHealth requested approval to resume writing business.

The Office's approval of this request is based upon AvaHealth's most recently filed financial statement, representations made to the Office, and the capital infusion received on November 14, 2011.

Should you have any additional questions, feel free to contact me.

Sincerely,


Toma L. Wilkerson

...
TOMA L. WILKERSON • DIRECTOR • LIFE & HEALTH FINANCIAL OVERSIGHT
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0327 • (850) 413-2458 • FAX (850) 488-7061
TOMA.WILKERSON@FLORIDAIR.COM

Affirmative Action / Equal Opportunity Employer



HEALTH QUARTERLY STATEMENT

AS OF MARCH 31, 2012
OF THE CONDITION AND AFFAIRS OF THE
AVAHEALTH, INC.

NAIC Group Code 0000 (Current) (Prior) NAIC Company Code 12316 Employer's ID Number 20-3075951

Organized under the Laws of FL, State of Domicile or Port of Entry FL

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health

Is HMO Federally Qualified? Yes [] No []

Incorporated/Organized 07/08/2005 Commenced Business 04/01/2006

Statutory Home Office 5440 Mariner Street, Suite 110 Tampa, FL 33609
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 5440 Mariner Street, Suite 110
(Street and Number)
Tampa, FL 33609 813-868-5959
(City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address _____
(Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 5440 Mariner Street, Suite 110
(Street and Number)
Tampa, FL 33609 813-868-5959
(City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Web Site Address www.keyhp.com

Statutory Statement Contact Roberto Enrique Martinez 813-868-5959
(Name) (Area Code) (Telephone Number)
rmartinez@keyhp.com 813-288-8520
(E-mail Address) (FAX Number)

OFFICERS

Director Enoc Segundo Martinez # Treasurer Director Roberto Enrique Martinez #
President Director Karen W Connolly # Director Barbara Roqueta

OTHER

Ricardo Di Campo # Director

DIRECTORS OR TRUSTEES

State of FL SS:
County of Hillsborough

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Karen Connolly
President Director

Roberto E. Martinez
Treasurer Director

Subscribed and sworn to before me this 25 day of April, 2012
Ann Westley

- a. Is this an original filing? _____ Yes [X] No []
b. If no,
1. State the amendment number. _____
2. Date filed 04/25/2012
3. Number of pages attached _____



ANNE WESTLEY
NOTARY PUBLIC
STATE OF FLORIDA
Comm# EE053806
Expires 1/9/2015

For the month of March 2012

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds			0.00	0.00
2. Stocks:				
2.1 Preferred stocks			0.00	0.00
2.2 Common stocks			0.00	0.00
3. Mortgage loans on real estate:				
3.1 First liens			0.00	0.00
3.2 Other than first liens			0.00	0.00
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances)			0.00	0.00
4.2 Properties held for the production of income (less \$ encumbrances)			0.00	0.00
4.3 Properties held for sale (less \$ encumbrances)			0.00	0.00
5. Cash (\$3,259,438.63), cash equivalents (\$0.00) and short-term investments (\$0.00)	3,259,438.63		3,259,438.63	2,680,468.00
6. Contract loans (including \$ premium notes)			0.00	0.00
7. Derivatives			0.00	0.00
8. Other invested assets	0.00		0.00	0.00
9. Receivables for securities			0.00	0.00
10. Securities lending reinvested collateral assets	0.00		0.00	0.00
11. Aggregate write-ins for invested assets	0.00	0.00	0.00	0.00
12. Subtotals, cash and invested assets (Lines 1 to 11)	3,259,438.63	0.00	3,259,438.63	2,680,468.00
13. Title plants less \$ charged off (for Title insurers only)			0.00	0.00
14. Investment income due and accrued			0.00	0.00
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection			0.00	0.00
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums)			0.00	0.00
15.3 Accrued retrospective premiums			0.00	0.00
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers			0.00	0.00
16.2 Funds held by or deposited with reinsured companies			0.00	0.00
16.3 Other amounts receivable under reinsurance contracts			0.00	0.00
17. Amounts receivable relating to uninsured plans			0.00	0.00
18.1 Current federal and foreign income tax recoverable and interest thereon	2,850,000.00	2,850,000.00	0.00	82,600.00
18.2 Net deferred tax asset			0.00	0.00
19. Guaranty funds receivable or on deposit			0.00	0.00
20. Electronic data processing equipment and software			0.00	0.00
21. Furniture and equipment, including health care delivery assets (\$)	6,088.16	6,088.16	0.00	0.00
22. Net adjustment in assets and liabilities due to foreign exchange rates			0.00	0.00
23. Receivables from parent, subsidiaries and affiliates	569,431.27	569,431.27	0.00	0.00
24. Health care (\$) and other amounts receivable			0.00	83,191.00
25. Aggregate write-ins for other than invested assets	295,326.31	295,326.31	0.00	0.00
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	6,980,284.37	3,720,845.74	3,259,438.63	2,846,259.00
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0.00	0.00
28. Total (Lines 26 and 27)	6,980,284.37	3,720,845.74	3,259,438.63	2,846,259.00
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page	0.00	0.00	0.00	0.00
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0.00	0.00	0.00	0.00
2501. Elavon Credit Card	295,326.31	295,326.31	0.00	0.00
2502.				
2503.				
2598. Summary of remaining write-ins for Line 25 from overflow page	0.00	0.00	0.00	0.00
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	295,326.31	295,326.31	0.00	0.00

For the month of March 2012

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	1,683,459.00		1,683,459.00	1,683,459.00
2. Accrued medical incentive pool and bonus amounts			0.00	0.00
3. Unpaid claims adjustment expenses	33,056.00		33,056.00	33,056.00
4. Aggregate health policy reserves, including the liability of \$ 0.00 for medical loss ratio rebate per the Public Health Service Act	63,413.00		63,413.00	63,413.00
5. Aggregate life policy reserves			0.00	0.00
6. Property/casualty unearned premium reserve			0.00	0.00
7. Aggregate health claim reserves			0.00	0.00
8. Premiums received in advance	214,079.59		214,079.59	167,998.00
9. General expenses due or accrued	104,018.66		104,018.66	51,917.00
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized gains (losses))			0.00	0.00
10.2 Net deferred tax liability			0.00	0.00
11. Ceded reinsurance premiums payable			0.00	0.00
12. Amounts withheld or retained for the account of others			0.00	0.00
13. Remittances and items not allocated			0.00	0.00
14. Borrowed money (including \$ current) and interest thereon \$ (including \$ current)			0.00	0.00
15. Amounts due to parent, subsidiaries and affiliates			0.00	0.00
16. Derivatives			0.00	0.00
17. Payable for securities			0.00	0.00
18. Payable for securities lending			0.00	0.00
19. Funds held under reinsurance treaties (with \$ authorized reinsurers and \$ unauthorized reinsurers)			0.00	0.00
20. Reinsurance in unauthorized companies			0.00	0.00
21. Net adjustments in assets and liabilities due to foreign exchange rates			0.00	0.00
22. Liability for amounts held under uninsured plans			0.00	0.00
23. Aggregate write-ins for other liabilities (including \$ current)	20,000.00	0.00	20,000.00	20,000.00
24. Total liabilities (Lines 1 to 23)	2,118,026.25	0.00	2,118,026.25	2,019,843.00
25. Aggregate write-ins for special surplus funds	XXX	XXX	0.00	0.00
26. Common capital stock	XXX	XXX	1,500,000.00	1,500,000.00
27. Preferred capital stock	XXX	XXX		
28. Gross paid in and contributed surplus	XXX	XXX	12,917,000.00	11,607,000.00
29. Surplus notes	XXX	XXX		
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	0.00	0.00
31. Unassigned funds (surplus)	XXX	XXX	(13,275,587.62)	(12,280,584.00)
32. Less treasury stock, at cost:				
32.1 shares common (value included in Line 26 \$)	XXX	XXX	0.00	
32.2 shares preferred (value included in Line 27 \$)	XXX	XXX	0.00	
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	1,141,412.38	826,416.00
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	3,259,438.63	2,846,259.00
DETAILS OF WRITE-INS				
2301. Broker Commission Payable	20,000.00		20,000.00	20,000.00
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page	0.00	0.00	0.00	0.00
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	20,000.00	0.00	20,000.00	20,000.00
2501.	XXX	XXX		
2502.	XXX	XXX		
2503.	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0.00	0.00
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	XXX	XXX	0.00	0.00
3001.	XXX	XXX		
3002.	XXX	XXX		
3003.	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0.00	0.00
3099. Totals (Lines 3001 through 3003 plus 3098)(Line 30 above)	XXX	XXX	0.00	0.00

For the month of March 2012

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months	XXX	5,725.00		29,242.00
2. Net premium income (including \$ non-health premium income).....	XXX	1,312,384.07		6,252,692.00
3. Change in unearned premium reserves and reserve for rate credits	XXX			0.00
4. Fee-for-service (net of \$ medical expenses)	XXX			0.00
5. Risk revenue	XXX			0.00
6. Aggregate write-ins for other health care related revenues	XXX	0.00	0.00	0.00
7. Aggregate write-ins for other non-health revenues	XXX	13,680.91	0.00	0.00
8. Total revenues (Lines 2 to 7)	XXX	1,326,064.98	0.00	6,252,692.00
Hospital and Medical:				
9. Hospital/medical benefits		1,076,510.31		4,921,518.00
10. Other professional services				0.00
11. Outside referrals				0.00
12. Emergency room and out-of-area				0.00
13. Prescription drugs				0.00
14. Aggregate write-ins for other hospital and medical	0.00	0.00	0.00	0.00
15. Incentive pool, withhold adjustments and bonus amounts				0.00
16. Subtotal (Lines 9 to 15)	0.00	1,076,510.31	0.00	4,921,518.00
Less:				
17. Net reinsurance recoveries				0.00
18. Total hospital and medical (Lines 16 minus 17)	0.00	1,076,510.31	0.00	4,921,518.00
19. Non-health claims (net)				
20. Claims adjustment expenses, including \$ cost containment expenses				350,000.00
21. General administrative expenses	0.00	986,895.35		1,532,228.00
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)				0.00
23. Total underwriting deductions (Lines 18 through 22)	0.00	2,063,405.66	0.00	6,803,746.00
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(737,340.68)	0.00	(551,054.00)
25. Net investment income earned				0.00
26. Net realized capital gains (losses) less capital gains tax of \$				
27. Net investment gains (losses) (Lines 25 plus 26)	0.00	0.00	0.00	0.00
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$) (amount charged off \$)]				
29. Aggregate write-ins for other income or expenses	0.00	0.00	0.00	0.00
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	(737,340.68)	0.00	(551,054.00)
31. Federal and foreign income taxes incurred	XXX			
32. Net income (loss) (Lines 30 minus 31)	XXX	(737,340.68)	0.00	(551,054.00)
DETAILS OF WRITE-INS				
0601.	XXX			
0602.	XXX			
0603.	XXX			
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0.00	0.00	0.00
0699. Totals (Lines 0601 through 0603 plus 0698)(Line 6 above)	XXX	0.00	0.00	0.00
0701. Other Income	XXX	13,680.91		0.00
0702.	XXX			
0703.	XXX			
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0.00	0.00	0.00
0799. Totals (Lines 0701 through 0703 plus 0798)(Line 7 above)	XXX	13,680.91	0.00	0.00
1401.				
1402.				
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page	0.00	0.00	0.00	0.00
1499. Totals (Lines 1401 through 1403 plus 1498)(Line 14 above)	0.00	0.00	0.00	0.00
2901.				
2902.				
2903.				
2998. Summary of remaining write-ins for Line 29 from overflow page	0.00	0.00	0.00	0.00
2999. Totals (Lines 2901 through 2903 plus 2998)(Line 29 above)	0.00	0.00	0.00	0.00

For the month of March 2012

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
CAPITAL AND SURPLUS ACCOUNT			
33. Capital and surplus prior reporting year.....	826,416.00		(2,806,783.00)
34. Net income or (loss) from Line 32.....	(737,340.68)		(551,054.00)
35. Change in valuation basis of aggregate policy and claim reserves.....			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....			
37. Change in net unrealized foreign exchange capital gain or (loss).....			
38. Change in net deferred income tax.....			0.00
39. Change in nonadmitted assets.....	(257,663.00)		(466,947.00)
40. Change in unauthorized reinsurance.....	0.00		0.00
41. Change in treasury stock.....	0.00		0.00
42. Change in surplus notes.....	0.00		0.00
43. Cumulative effect of changes in accounting principles.....			
44. Capital Changes:			
44.1 Paid in.....	0.00		0.00
44.2 Transferred from surplus (Stock Dividend).....	0.00		0.00
44.3 Transferred to surplus.....			
45. Surplus adjustments:			
45.1 Paid in.....	1,310,000.00		4,800,000.00
45.2 Transferred to capital (Stock Dividend).....			
45.3 Transferred from capital.....			
46. Dividends to stockholders.....			
47. Aggregate write-ins for gains or (losses) in surplus.....	0.00	0.00	(148,800.00)
48. Net change in capital & surplus (Lines 34 to 47).....	314,996.32	0.00	3,633,199.00
49. Capital and surplus end of reporting period (Line 33 plus 48)	1,141,412.32	0.00	826,416.00
DETAILS OF WRITE-INS			
4701. Adjustment.....			(148,800.00)
4702.			
4703.			
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0.00	0.00	0.00
4799. Totals (Lines 4701 through 4703 plus 4798)(Line 47 above)	0.00	0.00	(148,800.00)

For the month of March 2012

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	1,358,465.66		6,310,071.00
2. Net investment income	0.00		0.00
3. Miscellaneous income	13,680.91		0.00
4. Total (Lines 1 to 3)	1,372,146.57	0.00	6,310,071.00
5. Benefit and loss related payments	1,076,510.31		5,901,275.00
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	986,895.35		2,046,590.00
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	0.00		0.00
10. Total (Lines 5 through 9)	2,063,405.66	0.00	7,947,865.00
11. Net cash from operations (Line 4 minus Line 10)	(691,259.09)	0.00	(1,637,794.00)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	0.00		0.00
12.2 Stocks	0.00		0.00
12.3 Mortgage loans	0.00		0.00
12.4 Real estate	0.00		0.00
12.5 Other invested assets	0.00		0.00
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0.00		0.00
12.7 Miscellaneous proceeds	0.00		0.00
12.8 Total investment proceeds (Lines 12.1 to 12.7)	0.00	0.00	0.00
13. Cost of investments acquired (long-term only):			
13.1 Bonds	0.00		0.00
13.2 Stocks	0.00		0.00
13.3 Mortgage loans	0.00		0.00
13.4 Real estate	0.00		0.00
13.5 Other invested assets	0.00		0.00
13.6 Miscellaneous applications	0.00		0.00
13.7 Total investments acquired (Lines 13.1 to 13.6)	0.00	0.00	0.00
14. Net increase (or decrease) in contract loans and premium notes	0.00		0.00
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	0.00	0.00	0.00
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0.00		0.00
16.2 Capital and paid in surplus, less treasury stock	1,310,000.00		0.00
16.3 Borrowed funds	0.00		0.00
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0.00		0.00
16.5 Dividends to stockholders	0.00		0.00
16.6 Other cash provided (applied)	(39,770.28)		3,448,899.00
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	1,270,229.72	0.00	3,448,899.00
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	578,970.63	0.00	1,811,105.00
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	2,680,468.00		869,363.00
19.2 End of period (Line 18 plus Line 19.1)	3,259,438.63	0.00	2,680,468.00

Note: Supplemental disclosures of cash flow information for non-cash transactions:

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	Comprehensive (Hospital & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Other
		2 Individual	3 Group							
Total Members at end of:										
1. Prior Year	2,056	2,009	47	0	0	0	0	0	0	0
2. First Quarter	1,849	1,822	27							
3. Second Quarter	0									
4. Third Quarter	0									
5. Current Year	0									
6. Current Year Member Months	5,725	5,628	97							
Total Member Ambulatory Encounters for Period:										
7. Physician	0									
8. Non-Physician	0									
9. Total	0	0	0	0	0	0	0	0	0	0
10. Hospital Patient Days Incurred	0									
11. Number of Inpatient Admissions	0									
12. Health Premiums Written (a)	1,551,730	1,551,730								
13. Life Premiums Direct	0									
14. Property/Casualty Premiums Written	0									
15. Health Premiums Earned	1,285,733	1,285,733								
16. Property/Casualty Premiums Earned	0									
17. Amount Paid for Provision of Health Care Services.....	1,410,033	1,410,033								
18. Amount Incurred for Provision of Health Care Services	1,028,586	1,028,586								

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees \$



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COMMISSION

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COMMISSIONER

OFFICE OF INSURANCE REGULATION

March 16, 2012

VIA EMAIL

Mr. Enoc S. Martinez
AvaHealth, Inc.
6834 NW 113 Place
Doral, FL 33178

Re: AvaHealth, Inc. ("Company")

Dear Mr. Martinez:

The purpose of this letter is to inform you that after careful consideration of AvaHealth, Inc.'s operations and review of the company's 2011 Annual Financial Statement and January 2012 Monthly Financial Statement, it has been determined by the Office of Insurance Regulation ("Office") that the company is operating in a hazardous financial condition, pursuant to Section 631.051, Florida Statutes.

The Office makes the following observations:

- After making the adjustments outlined in the Office's letter to the company dated February 22, 2012, the company is impaired, pursuant to Sections 631.011 and 624.408, Florida Statutes.
- The Company has demonstrated excessive turnover for Officers and Directors and does not currently have corporate officers or sufficient directors as required by Section 628.231, Florida Statutes.
- The proforma financial data submitted in support of the June 14, 2011 acquisition of the Company by Key Insurance Plans, Inc. reflected a \$5 million capital infusion occurring in January 2012. The Office has no evidence the capital infusion occurred.

Furthermore, AvaHealth, Inc. should be aware and carefully consider the following Florida Statutes:

Section 626.9541(1) (w), Florida Statutes:

Soliciting or accepting new or renewal insurance risks by insolvent or impaired insurer prohibited; penalty.—

1. Whether or not delinquency proceedings as to the insurer have been or are to be initiated, but while such insolvency or impairment exists, no director or officer of an insurer, except with the written

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Mr. Enoc S. Martinez
AvaHealth, Inc.
March 16, 2012
Page 2

permission of the office, shall authorize or permit the insurer to solicit or accept new or renewal insurance risks in this state after such director or officer knew, or reasonably should have known, that the insurer was insolvent or impaired. "Impaired" includes impairment of capital or surplus, as defined in s. 631.011(12) and (13).

2. Any such director or officer, upon conviction of a violation of this paragraph, is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Section 624.4073, Florida Statutes:

Officers and directors of insolvent insurers.—Any person who was an officer or director of an insurer doing business in this state and who served in that capacity within the 2-year period prior to the date the insurer became insolvent, for any insolvency that occurs on or after July 1, 2002, may not thereafter serve as an officer or director of an insurer authorized in this state unless the officer or director demonstrates that his or her personal actions or omissions were not a significant contributing cause to the insolvency.

The Office advises the ownership of AvaHealth, Inc. that no less than \$1,000,000 must be immediately infused into the Company in order to continue operations. **Documentation must be provided to the Office of Insurance Regulation proving funds have been transferred into AvaHealth, Inc., no later than noon, Tuesday, March 20, 2012.**

AvaHealth will be required to provide a corrective action plan addressing the hazardous financial condition of the company. The Office will provide further guidance on the requirements of a corrective action plan once evidence of the infusion referenced above is received.

If you have any questions or concerns, please do not hesitate to contact me by telephone at (850) 413-5076 or by e-mail at paul.johns@ffoir.com.

Sincerely,



Paul Johns

cc: Ray Kennedy
Valerie Reglat
Toma Wilkerson

05596



FILED

MAR 22 2012

OFFICE OF
INSURANCE REGULATION

Docketed by:

OFFICE OF INSURANCE REGULATION

Kevin M. McCarty
Commissioner

IN THE MATTER OF:

CASE NO.: 124309-12

AVAHEALTH, INC., D/B/A
KEY INSURANCE PLAN

ORDER

TO: Bruce W. Frieman
AvaHealth, Inc., d/b/a Key Insurance Plan
5440 Mariner Street
Tampa, Florida 33609

THIS CAUSE came on for consideration as a result of a review by the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of the financial condition of AVAHEALTH, INC., D/B/A KEY INSURANCE PLAN (hereinafter referred to as "AVAHEALTH"). The OFFICE, having considered this matter and being fully advised in the premises, finds as follows:

1. The OFFICE has jurisdiction over the subject matter and parties to this proceeding.
2. AVAHEALTH is a domestic life and health insurer authorized to do business in Florida and subject to regulation by the OFFICE, pursuant to the Florida Insurance Code.
3. Based on the January 31, 2012 Monthly Statement (attached as Exhibit "A"), AVAHEALTH is impaired by six hundred eighty eight thousand seven hundred ninety six U.S.

Dollars (\$688,796). In order to correct this, on Friday, March 16, 2012, the OFFICE sent a letter to AVAHEALTH informing them that, in order to be in compliance with the capital and surplus requirements of the Florida Insurance Code, the company must deposit one million U.S. Dollars (\$1,000,000) by 12:00pm, Tuesday, March 20, 2012. The OFFICE received notification from AVAHEALTH on Tuesday, March 20, 2012, that the money was deposited; however, through verbal communications it was discovered that the only signatory authority on the account is Enoc Martinez, and AVAHEALTH does not have actual control over the account. Since AVAHEALTH does not have actual control over the account, the money is not available for the payment of claims, and therefore is a non-admitted asset and cannot be counted towards the capital and surplus requirements of the company. Therefore, AVAHEALTH is impaired in violation of Section 624.408, Florida Statutes.

4. All three officers reported on AVAHEALTH's September 30, 2011 quarterly financial statements have resigned and are currently working for AVAHEALTH as "At-Will Independent Consultants." AVAHEALTH's December 31, 2011 and January 31, 2012 monthly financial statements report Enoc Segundo Martinez, one of the indirect owners of AVAHEALTH as President. Mr. Martinez does not have sufficient insurance experience to successfully operate AVAHEALTH. Therefore, AVAHEALTH does not currently have sufficient and qualified officers.

5. In Consent Order No. 116802-11-CO (attached as Exhibit "B"), in which the OFFICE approved the acquisition of AVAHEALTH by Key Insurance Plan, Inc., projected financial information dated May 13, 2011, was submitted, stating that contributed capital in the amount of five million U.S. Dollars (\$5,000,000) would be infused into AVAHEALTH during January of 2012. This contribution was a material element to support AVAHEALTH's 2012

growth and the OFFICE's approval of the acquisition transaction. The capital contribution was not made in January in accordance with the May 13, 2011 projected financial information.

6. Section 624.418(1)(a), (b) and (d), Florida Statutes, state that the OFFICE shall suspend the Florida Certificate of Authority of any insurer determined to be "in unsound financial condition," "using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous or injurious to its policyholders," or any insurer who "no longer meets the requirements for the authority originally granted."

7. Based on the facts laid out above, the OFFICE hereby finds that AVAHEALTH is in unsound financial condition, is using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous or injurious to its policyholders, and no longer meets the requirements for the authority originally granted.

IT IS THEREFORE ORDERED THAT:

1. The Certificate of Authority of AVAHEALTH shall be immediately suspended until such time as AVAHEALTH is in full compliance with the Florida Insurance Code

2. Pursuant to Section 624.421(4), Florida Statutes, in the event that AVAHEALTH does not present satisfactory evidence to the OFFICE that AVAHEALTH is in full compliance with the Florida Insurance Code within two (2) years, AVAHEALTH's Certificate of Authority shall be deemed to have expired as a matter of law as of two (2) years from the date of suspension, or upon failure of the insurer to continue the certificate during the suspension period in accordance with Section 624.421(2), Florida Statutes.

3. Effective upon the date of execution of this Order by the OFFICE, AVAHEALTH shall:

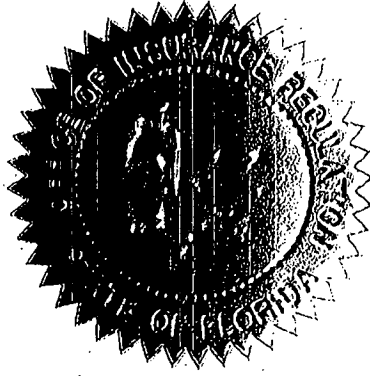
- a. Cease writing any and all new or renewal direct business in the State of Florida, and issue no new insurance policies in Florida.
- b. Not assume any risks located in the State of Florida.
- c. Immediately notify all of its agents in writing that they are not to place any new or renewal business with AVAHEALTH in the State of Florida.
- d. Continue to file with the OFFICE all documents and information required by the Florida Insurance Code, and to pay all fees and taxes as if the Certificate of Authority had continued in full force pursuant to Section 624.421(2), Florida Statutes.
- e. Continue to honor all claims and liabilities arising under its contractual obligations pursuant to policies issued in the State of Florida.

4. The OFFICE will retain continuing jurisdiction over AVAHEALTH or its successor to enforce the provisions of the Florida Insurance Code applicable to the satisfaction of past, current or future claims, liabilities or other obligations of AVAHEALTH which have arisen or may arise in the State of Florida, and to enforce the provisions of this Order.

5. In the event AVAHEALTH fails to comply with any provision of this Order, the OFFICE may impose upon AVAHEALTH such further administrative penalties or other appropriate remedies as authorized by the Florida Insurance Code.

WHEREFORE, subject to the terms and conditions set forth above, the Florida Certificate of Authority of AVAHEALTH, INC., D/B/A KEY INSURANCE PLAN is hereby SUSPENDED. FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 22nd day of March, 2012.

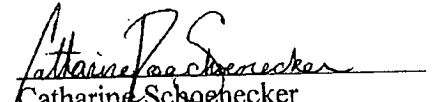


A handwritten signature in black ink, appearing to read "Kevin M. McCarty". The signature is written in a cursive, flowing style.

Kevin M. McCarty, Commissioner
Office of Insurance Regulation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Order was sent by Certified Mail to Mr. Bruce W. Frieman, AvaHealth, Inc., d/b/a Key Insurance Plan, 5440 Mariner Street, Tampa, Florida 33609, this 3rd day of March, 2012.


Catharine Schoenecker
Assistant General Counsel
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-4206
(850) 413-4169
Catharine.schoenecker@flor.com

NOTICE OF RIGHTS

Pursuant to Sections 120.569 and 120.57, Florida Statutes, and Rule Chapter 28-106, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office, no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact, the provisions of Section 120.57(2), Florida Statutes, may apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency, or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary, one may be conducted in Tallahassee, Florida, or by telephonic conference call upon your request.

If you dispute material facts which are the basis for this agency's action, you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.2015, F.A.C., including but not limited to:

- a) A statement requesting an administrative hearing identifying those material facts that are in dispute. If there are none, the petition must so state; and
- b) A statement of when the respondent received notice of the agency's action.

These proceedings are held before a State Administrative Law Judge of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

In some instances, you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.

MONTHLY STATEMENT

OF THE

AVAHEALTH, Inc.

TO THE

Insurance Department

OF THE

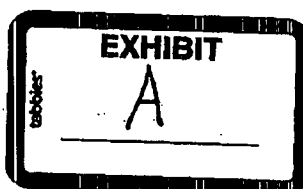
STATE OF

FLORIDA

**FOR THE MONTH ENDED
JANUARY 31, 2012**

HEALTH

2012





HEALTH MONTHLY STATEMENT

AS OF JANUARY 31, 2012
OF THE CONDITION AND AFFAIRS OF THE
AVAHEALTH, INC.

NAIC Group Code 0000 (Current) (Prior) NAIC Company Code 12318 Employer's ID Number 80-5075961

Organized under the Laws of FL, State of Domicile or Port of Entry FL

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health

Is HMO Federally Qualified? Yes ☐ No ☒

Incorporated/Organized 07/08/2008 Commenced Business 04/01/2008

Statutory Home Office 5440 Mariner Street, Suite 110 Tampa, FL 33608
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 5440 Mariner Street, Suite 110
(Street and Number)
Tampa, FL 33608 (City or Town, State and Zip Code) 818-558-5152 (Area Code) (Telephone Number)

Mail Address _____ (Street and Number or P.O. Box) _____ (City or Town, State and Zip Code)

Primary Location of Books and Records 5440 Mariner Street, Suite 110
(Street and Number)
Tampa, FL 33608 (City or Town, State and Zip Code) 818-558-5052 (Area Code) (Telephone Number)

Internal Web Site Address www.keytp.com

Treasurer/Statement Contact Rocio Leon Capatzen 818-790-4885
(Name) (Area Code) (Telephone Number)
rocapatzen43@earthlink.net (E-mail Address) 818-508-8580 (FAX Number)

OFFICERS

President Enzo Segundo Martinez

OTHER

DIRECTORS OR TRUSTEES

Enzo Segundo Martinez

State of FL 88:
County of Hillsborough

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, entered or returned to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the accuracy of this statement by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the original statement (due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Enzo S. Martinez
President

Rocio Leon Capatzen
Treasurer

Subscribed and sworn to before me this 27 day of February, 2012

Anne Weesley

1/8/2015

- a. Is this an original filing? Yes ☒ No ☐
- b. If no,
1. State the amendment number _____
 2. Date filed 02/27/2012
 3. Number of pages attached _____

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, Inc.

ASSETS

	Current Statement Date		3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets		
1. Bonds			0	
2. Stocks:			0	
2.1 Preferred stocks			0	
2.2 Common stocks			0	
3. Mortgage loans on real estate:			0	
3.1 First liens			0	
3.2 Other than first liens			0	
4. Real estate:			0	
4.1 Properties occupied by the company (less \$ encumbrances)			0	
4.2 Properties held for the production of income (less \$ encumbrances)			0	
4.3 Properties held for sale (less \$ encumbrances)			0	
5. Cash (\$ 3,050,722) cash equivalents (\$) and short-term Investments (\$)	3,050,722		3,050,722	2,826,088
6. Contract loans (including \$ premium notes)			0	
7. Derivatives	0		0	
8. Other invested assets			0	
9. Receivables for securities			0	
10. Securities lending reinvested collateral assets	0		0	0
11. Aggregate write-ins for invested assets	3,050,722		3,050,722	2,826,088
12. Subtotals, cash and invested assets (Lines 1 to 11)				
13. Title plans less \$ charged off (for Title insurers only)			0	
14. Investment income due and accrued			0	
15. Premiums and considerations:			0	
15.1 Uncollected premiums and agents' balances in the course of collection			0	
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums)			0	
15.3 Accrued retrospective premiums			0	
16. Reinsurance:			0	
16.1 Amounts recoverable from reinsurers			0	
16.2 Funds held by or deposited with reinsured companies			0	
16.3 Other amounts recoverable under reinsurance contracts			0	
17. Amounts receivable relating to uninsured plans	2,500,000	2,330,000	170,000	160,000
17.1 Current federal and foreign income tax recoverable and interest thereon			0	
17.2 Net deferred tax asset			0	
18. Guaranty funds receivable or on deposit			0	
19. Electronic data processing equipment and software			0	
20. Furniture and equipment, including health care delivery assets (\$)	5,438		5,438	4,221
21. Net adjustment in assets and liabilities due to foreign exchange rates			0	
22. Receivables from parent, subsidiaries and affiliates	250,000		250,000	250,000
23. Health care (\$) and other amounts receivable	296,826	0	296,826	296,826
24. Aggregate write-ins for other than invested assets			0	
25. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 24)	6,101,487	2,330,000	3,771,487	3,526,636
26. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	
27. Total (Lines 25 and 26)	6,101,487	2,330,000	3,771,487	3,526,636
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.			0	0
1106. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1109. Totals (Lines 1101 through 1109 plus 1106) (Line 11 above)	296,826		296,826	296,826
2501. Eleven				
2502.				
2503.			0	0
2506. Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0
2509. Totals (Lines 2501 through 2503 plus 2506) (Line 25 above)	296,826	0	296,826	296,826

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, Inc.

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	1,726,792		1,726,792	1,406,290
2. Accrued medical incentive pool and bonus amounts				
3. Unpaid claims adjustment expenses	21,000		21,000	21,000
4. Aggregate health policy reserves	100,679		100,679	100,679
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserve				
7. Aggregate health claim reserves				
8. Premiums received in advance	188,082		188,082	167,698
9. General expenses due or accrued				115,492
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized gains (losses))				
10.2 Net deferred tax liability				
11. Ceded reinsurance premiums payable				
12. Amounts withheld or retained for the account of others				
13. Remittances and items not allocated				
14. Borrowed money (including \$ current) and interest thereon \$ (including \$ current)				
15. Amounts due to parent, subsidiaries and affiliates				
16. Derivatives				
17. Payable for securities				
18. Payable for securities lending				
19. Funds held under reinsurance treaties (with \$ authorized reinsurers and \$ unauthorized reinsurers)				
20. Reinsurance in unauthorized companies				
21. Net adjustments in assets and liabilities due to foreign exchange rates				
22. Liability for amounts held under unassigned plans				
23. Aggregate write-ins for other liabilities (including \$ current)	20,000		20,000	20,000
24. Total liabilities (Lines 1 to 23)	2,056,553		2,056,553	1,691,406
25. Aggregate write-ins for special surplus funds	XXX	XXX		
26. Common capital stock	XXX	XXX	1,500,000	1,500,000
27. Preferred capital stock	XXX	XXX	6,807,000	6,807,000
28. Gross paid in and contributed surplus	XXX	XXX		
29. Surplus notes	XXX	XXX	4,800,000	4,800,000
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	(11,892,088)	(11,472,833)
31. Unassigned funds (surplus)	XXX	XXX		
32. Loss treasury stock, at cost				
32.1 shares common (value included in Line 26)	XXX	XXX		
32.2 shares preferred (value included in Line 27)	XXX	XXX		
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	1,714,804	1,634,167
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	3,771,487	3,325,573
DETAILS OF WRITE-INS	20,000		20,000	20,000
2301. Broker liability				
2302.				
2303.				
2304. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2305. Totals (Lines 2301 through 2303 plus 2304)(Line 23 above)	20,000	0	20,000	20,000
2501.	XXX	XXX		
2502.	XXX	XXX		
2503.	XXX	XXX		
2504. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0	0
2505. Totals (Lines 2501 through 2503 plus 2504)(Line 25 above)	XXX	XXX	0	0
3001. Capital infusion	XXX	XXX	4,800,000	4,800,000
3002.	XXX	XXX		
3003.	XXX	XXX		
3004. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0	0
3005. Totals (Lines 3001 through 3003 plus 3004)(Line 30 above)	XXX	XXX	4,800,000	4,800,000

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, Inc.

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months	XXX	1,075	2,803	29,242
2. Net premium income (including \$ non-health premium income)	XXX	443,776	638,960	8,410,230
3. Change in unearned premium reserves and reserves for rate credits	XXX			
4. Fee-for-service (net of \$ medical expenses)	XXX			
5. Risk revenue	XXX	0	1,796	0
6. Aggregate write-ins for other health care related revenues	XXX	0	0	0
7. Aggregate write-ins for other non-health revenues	XXX	443,776	840,756	8,418,736
8. Total revenue (Lines 2 to 7)				
Hospital and Medical:		268,464	417,912	5,013,392
9. Hospital/medical benefits				
10. Other professional services				
11. Outside referrals				
12. Emergency room and out-of-area				
13. Prescription drugs		0	0	0
14. Aggregate write-ins for other hospital and medical		0	0	0
15. Incentive pool, withhold adjustments and bonus amounts		268,464	417,912	5,013,392
16. Subtotal (Lines 9 to 15)				
Less:				
17. Net reinsurance recoveries		0	417,912	5,013,392
18. Total hospital and medical (Lines 16 minus 17)				
19. Non-health claims (net)				
20. Claims adjustment expenses, including \$ cost containment expenses		338,861	126,532	1,805,418
21. General administrative expenses				
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves (or life only))		0	646,444	6,976,811
23. Total underwriting deductions (Lines 18 through 22)		183,339	94,312	1,682,575
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX		1,340	
25. Net investment income earned				
26. Net realized capital gains (losses) less capital gains tax of \$		0	1,340	0
27. Net investment gains (losses) (Lines 25 plus 26)				
28. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$) (amount charged off \$)		0	0	0
29. Aggregate write-ins for other income or expenses				
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	(183,339)	95,662	(582,575)
31. Federal and foreign income taxes incurred	XXX			
32. Net income (loss) (Lines 30 minus 31)	XXX	(183,339)	95,662	(582,575)
DETAILS OF WRITE-INS			1,796	
0801. Fee income	XXX			
0802.	XXX			
0803.	XXX			
0805. Summary of remaining write-ins for Line 5 from overflow page	XXX	0	0	0
0899. Totals (Lines 0801 through 0803 plus 0805 (Line 5 above))	XXX	0	1,796	0
0701.	XXX			
0702.	XXX			
0703.	XXX			
0799. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0	0
0799. Totals (Lines 0701 through 0703 plus 0799 (Line 7 above))	XXX	0	0	0
1401.				
1402.				
1403.				
1499. Summary of remaining write-ins for Line 14 from overflow page	0	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1499 (Line 14 above))	0	0	0	0
2801.				
2802.				
2803.				
2899. Summary of remaining write-ins for Line 28 from overflow page	0	0	0	0
2899. Totals (Lines 2801 through 2803 plus 2899 (Line 28 above))	0	0	0	0

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, Inc.

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
CAPITAL AND SURPLUS ACCOUNT			
33. Capital and surplus prior reporting year.....	1,634,167	18,869	(2,606,783)
34. Net income or (loss) from Line 32.....	(183,339)	94,446	1,662,575
35. Change in valuation basis of aggregate policy and claim reserves.....			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....			
37. Change in net unrealized foreign exchange capital gain or (loss).....			
38. Change in net deferred income tax.....	20,000		180,000
39. Change in nonadmitted assets.....			
40. Change in unauthorized reinsurance.....	0		
41. Change in treasury stock.....	0		
42. Change in surplus notes.....	0		
43. Cumulative effect of changes in accounting principles.....			
44. Capital Changes:			
44.1 Paid in.....	0		
44.2 Transferred from surplus (Stock Dividend).....	0		
44.3 Transferred to surplus.....			
45. Surplus adjustments:			
45.1 Paid in.....	0		
45.2 Transferred to capital (Stock Dividend).....			
45.3 Transferred from capital.....			
46. Dividends to stockholders.....			
47. Aggregate write-ins for gains or (losses) in surplus.....	244,108	0	4,653,606
48. Net change in capital & surplus (Lines 34 to 47).....	80,767	94,446	3,440,930
49. Capital and surplus end of reporting period (Line 33 plus 48).....	1,714,934	114,335	1,634,167
DETAILS OF WRITE-INS			
4701.	244,108		4,653,606
4702.			
4703.			
4706. Summary of remaining write-ins for Line 47 from overflow page.....	0	0	0
4706. Totals (Lines 4701 through 4703 plus 4706) (Line 47 above).....	244,108	0	4,653,606

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, Inc.

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	483,880	387,790	8,510,881
2. Net investment income	0	(1,784)	
3. Miscellaneous income	0	1,738	
4. Total (Lines 1 to 3)	483,880	387,822	8,510,881
5. Benefit and loss related payments	27,361	581,270	5,910,308
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	338,661	105,922	1,985,419
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	2,480,000	75,033	2,380,000
10. Total (Lines 5 through 9)	2,846,022	742,225	10,225,726
11. Net cash from operations (Line 4 minus Line 10)	(2,362,142)	(354,403)	(5,714,847)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	0		
12.2 Stocks	0		
12.3 Mortgage loans	0		
12.4 Real estate	0		
12.5 Other invested assets	0		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0		
12.7 Miscellaneous proceeds	0		
12.8 Total investment proceeds (Lines 12.1 to 12.7)	0	0	0
13. Cost of investments acquired (long-term only):			
13.1 Bonds	0		
13.2 Stocks	0		
13.3 Mortgage loans	0		
13.4 Real estate	0		
13.5 Other invested assets	0		
13.6 Miscellaneous applications	0		
13.7 Total investments acquired (Lines 13.1 to 13.6)	0	0	0
14. Net increase (or decrease) in contract loans and premium notes	0		
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	0	0	0
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0		
16.2 Capital and paid in surplus, less treasury stock	0		
16.3 Borrowed funds	0		
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0		
16.5 Dividends to stockholders	0		
16.6 Other cash provided (applied)	2,807,398	(1,477,640)	5,871,572
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.6 minus Line 16.5 plus Line 16.6)	2,807,398	(1,477,640)	5,871,572
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	224,694	(1,651,943)	1,958,726
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	2,828,088	3,041,281	868,383
19.2 End of period (Line 18 plus Line 19.1)	3,052,782	1,389,338	2,828,088

Note: Supplemental disclosure of cash flow information for non-cash transactions:

STATEMENT AS OF JANUARY 31, 2012 OF THE AVAHEALTH, INC.

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	2 Comprehensive (Corporate & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVI Medicaid	9 Title XIX Medicaid	10 Other
		Individual	Group							
Total Members at end of:										
1. Prior Year	2,058	2,008	47							
2. First Quarter	1,975	1,955	49							
3. Second Quarter	0	0	0							
4. Third Quarter	0	0	0							
5. Current Year	0	0	0							
6. Current Year Member Months	1,975	1,955	49							
Total Member Ambulatory Encounters for Period:										
7. Physician	0	0	0							
8. Non-Physician	0	0	0							
9. Total	0	0	0							
10. Hospital Patient Days Incurred	0	0	0							
11. Number of Inpatient Admissions	0	0	0							
12. Health Premiums Written (a)	443,776									
13. Life Premiums Direct	0									
14. Property/Casualty Premiums Written	0									
15. Health Premiums Earned	443,776									
16. Property/Casualty Premiums Earned	0									
17. Amount Paid for Provision of Health Care Services	0									
18. Amount Incurred for Provision of Health Care Services	288,454									

(a) For health premiums without amount of Medicare Title XIX except from state issues of \$100 \$

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Current Year to Date - Allocated by States and Territories

States, etc.	1	Direct Business Only							
		2	3	4	5	6	7	8	9
	Active Status	Accident and Health Premiums	Medicare Type XVIII	Medicaid Type XIX	Federal Employees Health Benefits Program Premiums	Life and Annuity Premiums & Other Considerations	Property/Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1. Alabama.....AL								0	
2. Alaska.....AK								0	
3. Arizona.....AZ								0	
4. Arkansas.....AR								0	
5. California.....CA								0	
6. Colorado.....CO								0	
7. Connecticut.....CT								0	
8. Delaware.....DE								0	
9. District of Columbia.....DC								0	
10. Florida.....FL		443,778						443,778	
11. Georgia.....GA								0	
12. Hawaii.....HI								0	
13. Idaho.....ID								0	
14. Illinois.....IL								0	
15. Indiana.....IN								0	
16. Iowa.....IA								0	
17. Kansas.....KS								0	
18. Kentucky.....KY								0	
19. Louisiana.....LA								0	
20. Maine.....ME								0	
21. Maryland.....MD								0	
22. Massachusetts.....MA								0	
23. Michigan.....MI								0	
24. Minnesota.....MN								0	
25. Mississippi.....MS								0	
26. Missouri.....MO								0	
27. Montana.....MT								0	
28. Nebraska.....NE								0	
29. Nevada.....NV								0	
30. New Hampshire.....NH								0	
31. New Jersey.....NJ								0	
32. New Mexico.....NM								0	
33. New York.....NY								0	
34. North Carolina.....NC								0	
35. North Dakota.....ND								0	
36. Ohio.....OH								0	
37. Oklahoma.....OK								0	
38. Oregon.....OR								0	
39. Pennsylvania.....PA								0	
40. Rhode Island.....RI								0	
41. South Carolina.....SC								0	
42. South Dakota.....SD								0	
43. Tennessee.....TN								0	
44. Texas.....TX								0	
45. Utah.....UT								0	
46. Vermont.....VT								0	
47. Virginia.....VA								0	
48. Washington.....WA								0	
49. West Virginia.....WV								0	
50. Wisconsin.....WI								0	
51. Wyoming.....WY								0	
52. American Samoa.....AS								0	
53. Guam.....GU								0	
54. Puerto Rico.....PR								0	
55. U.S. Virgin Islands.....VI								0	
56. Northern Mariana Islands.....MP								0	
57. Canada.....CN								0	
58. Aggregate Other								0	
59. All other	XXX	0	0	0	0	0	0	0	0
60. Subtotal	XXX	443,778	0	0	0	0	0	443,778	0
61. Reporting Entity Contributions for Employee Benefit Plans	XXX							0	
62. Totals (Direct Business)	(e)	1	443,778	0	0	0	0	443,778	0
DETAILS OF WRITE-DNS									
5801.	XXX								
5802.	XXX								
5803.	XXX								
5899. Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5899 (Line 58 above))	XXX	0	0	0	0	0	0	0	0

(L) Licensed or Chartered - Licensed Insurance Carrier or Domestic RRG; (R) Registered - Non-domestic RRG; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.
 (e) Insert the number of L responses except for Canada and Other Alien.

FILED



JUN 14 2011

OFFICE OF
INSURANCE REGULATION

Decketed by: SS

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

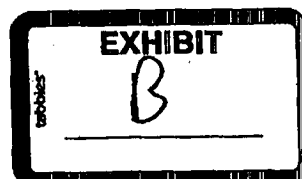
CASE NO.: 116802-11-CO

Application for the Acquisition of all the
Issued and Outstanding Voting Securities of
AVAHEALTH, INC., a Domestic Insurer, by
KEY INSURANCE PLANS, INC.

CONSENT ORDER

THIS CAUSE came on for consideration upon the filing with the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of an application for approval of the acquisition of all of the issued and outstanding voting securities of AVAHEALTH, INC., (hereinafter referred to as "COMPANY"), a domestic insurer, by KEY INSURANCE PLANS, INC. (hereinafter referred to as "APPLICANT") pursuant to Section 628.461, Florida Statutes. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE finds as follows:

1. The OFFICE has jurisdiction over the subject matter and the parties to this proceeding.
2. APPLICANT has applied for, and subject to the present and continuing satisfaction of the requirements, terms and conditions established herein, has satisfactorily met



all of the conditions precedent for the granting of approval by the OFFICE of the proposed acquisition of all of the outstanding capital stock of COMPANY.

3. APPLICANT is a Florida corporation that is one hundred percent (100%) owned by CUSP, LLC (hereinafter referred to as "CUSP") a limited liability company. The application represents that CUSP has as its managers the following individuals: Pedro Carelto, Mario Paez, Ernesto Urdaneta and Enoc Segundo Martinez. The application also represents that Bruce Prieman is a manager at large for CUSP. Said representations are material to the issuance of this Consent Order.

4. COMPANY is a licensed life and health insurer domiciled in the state of Florida and is one hundred percent (100%) owned by AVALON HEALTHCARE HOLDINGS, INC. (hereinafter referred to as "AHH" or "SELLER"), a Florida corporation.

5. On March 14, 2011, CUSP entered into a Stock Purchase Agreement with SELLER, which was subsequently amended and restated and filed with the OFFICE on May 27, 2011, whereby CUSP or its designee would acquire all of the issued and outstanding capital stock of COMPANY. CUSP has represented that its designee shall be APPLICANT. The aforementioned representation is material to the issuance of this Consent Order. Information is missing from Section 2.4 (vii), Schedule A and the Disclosure Schedule that form the Amended and Restated Stock Purchase Agreement. APPLICANT shall submit an executed copy of the Amended and Restated Stock Purchase Agreement to the OFFICE for the OFFICE's review within three (3) business days from the closing of the acquisition of COMPANY by the APPLICANT. The executed Amended and Restated Stock Purchase Agreement submitted to the OFFICE shall contain the missing information within Section 2.4 (vii), Schedule A, the Disclosure Schedule and any other schedules, exhibits or related documents that effectuate the

Amended and Restated Stock Purchase Agreement APPLICANT, SELLER and COMPANY agree that the OFFICE's approval of the acquisition of COMPANY by APPLICANT is conditioned upon the OFFICE's receipt and acceptance of the executed Amended and Restated Stock Purchase Agreement. APPLICANT, SELLER and COMPANY further agree that this Consent Order shall be deemed void should the OFFICE find the executed Amended and Restated Stock Purchase Agreement to be unacceptable.

6. Pursuant to Schedule 2.2 of the Amended and Restated Stock Purchase Agreement, the liability of APPLICANT is limited; however, APPLICANT agrees that it is acquiring all of the issued and capital stock of COMPANY and the aforementioned liability limitation shall only serve to reduce the adjusted purchase price of COMPANY. APPLICANT and CUSP agree that APPLICANT shall be responsible for all liabilities, of any kind, on behalf of COMPANY and APPLICANT shall pay all legitimate liabilities of COMPANY in a timely manner regardless of any reimbursement it may or may not receive pursuant to Schedule 2.2 of the Amended and Restated Stock Purchase Agreement. Additionally, the parties agree that the purchase price of the COMPANY shall be paid by CUSP or APPLICANT.

7. Concurrent with the acquisition, the application represents that COMPANY shall change its name to "Key Insurance Plan, Inc.". Final approval of the name change is subject to the receipt of a Certificate of Status issued by the Florida Office of the Secretary of State reflecting the name change, as well as any other required documentation to validate a name change.

8. APPLICANT and CUSP have made material representations that none of their officers, directors, managers and shareholders holding five percent (5%) or greater ownership interest and none of the post-acquisition officers and directors of COMPANY have been found

guilty of, or have pleaded guilty or nolo contendere to, a felony or a misdemeanor, other than a minor traffic violation, without regard to whether a judgment of conviction was entered by the Court.

9. APPLICANT and CUSP represent that they have, with the exception of Enoc Segundo Martinez, submitted complete background information on each of the persons described in paragraph eight (8) above, and that if such material information has not been provided, any such individual shall be removed within thirty (30) days of receipt of notification from the OFFICE.

10. APPLICANT and/or CUSP shall submit or cause to be submitted to the OFFICE a biographical affidavit, authority for release of information form, finger print cards and background investigative report for Enoc Segundo Martinez within thirty (30) days of the date of the execution of this Consent Order. If the background information for Enoc Segundo Martinez (biographical affidavit, authority for release of information form, fingerprint cards, background investigative report) furnished to the OFFICE or other sources utilized by the OFFICE in its investigation process reveal the representations regarding Enoc Segundo Martinez in paragraph eight (8) above are inaccurate, Enoc Segundo Martinez shall be removed within thirty (30) days after notification by the OFFICE and replaced with a person acceptable to the OFFICE.

11. APPLICANT and CUSP agree that upon receipt of such notification from the OFFICE, pursuant to paragraphs nine (9) and ten (10) above, if APPLICANT and/or CUSP does not timely take the required corrective action, APPLICANT and/or CUSP agree that such failure to act would constitute an immediate danger to the public and the OFFICE may immediately suspend or revoke the Certificate of Authority of COMPANY, without further proceedings pursuant to Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

12. APPLICANT has filed, and the OFFICE has relied upon the representations in the Plan of Operation and the Plan of Operation's supporting documents that APPLICANT submitted with the application. Prior written approval must be secured from the OFFICE prior to any material deviation from said Plan of Operation, including expansion into any other state.

13. As required by Section 624.424, Florida Statutes, COMPANY has not filed complete audited financial reports for 2009 or 2010. Therefore, COMPANY shall file with the OFFICE within sixty (60) days from the closing of the acquisition of COMPANY by APPLICANT, a complete audited financial report pursuant to Section 624.424, Florida Statutes, for the year ended December 31, 2010. The report shall include, but not be limited to, an independent financial audit as of December 31, 2010. Further, COMPANY shall not market or enroll any new business until the 2010 independent financial audit has been filed with the OFFICE and the OFFICE has provided written approval to resume marketing and enrollment.

14. COMPANY shall amend and/or complete its 2010 Health Blank Financial Statement that was filed with the National Association of Insurance Commissioners, including all related reports and documents, to be consistent with the financial audit referenced in paragraph thirteen (13) above. Such amendment shall be filed with the National Association of Insurance Commissioners and the OFFICE within ten (10) days of the filing of the financial audit referenced in paragraph thirteen (13) above with the OFFICE.

15. APPLICANT represents that the information and documentation provided to the OFFICE accurately and completely describe all transactions and agreements pertaining to the acquisition and the future activities of APPLICANT and COMPANY. APPLICANT represents that there are no other agreements, written or oral, related to consideration to the SELLERS or related to the management of the COMPANY that have not been provided to the OFFICE.

16. APPLICANT and SELLER agree to obtain written approval from the OFFICE prior to any material changes made to the Amended and Restated Stock Purchase Agreement from the date it was submitted to the OFFICE to the closing date of the acquisition of COMPANY by APPLICANT.

17. APPLICANT and/or COMPANY shall provide to the OFFICE an acceptable executed disaster coordination/response plan within thirty (30) days of the date of the execution of this Consent Order.

18. APPLICANT shall provide evidence of a four million, five hundred thousand U.S. Dollars (\$4,500,000) capital infusion into COMPANY within three (3) business days of the closing of the acquisition of COMPANY by the APPLICANT.

19. APPLICANT, SELLER and COMPANY agree that this Consent Order shall be deemed void should closing not take place within five (5) business days from the date of the execution of this Consent Order.

20. APPLICANT has filed pro forma financial statements for COMPANY that indicate that, in addition to the capital infusion referenced in paragraph eighteen (18) above, APPLICANT will need to provide additional capital infusions into COMPANY. Without said capital infusions, the pro forma's reflect that COMPANY would be both impaired, pursuant to Section 624.408, Florida Statutes, and in noncompliance with the writing ratio requirements outlined in Section 624.4095, Florida Statutes. CUSP shall provide additional capital infusions, as necessary, in order to maintain compliance with Florida Statutes. Said capital infusions are material to the approval of this transaction.

21. COMPANY shall file with the OFFICE quarterly and annual financial statements in accordance with Section 624.424, Florida Statutes. COMPANY shall file monthly financial

statements until further notice from the OFFICE. The monthly financial statements are due on or before the twenty-fifth (25th) day of the following month from the period ending date. The monthly financial statements shall include the Jurat page, Assets, Liabilities, Capital and Surplus, Statement of Revenue and Expenses, Cash Flow and Exhibit of Premiums, Enrollment and Utilization. The Statement of Revenue and Expenses and Cash Flow shall be filed on a cumulative year-to-date basis for monthly statements. All statements shall be in the current National Association of Insurance Commissioners form. The COMPANY may petition the OFFICE to release COMPANY from its obligation to file monthly financial statements. The OFFICE shall not unreasonably deny COMPANY's petition regarding monthly financial statement requirements.

22. COMPANY is subject to the holding company registration requirements of Rule 690-143.045 through Rule 690-143.047, Florida Administrative Code. COMPANY shall file a holding company registration statement with the OFFICE within fifteen (15) days after the end of the month in which COMPANY is acquired by APPLICANT. COMPANY shall keep the holding company registration statement current. Affiliates shall mean any entities defined by Rule 690-143.045 Florida Administrative Code and includes CUSP, LLC.

23. COMPANY shall comply with Section 628.371, Florida Statutes, and Rule 690-143.047, Florida Administrative Code as relates to the payment of any dividends.

24. COMPANY shall obtain written approval from the OFFICE prior to making any loans or cash infusions to affiliates.

25. Within sixty (60) days from the date of the execution of this Consent Order, COMPANY shall file with the Division of Insurance Fraud, Department of Financial Services,

an acceptable update to its anti-fraud plan pursuant to Section 626.9891, Florida Statutes and Rule 69D-2, Florida Administrative Code.

26. COMPANY shall submit all management contracts, administrative service contracts, provider contracts, and affiliated contracts, as well as amendments to such contracts, to the OFFICE for written approval prior to the execution and/or consummation of such contract.

27. The deadlines set forth in this Consent Order may be extended by written approval of the OFFICE. Additionally, the various reporting requirements and any other provision or requirement set forth in this Consent Order may be altered or terminated by written approval of the OFFICE. Approval of any deadline extension is subject to statutory or administrative regulation limitations.

28. Approval of this application does not alter or vacate any existing Consent Order(s) or corrective action plan(s) that may have been entered into or between the OFFICE and COMPANY, except to the extent that the terms of prior Consent Orders or corrective action plans conflict with the terms of this Consent Order.

29. APPLICANT, CUSP and SELLER affirm and represent that all requirements set forth herein, and all statements, explanations, representations, and documents provided to the OFFICE in connection with the application, including all attachments and supplements thereto, are material to the issuance of this Consent Order. APPLICANT, CUSP and SELLER further affirm and represent that the information, documents and explanations provided to the OFFICE are true and fully describe all transactions, agreements and undertakings with regard to the acquisition and future operation of COMPANY.

30. Executive Order 13224 signed by President George W. Bush on September 23, 2001, blocks the assets of terrorists and terrorist support organizations identified by the United States Department of the Treasury, Office of Foreign Assets Control. The Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests. The list of identified terrorists and terrorist support organizations is periodically updated at the Treasury Department's Office of Foreign Assets Control website, <http://www.treas.gov/ofac>. COMPANY shall maintain and adhere to procedures necessary to detect and prevent prohibited transactions with individuals and entities which have been identified at the Treasury Department's Office of Foreign Assets Control website.

31. APPLICANT, CUSP, SELLER, and/or COMPANY shall report to the OFFICE within sixty (60) days from the date of the execution of this Consent Order a certification evidencing compliance with all of the requirements of this Consent Order. Any exceptions shall be so noted and contained in the certification. Exceptions noted in the certification shall also include a timeline defining when the outstanding requirements of the Consent Order will be complete. Said certification shall be submitted to the OFFICE via electronic mail and directed to the attention of the Assistant General Counsel representing the OFFICE in this matter and as named in this Consent Order.

32. APPLICANT, CUSP, SELLER and COMPANY agree that failure to adhere to one or more of the terms and conditions contained herein shall result, without further proceedings, in the revocation of COMPANY's Certificate of Authority in this state in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

33. Each party to this action shall bear its own costs and fees.

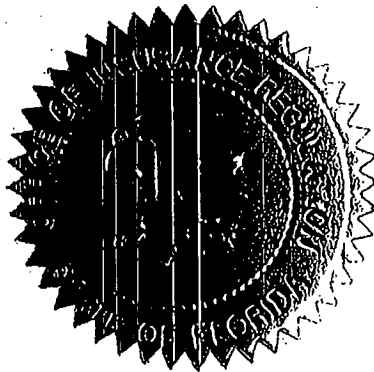
34. APPLICANT, CUSP, SELLER and COMPANY expressly waive a hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which parties may be entitled by law or rules of the OFFICE. APPLICANT, CUSP, SELLER and COMPANY hereby knowingly and voluntarily waive all rights to challenge or to contest this Consent Order, in any forum now or in the future available to it, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

35. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has executed a copy of this Consent Order bearing the signature of APPLICANT, CUSP, SELLER and COMPANY or its authorized representatives, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, APPLICANT, CUSP, SELLER and COMPANY agree that the signatures as affixed to this Consent Order shall be under the seal of a Notary Public.

WHEREFORE, subject to the terms and conditions set forth above, the OFFICE hereby approves the application for the acquisition of one hundred percent (100%) of the issued and outstanding capital stock of AVAHEALTH, INC. by KEY INSURANCE PLANS, INC., and subsequent to the effective date of the acquisition, the name change of AVAHEALTH, INC. to KEY INSURANCE PLAN, INC. By approving this transaction, the OFFICE does not approve as part of this transaction any administrative, management, provider or affiliate contracts submitted with the application.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 14th day of June, 2011.



Kevin M. McCarty
Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereby, KEY INSURANCE PLANS, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind KEY INSURANCE PLANS, INC. to the terms and conditions of this Consent Order.

KEY INSURANCE PLANS, INC.

By: Bruce Frieman

Print Name: BRUCE FRIEMAN

Corporate Seal

Title: CHIEF EXECUTIVE OFFICER

Date: JUNE 13, 2011

On 6/13/11 before me, Anne Westley, personally appeared Dr. Bruce Frieman, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 13th day of June 2011.

Signature

Anne Westley
(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

1/9/2015



ANNE WESTLEY
NOTARY PUBLIC
STATE OF FLORIDA
Comm# EE053808
Expires 1/9/2015

By execution hereby, CUSP, LLC consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind CUSP, LLC, to the terms and conditions of this Consent Order.

CUSP, LLC

By: _____

Print Name: _____

Title: _____

Date: _____

Corporate Seal

On 6/13/11 before me, Anne Westley, personally appeared Pedro Caretto, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 13th day of June 2011.

Signature _____

(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

1/9/2015



ANNE WESTLEY
NOTARY PUBLIC
STATE OF FLORIDA
Comm# EE053808
Expires 1/9/2015

By execution hereof, AVALON HEALTHCARE HOLDINGS, INC., consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind AVALON HEALTH HOLDINGS, INC., to the terms and conditions of this Consent Order and has personal knowledge of the application and the information provided therein.

AVALON HEALTHCARE HOLDINGS, INC.

By: Charles T. O'Neill

Print Name: Charles T. O'Neill

Title: CEO/President

Date: 6/14/11

Corporate Seal

On Tue, June 14, 2011 before me, Charles T O'Neill, personally appeared and signed the document and is personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 14 day of June 2011.

Signature

Natalie E. Guzman
(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires

June 22, 2014



By execution hereby, AVAHEALTH, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind AVAHEALTH, INC., to the terms and conditions of this Consent Order.

AVAHEALTH, INC.

By: Charles T. O'Neill

Print Name: Charles T. O'Neill

Corporate Seal

Title: CEO/President

Date: 6/14/11

On Tue, June 14, 2011 before me, Charles T. O'Neill, personally appeared and signed the document and is, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person or the entity upon behalf which the person acted, executed the instrument.

Subscribed and sworn to before me this 14 day of June 2011.

Signature

Natalie E. Guzman
(Signature of Notary Public)

[NOTARIAL SEAL]

My Commission Expires:

June, 22, 2014



COPIES FURNISHED TO:

Tina Dunsford, Attorney
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201 N. Franklin Street, Suite 2200
Tampa, FL 33601
Email: tina.dunsford@gray-robinson.com

Bruce W. Frieman, DO, CEO
CUSP, LLC
5440 Mariner Street, Suite 110
Tampa, FL 33609

Charles T. O'Neill
Avalon Healthcare Holdings, Inc.
8637 Fredricksburg Rd.
San Antonio, TX 78240

Toma L. Wilkerson, Acting Director
Life & Health Financial Oversight
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0327

Valerie Reglat, Financial Examiner/Analyst Supervisor
Life & Health Financial Oversight
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0327

Jason Nelson, Senior Attorney
Florida Office of Insurance Regulation
Legal Services Office
200 East Gaines Street
612 Larson Building
Tallahassee, Florida 32399-4206
Email: Jason.Nelson@flor.com



FILED

APR 19 2012

OFFICE OF INSURANCE REGULATION

Kevin M. McCarty
Commissioner

OFFICE OF
INSURANCE REGULATION
Docketed by: 045

IN THE MATTER OF:

CASE NO.: 124967-12

AVAHEALTH, INC., D/B/A
KEY INSURANCE PLAN

CEASE AND DESIST ORDER

TO: Karen Connolly, CEO
AvaHealth, Inc., d/b/a Key Insurance Plan
5440 Mariner Street
Tampa, Florida 33609

YOU ARE HEREBY NOTIFIED that, pursuant to the Florida Insurance Code, including Sections 624.307 and 624.310, Florida Statutes, the State of Florida, Office of Insurance Regulation (hereinafter referred to as the "OFFICE"), had cause to make an investigation of certain insurance related activities of AVAHEALTH, INC., D/B/A KEY INSURANCE PLAN (hereinafter referred to as "AVAHEALTH") in the State of Florida and has information that the aforementioned company inappropriately implemented approved rate increases, resulting in unauthorized rates in violation of Section 627.410(6), Florida Statutes, for the past two (2) years. Accordingly, the OFFICE intends to enter a Final Order requiring the above-referenced party to cease and desist from charging unauthorized rates in violation of Section 627.410(6), Florida Statutes, to offer reinstatement to any insureds who did not renew based on the unauthorized rates, and to refund to its insureds and former insureds premiums received from the unauthorized rates as determined by the OFFICE.

As a result of its investigation and as grounds for entry of this Order, the OFFICE hereby finds and alleges as follows:

1. The OFFICE has jurisdiction over the subject matter and parties to this proceeding.
2. AVAHEALTH is a domestic life and health insurer authorized to do business in Florida and subject to regulation by the OFFICE, pursuant to the Florida Insurance Code.
3. Section 627.410(6), Florida Statutes, requires every health insurer doing business in the State of Florida to use only rates that have been approved by the OFFICE.
4. On February 3, 2012, the State of Florida, Division of Consumer Services, Department of Financial Services (hereinafter "DEPARTMENT") received a consumer complaint that AVAHEALTH's rates had greatly increased. On March 13, 2012, the DEPARTMENT received a second complaint of similar nature.
5. The DEPARTMENT began an investigation into this complaint, and as part of this investigation, one consumer provided the DEPARTMENT with correspondence between themselves and AVAHEALTH regarding their large renewal rate increase.
6. This information was forwarded to the OFFICE, and the OFFICE began an investigation into the large rate increases. Based on the information contained in the correspondences sent to the DEPARTMENT, stating that there was a 48.8% increase in the rate, the OFFICE knew that this could not be correct as the OFFICE had not approved a rate increase greater than 10%.
7. The OFFICE then requested that AVAHEALTH submit a spreadsheet to the OFFICE showing the previous rate, and the rate that insureds were charged at the March, April, and May renewals.

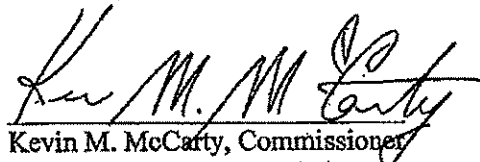
8. On April 5, 2012, the OFFICE received the spreadsheet from AVAHEALTH, and the spreadsheet showed widespread rate increases far in excess of the approved 10% increase.

9. The OFFICE finds that AVAHEALTH has been charging rates far in excess of the rate authorized by the OFFICE.

WHEREFORE, pursuant to the Florida Insurance Code, including Sections 624.307 and 624.310, Florida Statutes, the OFFICE finds that because AVAHEALTH has been charging rates in excess of the rates authorized by the OFFICE in violation of Section 627.410(6), Florida Statutes, the OFFICE intends to enter a Final Order to Cease and Desist the use of unauthorized rates.

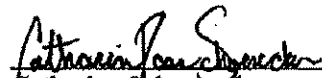
DONE and ORDERED this 19th day of April, 2012.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Order was sent by Certified Mail to Ms. Karen Connolly, AvaHealth, Inc., d/b/a Key Insurance Plan, 5440 Mariner Street, Tampa, Florida 33609, this 19th day of April, 2012.


Catharine Schoenecker

Assistant General Counsel
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-4206
(850) 413-4169
Catharine.schoenecker@fioir.com

NOTICE OF RIGHTS

Pursuant to Sections 120.569 and 120.57, Florida Statutes, and Rule Chapter 28-106, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office, no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact, the provisions of Section 120.57(2), Florida Statutes, may apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency, or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary, one may be conducted in Tallahassee, Florida, or by telephonic conference call upon your request.

If you dispute material facts which are the basis for this agency's action, you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.2015, F.A.C., including but not limited to:

- a) A statement requesting an administrative hearing identifying those material facts that are in dispute. If there are none, the petition must so state; and
- b) A statement of when the respondent received notice of the agency's action.

These proceedings are held before a State Administrative Law Judge of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

In some instances, you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.

FILED

MAY 24 2012

05595



**OFFICE OF
INSURANCE REGULATION**
Docketed by: 095

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 124967-12

**AVAHEALTH, INC., D/B/A
KEY INSURANCE PLAN**
_____ /

FINAL ORDER TO CEASE AND DESIST

THIS MATTER came on before the undersigned Insurance Commissioner of the State of Florida for consideration and final agency action, who having considered the record in this case and being fully advised of the premises, finds and orders as follows:

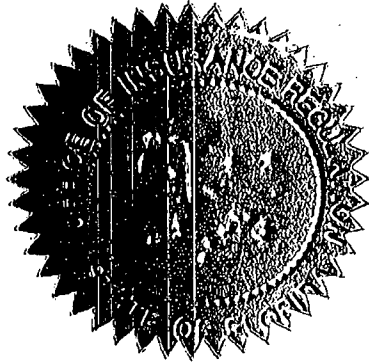
1. On April 19, 2012, a Cease and Desist Order (attached as Exhibit "A" and hereinafter incorporated by reference) was issued by the Office of Insurance Regulation (hereinafter "Office") notifying AvaHealth, Inc., d/b/a Key Insurance Plan (hereinafter "AvaHealth") that they were charging rates in excess of the rates authorized by the Office in violation of Section 627.410(6), Florida Statutes.
2. The Cease and Desist Order was sent to AvaHealth by U.S. Certified Mail. There has been no request for a proceeding to challenge or contest the action taken by the Office.
3. The Office has jurisdiction over AvaHealth for purposes of this action.

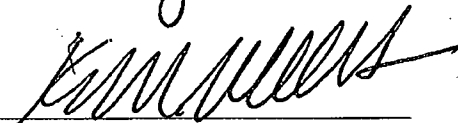
IT IS HEREBY ORDERED:

4. The findings of fact and conclusions of law contained in the April 19, 2012, Cease and Desist Order are hereby ADOPTED and INCORPORATED into this Final Order to Cease and Desist.

5. AvaHealth shall forthwith CEASE AND DESIST from charging rates in excess of the rates authorized by the Office. Further, AvaHealth shall offer reinstatement to any insureds who did not renew based on the unauthorized rates and refund to its insured and former insureds premiums received from the unauthorized rates as determined by the Office.

DONE AND ORDERED this 24th day of May, 2012.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation


NOTICE OF RIGHTS

Any party to these proceedings adversely affected by this Order is entitled to seek review of this Order pursuant to Section 120.68, Florida Statutes, and Rule 9.110, Fla. R. App. P. Review proceedings must be instituted by filing a petition or notice of appeal with the General Counsel, for the OFFICE of Insurance Regulation, acting as the Agency Clerk, at 612 Larson Building, Tallahassee, Florida, 32399 and filing a copy of the same with the appropriate District Court of Appeal within thirty (30) days of rendition of this Order.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Final Order to Cease and Desist has been furnished this 24th day of May 2012 by certified mail to:

Ms. Karen Connolly, CEO
AvaHealth, Inc., d/b/a Key Insurance Plan
5440 Mariner Street
Tampa, FL 33609


Catharine Schoenecker
Assistant General Counsel
Florida Bar Number: 0084658
Office of Insurance Regulation
Division of Legal Services
200 East Gaines Street
Tallahassee, Florida 32399
Telephone: (850) 413-4169
Facsimile: (850) 922-2543



FILED

APR 19 2012

OFFICE OF INSURANCE REGULATION

Kevin M. McCarty
Commissioner

OFFICE OF
INSURANCE REGULATION
Docketed by: QAS

IN THE MATTER OF:

CASE NO.: 124967-12

AVAHEALTH, INC., D/B/A
KEY INSURANCE PLAN

CEASE AND DESIST ORDER

TO: Karen Connolly, CEO
AvaHealth, Inc., d/b/a Key Insurance Plan
5440 Mariner Street
Tampa, Florida 33609

YOU ARE HEREBY NOTIFIED that, pursuant to the Florida Insurance Code, including Sections 624.307 and 624.310, Florida Statutes, the State of Florida, Office of Insurance Regulation (hereinafter referred to as the "OFFICE"), had cause to make an investigation of certain insurance related activities of AVAHEALTH, INC., D/B/A KEY INSURANCE PLAN (hereinafter referred to as "AVAHEALTH") in the State of Florida and has information that the aforementioned company inappropriately implemented approved rate increases, resulting in unauthorized rates in violation of Section 627.410(6), Florida Statutes, for the past two (2) years. Accordingly, the OFFICE intends to enter a Final Order requiring the above-referenced party to cease and desist from charging unauthorized rates in violation of Section 627.410(6), Florida Statutes, to offer reinstatement to any insureds who did not renew based on the unauthorized rates, and to refund to its insureds and former insureds premiums received from the unauthorized rates as determined by the OFFICE.



As a result of its investigation and as grounds for entry of this Order, the OFFICE hereby finds and alleges as follows:

1. The OFFICE has jurisdiction over the subject matter and parties to this proceeding.

2. AVAHEALTH is a domestic life and health insurer authorized to do business in Florida and subject to regulation by the OFFICE, pursuant to the Florida Insurance Code.

3. Section 627.410(6), Florida Statutes, requires every health insurer doing business in the State of Florida to use only rates that have been approved by the OFFICE.

4. On February 3, 2012, the State of Florida, Division of Consumer Services, Department of Financial Services (hereinafter "DEPARTMENT") received a consumer complaint that AVAHEALTH's rates had greatly increased. On March 13, 2012, the DEPARTMENT received a second complaint of similar nature.

5. The DEPARTMENT began an investigation into this complaint, and as part of this investigation, one consumer provided the DEPARTMENT with correspondence between themselves and AVAHEALTH regarding their large renewal rate increase.

6. This information was forwarded to the OFFICE, and the OFFICE began an investigation into the large rate increases. Based on the information contained in the correspondences sent to the DEPARTMENT, stating that there was a 48.8% increase in the rate, the OFFICE knew that this could not be correct as the OFFICE had not approved a rate increase greater than 10%.

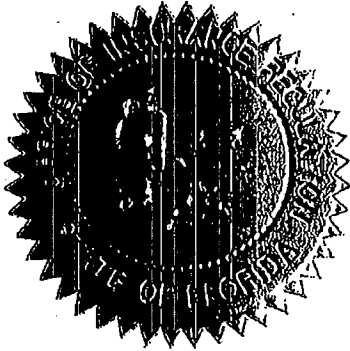
7. The OFFICE then requested that AVAHEALTH submit a spreadsheet to the OFFICE showing the previous rate, and the rate that insureds were charged at the March, April, and May renewals.

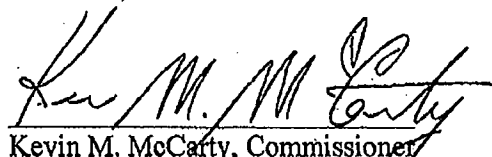
8. On April 5, 2012, the OFFICE received the spreadsheet from AVAHEALTH, and the spreadsheet showed widespread rate increases far in excess of the approved 10% increase.

9. The OFFICE finds that AVAHEALTH has been charging rates far in excess of the rate authorized by the OFFICE.

WHEREFORE, pursuant to the Florida Insurance Code, including Sections 624.307 and 624.310, Florida Statutes, the OFFICE finds that because AVAHEALTH has been charging rates in excess of the rates authorized by the OFFICE in violation of Section 627.410(6), Florida Statutes, the OFFICE intends to enter a Final Order to Cease and Desist the use of unauthorized rates.

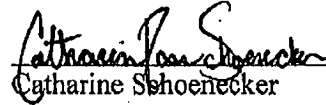
DONE and ORDERED this 19th day of April, 2012.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Order was sent by Certified Mail to Ms. Karen Connolly, AvaHealth, Inc., d/b/a Key Insurance Plan, 5440 Mariner Street, Tampa, Florida 33609, this 19th day of April, 2012.



Catharine Schoenecker
Assistant General Counsel
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-4206
(850) 413-4169
Catharine.schoenecker@flor.com

NOTICE OF RIGHTS

Pursuant to Sections 120.569 and 120.57, Florida Statutes, and Rule Chapter 28-106, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office, no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact, the provisions of Section 120.57(2), Florida Statutes, may apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency, or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary, one may be conducted in Tallahassee, Florida, or by telephonic conference call upon your request.

If you dispute material facts which are the basis for this agency's action, you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.2015, F.A.C., including but not limited to:

- a) A statement requesting an administrative hearing identifying those material facts that are in dispute. If there are none, the petition must so state; and
- b) A statement of when the respondent received notice of the agency's action.

These proceedings are held before a State Administrative Law Judge of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

In some instances, you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.



OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

**FINANCIAL SERVICES
COMMISSION**

RICK SCOTT
GOVERNOR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ADAM PUTNAM
COMMISSIONER OF
AGRICULTURE

May 1, 2012

The Honorable Jeff Atwater
The Chief Financial Officer
Department of Financial Services
The Capitol, PL-11
Tallahassee, FL 32399

Via Email

Re: AvaHealth Inc., d/b/a Key Insurance Plan

Dear Chief Financial Officer Atwater:

Please be advised that the Office of Insurance Regulation (hereinafter referred to as the "Office") has determined that one or more grounds exist for the initiation of delinquency proceedings, pursuant to Chapter 631, Florida Statutes, against AvaHealth, Inc., d/b/a Key Insurance Plan (hereinafter referred to as "AvaHealth"). AvaHealth is a domestic insurer authorized to transact insurance business in the State of Florida. As specified in Sections 631.051 and 631.061, Florida Statutes, among the grounds that allow a petition for an order appointing the Department of Financial Services (hereinafter referred to as the "Department") as receiver and directing it to rehabilitate or liquidate the business of a domestic insurer include if such entity:

- (1) Is impaired or insolvent.

The Office finds for the reasons set forth in the attached documents that AvaHealth does not comply with the minimum capital and surplus requirements of Section 624.408, Florida Statutes, and therefore, is impaired.

- (2) Is found by the office to be in such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance hazardous to its policyholders, creditors, stockholders, or the public.

The Office finds for the reasons set forth in the attached documents that AvaHealth is operating in such hazardous condition.

...

KEVIN M. McCARTY • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLOIR.COM • EMAIL: KEVIN.McCARTY@FLOIR.COM

Affirmative Action / Equal Opportunity Employer

- (3) Has consented to such an order through a majority of its directors, stockholders, members, or subscribers.

On April 23, 2010, when AvaHealth was under different management and ownership, the company executed a Consent to Receivership. The Office is not sure that this Consent is still binding, but has included it for review per the request of the Rehab and Liquidation Division.

The Office has determined that AvaHealth is currently impaired and is operating in a hazardous condition. As such, I am advising you of that determination so that delinquency proceedings can be initiated by the Division of Rehabilitation and Liquidation. The following documents are attached in support of such determination:

Exhibit 1 – Affidavit of Paul Johns, Financial Administrator, Life & Health Financial Oversight

Exhibit 2 – April 23, 2010, Executed Consent to Receivership

As always, the Office stands ready to provide any additional information or assistance the Department needs in order for this matter to proceed as expeditiously as possible. Thank you for your attention to this matter.

Sincerely,



Kevin M. McCarty
Commissioner

cc: PK Jameson, General Counsel
Department of Financial Services

Sha'Ron James, Division Director
Division of Rehabilitation and Liquidation
Department of Financial Services

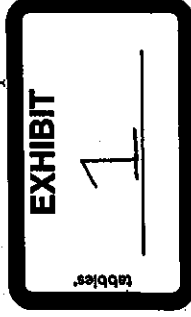
Affidavit of Paul D. Johns

State of Florida

County of Leon

BEFORE ME, the undersigned authority appeared Paul D. Johns, who after being sworn, deposes and says:

1. I, Paul D. Johns, am over the age of eighteen (18), sui juris, and I am competent to testify and have personal knowledge of the facts contained herein.
2. I, Paul D. Johns, currently hold the position of Financial Administrator of Life and Health Financial Oversight for the Florida Office of Insurance Regulation (hereinafter referred to as the "OFFICE"). I graduated from Florida State University in 1984 with a Bachelor of Science degree in Finance.
3. I have served as the Financial Administrator for the OFFICE since May 2008. I served as the Financial Examiner/Analyst Supervisor in Life and Health Financial Oversight for the OFFICE from August 1999 until May 2008. I served as an Insurance Examiner with the OFFICE from 1992 until 1999. My prior work experience also includes positions with Bank of America as a Credit Analyst, Commercial Lending Officer and Loan Review Officer from 1985 until 1992.
4. As a Financial Administrator with Life and Health Financial Oversight for the OFFICE, I have obtained knowledge, both directly and indirectly, through employees of the OFFICE and financial statement filings regarding the financial condition of AVAHEALTH, INC., D/B/A KEY INSURANCE PLAN (hereinafter referred to as "AVAHEALTH").
5. AVAHEALTH is a Florida domestic insurance company authorized to transact life and health insurance business in Florida since September 22, 2005, pursuant to the Florida



Insurance Code. AVAHEALTH was incorporated under the laws of Florida on July 8, 2005.

6. On March 22, 2012, the OFFICE issued a suspension order to AVAHEALTH because of various violations of the Insurance Code, including but not limited to, a financial impairment. On April 13, 2012, AVAHEALTH submitted a Petition for Administrative Hearing challenging the suspension order. On April 24, 2012, the OFFICE referred the Petition to the Division of Administrative Hearings.

7. On April 19, 2012, the OFFICE issued a Cease and Desist Order to AVAHEALTH because AVAHEALTH is and has been charging unauthorized rates in violation of Section 627.410(6), Florida Statutes. As of today, AVAHEALTH has not challenged such order.

8. The OFFICE has determined that one or more grounds exist for the initiation of delinquency proceedings pursuant to Sections 631.051 or 631.061, Florida Statutes. As specified in these Sections, among the grounds that allow a petition for the appointment of a receiver include:

a. Is impaired or insolvent;

i. On April 25, 2012, AVAHEALTH submitted the March 31, 2012 monthly financial statement (attached as Exhibit "A" and hereinafter incorporated by reference) filed pursuant to the OFFICE's March 5, 2009 letter (attached as Exhibit "B") directing continued submission of monthly financial statement filings. Based on the March 31, 2012 monthly financial statement,

AVAHEALTH does not comply with minimum capital and surplus levels required by Section 624.408, Florida Statutes. On March 31, 2012, AVAHEALTH was required by Section 624.408, Florida Statutes, to have capital and surplus of one million five hundred U.S. Dollars (\$1,500,000).

The March 31, 2012 monthly financial statement reports capital and surplus of

one million one hundred forty-one thousand four hundred twelve U.S. Dollars (\$1,141,412). The capital and surplus reported by AVAHEALTH on March 31, 2012, was three hundred fifty-eight thousand five hundred eighty-eight U.S. Dollars (\$358,588) below the statutory amount required by Section 624.408, Florida Statutes. On April 25, 2012, the President of the company e-mailed the Office indicating that the company was aware that it was below the minimum statutory requirements, but that additional capital had been infused and indicated she had proof (e-mail attached as Exhibit "B".) On April 26, 2012, the Office requested evidence demonstrating that the funds had been deposited. On April, 30, 2012, during a conference call, the President of AVAHEALTH indicated that the shareholder had changed his mind and the infusion had not been made.

b. Is found by the office to be in such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance hazardous to its policyholders, creditors, stockholders, or the public;

i. On December 30, 2012, the Office received a copy of a resignation from the three members of the board of directors. On January 19, 2012, the Office received a copy of a resignation from a fourth board member.

ii. On April 2, 2012, the Office met with representatives from AVAHEALTH and was advised that all individuals previously acting in the capacity of corporate officers had been replaced with new officers. During this meeting, the Office advised the new management that it would need to submit pro-forma financial statements projecting the future financial condition of

AVAHEALTH

iii. On April 19, 2012, the Office received pro-forma financial statements from AVAHEALTH which did not appear reliable and of a standard sufficient to

support AVAHEALTH's successful accomplishment of its Florida plan of business operations.

9. Thus, the OFFICE has made a determination that the grounds for issuing an Order for the immediate appointment of a Receiver exist under Sections 631.051 or 631.061, Florida Statutes.

FURTHER AFFIANT SAYETH NAUGHT.

Paul D. Johns

Paul D. Johns
Financial Administrator
Life & Health Financial Oversight
Office of Insurance Regulation

STATE OF Florida

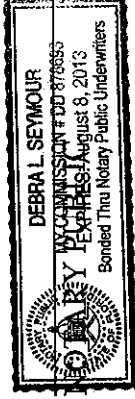
COUNTY OF Leon

The foregoing affidavit was sworn to and subscribed before me this 30th day of April, 2012, by Paul D Johns.
Personally known to me X
Identification Produced _____

SWORN AND SUBSCRIBED, before me this 30th day of April, 2012.

My Commission Expires:

Aug 31, 2013





HEALTH QUARTERLY STATEMENT

AS OF MARCH 31, 2012
OF THE CONDITION AND AFFAIRS OF THE
AVAHEALTH, INC.

NAIC Group Code	0000	NAIC Company Code	12316	Employer's ID Number	20-3075951
Organized under the Laws of	FL	(Prior)	FL	State of Domicile or Port of Entry	FL
Country of Domicile	United States of America				
Licensed as business type:	Life, Accident & Health				
Is HMO Federally Qualified? Yes [] No []					
Incorporated/Organized	07/09/2005	Commenced Business	04/01/2006		
Statutory Home Office	5440 Mariner Street, Suite 110	(Street and Number)	Tampa, FL 33609		
Main Administrative Office	5440 Mariner Street, Suite 110	(Street and Number)	(City or Town, State and Zip Code)		
	Tampa, FL 33609	(City or Town, State and Zip Code)	813-868-5959		
	(Street and Number or P.O. Box)	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Mail Address	(Street and Number or P.O. Box)	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Primary Location of Books and Records	5440 Mariner Street, Suite 110	(Street and Number)	813-868-5959		
	Tampa, FL 33609	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Internet Web Site Address	www.keyvip.com				
Statutory Statement Contact	Roberto Enrique Martinez	(Name)	813-868-5959		
	martinez@keyvip.com	(E-mail Address)	813-288-8520		
			(FAX Number)		
OFFICERS					
Director	Enoc Segundo Martinez #	Treasurer	Roberto Enrique Martinez #		
President Director	Karen W Connolly #	Director	Barbara Roqueta		
OTHER					
Ricardo Di Campo # Director					
DIRECTORS OR TRUSTEES					

State of FL SS: Hillsborough
County of

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Karen Connolly
President Director

Roberto E. Martinez
Treasurer Director

Subscribed and sworn to before me this 25 day of April, 2012
Anne Westley
a. Is this an original filing? Yes [X] No []
b. If no,
1. State the amendment number _____
2. Date filed _____ 04/25/2012
3. Number of pages attached _____



EXHIBIT

A

tabbles

For the month of March 2012

ASSETS

	Current Statement Date		4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)
1. Bonds			0.00
2. Stocks:			
2.1 Preferred stocks			0.00
2.2 Common stocks			0.00
3. Mortgage loans on real estate:			
3.1 First liens			0.00
3.2 Other than first liens			0.00
4. Real estate:			
4.1 Properties occupied by the company (less \$ encumbrances)			0.00
4.2 Properties held for the production of income (less \$ encumbrances)			0.00
4.3 Properties held for sale (less \$ encumbrances)			0.00
5. Cash (\$ 3,259,438.63), cash equivalents (\$ 0.00) and short-term investments (\$ 0.00) premium notes)	3,259,438.63		3,259,438.63
6. Contract loans (including \$ premium notes)			0.00
7. Derivatives	0.00		0.00
8. Other invested assets			0.00
9. Receivables for securities			0.00
10. Securities lending reinvested collateral assets	0.00		0.00
11. Aggregate write-ins for invested assets	0.00	0.00	0.00
12. Subtotals, cash and invested assets (Lines 1 to 11)	3,259,438.63	0.00	3,259,438.63
13. Title plants less \$ charged off (for Title insurers only)			0.00
14. Investment income due and accrued			0.00
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection			0.00
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums)			0.00
15.3 Accrued retrospective premiums			0.00
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers			0.00
16.2 Funds held by or deposited with reinsured companies			0.00
16.3 Other amounts receivable under reinsurance contracts			0.00
17. Amounts receivable relating to uninsured plans			0.00
18.1 Current federal and foreign income tax recoverable and interest thereon			0.00
18.2 Net deferred tax asset	2,850,000.00	2,850,000.00	0.00
19. Guaranty funds receivable or on deposit			0.00
20. Electronic data processing equipment and software			0.00
21. Furniture and equipment, including health care delivery assets (\$)	6,088.16	6,088.16	0.00
22. Net adjustment in assets and liabilities due to foreign exchange rates			0.00
23. Receivables from parent, subsidiaries and affiliates	569,431.27	569,431.27	0.00
24. Health care (\$) and other amounts receivable			0.00
25. Aggregate write-ins for other than invested assets	295,326.31	295,326.31	83,191.00
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	6,980,284.37	3,720,845.74	2,846,259.00
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0.00
28. Total (Lines 26 and 27)	6,980,284.37	3,720,845.74	2,846,259.00
DETAILS OF WRITE-INS			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page	0.00	0.00	0.00
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0.00	0.00	0.00
2501. Elavon Credit Card	295,326.31	295,326.31	0.00
2502.			
2503.			
2598. Summary of remaining write-ins for Line 25 from overflow page	0.00	0.00	0.00
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	295,326.31	295,326.31	0.00

For the month of March 2012

LIABILITIES, CAPITAL AND SURPLUS

	Current Period		Prior Year	
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	1,683,459.00		1,683,459.00	1,683,459.00
2. Accrued medical incentive pool and bonus amounts			0.00	0.00
3. Unpaid claims adjustment expenses	33,056.00		33,056.00	33,056.00
4. Aggregate health policy reserves, including the liability of \$ 0.00 for medical loss ratio rebate per the Public Health Service Act	63,413.00		63,413.00	63,413.00
5. Aggregate life policy reserves			0.00	0.00
6. Property/casualty unearned premium reserve			0.00	0.00
7. Aggregate health claim reserves			0.00	0.00
8. Premiums received in advance	214,079.59		214,079.59	167,998.00
9. General expenses due or accrued	104,018.66		104,018.66	51,917.00
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized gains (losses))			0.00	0.00
10.2 Net deferred tax liability			0.00	0.00
11. Ceded reinsurance premiums payable			0.00	0.00
12. Amounts withheld or retained for the account of others			0.00	0.00
13. Remittances and items not allocated			0.00	0.00
14. Borrowed money (including \$ current) and interest thereon \$ (including interest thereon \$ current)			0.00	0.00
15. Amounts due to parent, subsidiaries and affiliates			0.00	0.00
16. Derivatives			0.00	0.00
17. Payable for securities			0.00	0.00
18. Payable for securities lending			0.00	0.00
19. Funds held under reinsurance treaties (with \$ unauthorized authorized reinsurers and \$ reinsurers)			0.00	0.00
20. Reinsurance in unauthorized companies			0.00	0.00
21. Net adjustments in assets and liabilities due to foreign exchange rates			0.00	0.00
22. Liability for amounts held under uninsured plans			0.00	0.00
23. Aggregate write-ins for other liabilities (including \$ current)	20,000.00	0.00	20,000.00	20,000.00
24. Total liabilities (Lines 1 to 23)	2,118,026.25	0.00	2,118,026.25	2,019,843.00
25. Aggregate write-ins for special surplus funds	XXX	XXX	0.00	0.00
26. Common capital stock	XXX	XXX	1,500,000.00	1,500,000.00
27. Preferred capital stock	XXX	XXX	12,917,000.00	11,607,000.00
28. Gross paid in and contributed surplus	XXX	XXX	0.00	0.00
29. Surplus notes	XXX	XXX	0.00	0.00
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	0.00	0.00
31. Unassigned funds (surplus)	XXX	XXX	(13,275,587.62)	(12,280,584.00)
32. Less treasury stock, at cost:				
32.1 \$ shares common (value included in Line 26)	XXX	XXX	0.00	
32.2 \$ shares preferred (value included in Line 27)				
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	1,141,412.38	826,416.00
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	3,259,438.63	2,846,259.00
DETAILS OF WRITE-INS				
2301. Broker Commission Payable	20,000.00		20,000.00	20,000.00
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page	0.00	0.00	0.00	0.00
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	20,000.00	0.00	20,000.00	20,000.00
2501.	XXX	XXX		
2502.	XXX	XXX		
2503.	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0.00	0.00
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	XXX	XXX	0.00	0.00
3001.	XXX	XXX		
3002.	XXX	XXX		
3003.	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0.00	0.00
3099. Totals (Lines 3001 through 3003 plus 3098)(Line 30 above)	XXX	XXX	0.00	0.00

For the month of March 2012

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months	XXX	5,725.00		29,242.00
2. Net premium income (including \$ non-health premium income)	XXX	1,312,384.07		6,252,682.00
3. Change in unearned premium reserves and reserve for rate credits	XXX			0.00
4. Fee-for-service (net of \$ medical expenses)	XXX			0.00
5. Risk revenue	XXX			0.00
6. Aggregate write-ins for other health care related revenues	XXX	0.00	0.00	0.00
7. Aggregate write-ins for other non-health revenues	XXX	13,680.91	0.00	0.00
8. Total revenues (Lines 2 to 7)	XXX	1,326,064.98	0.00	6,252,682.00
Hospital and Medical:				
9. Hospital/medical benefits		1,076,510.31		4,921,518.00
10. Other professional services				0.00
11. Outside referrals				0.00
12. Emergency room and out-of-area				0.00
13. Prescription drugs	0.00	0.00	0.00	0.00
14. Aggregate write-ins for other hospital and medical				0.00
15. Incentive pool, withhold adjustments and bonus amounts				0.00
16. Subtotal (Lines 9 to 15)	0.00	1,076,510.31	0.00	4,921,518.00
Less:				
17. Net reinsurance recoveries				0.00
18. Total hospital and medical (Lines 16 minus 17)	0.00	1,076,510.31	0.00	4,921,518.00
19. Non-health claims (net)				
20. Claims adjustment expenses, including \$ cost containment expenses		986,895.35		350,000.00
21. General administrative expenses	0.00			1,532,228.00
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)				0.00
23. Total underwriting deductions (Lines 18 through 22)	0.00	2,063,405.66	0.00	6,803,746.00
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(737,340.68)	0.00	(551,054.00)
25. Net investment income earned				0.00
26. Net realized capital gains (losses) less capital gains tax of \$				
27. Net investment gains (losses) (Lines 25 plus 26)	0.00	0.00	0.00	0.00
28. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$)				
(amount charged off \$)				
29. Aggregate write-ins for other income or expenses		0.00	0.00	0.00
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	(737,340.68)	0.00	(551,054.00)
31. Federal and foreign income taxes incurred	XXX			
32. Net income (loss) (Lines 30 minus 31)	XXX	(737,340.68)	0.00	(551,054.00)
DETAILS OF WRITE-INS				
0601.	XXX			
0602.	XXX			
0603.	XXX			
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0.00	0.00	0.00
0699. Totals (Lines 0601 through 0603 plus 0698)(Line 6 above)	XXX	0.00	0.00	0.00
0701. Other Income	XXX	13,680.91		0.00
0702.	XXX			
0703.	XXX			
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0.00	0.00	0.00
0799. Totals (Lines 0701 through 0703 plus 0798)(Line 7 above)	XXX	13,680.91	0.00	0.00
1401.				
1402.				
1403				
1498. Summary of remaining write-ins for Line 14 from overflow page	0.00	0.00	0.00	0.00
1499. Totals (Lines 1401 through 1403 plus 1498)(Line 14 above)	0.00	0.00	0.00	0.00
2901.				
2902.				
2903				
2998. Summary of remaining write-ins for Line 29 from overflow page	0.00	0.00	0.00	0.00
2999. Totals (Lines 2901 through 2903 plus 2998)(Line 29 above)	0.00	0.00	0.00	0.00

For the month of March 2012

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
CAPITAL AND SURPLUS ACCOUNT			
33. Capital and surplus prior reporting year.....	826,416.00		(2,806,783.00)
34. Net income or (loss) from Line 32.....	(737,340.68)		(551,054.00)
35. Change in valuation basis of aggregate policy and claim reserves.....			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....			
37. Change in net unrealized foreign exchange capital gain or (loss).....			0.00
38. Change in net deferred income tax.....			
39. Change in nonadmitted assets.....	(257,663.00)		(466,947.00)
40. Change in unauthorized reinsurance.....	0.00		0.00
41. Change in treasury stock.....	0.00		0.00
42. Change in surplus notes.....	0.00		0.00
43. Cumulative effect of changes in accounting principles.....			
44. Capital Changes:			
44.1 Paid in.....	0.00		0.00
44.2 Transferred from surplus (Stock Dividend).....	0.00		0.00
44.3 Transferred to surplus.....			
45. Surplus adjustments:			
45.1 Paid in.....	1,310,000.00		4,800,000.00
45.2 Transferred to capital (Stock Dividend).....			
45.3 Transferred from capital.....			
46. Dividends to stockholders.....			
47. Aggregate write-ins for gains or (losses) in surplus.....	0.00	0.00	(148,800.00)
48. Net change in capital & surplus (Lines 34 to 47).....	314,986.32	0.00	3,633,199.00
49. Capital and surplus end of reporting period (Line 33 plus 48).....	1,141,412.32	0.00	826,416.00
DETAILS OF WRITE-INS			
4701. Adjustment.....			(148,800.00)
4702.			
4703.			
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0.00	0.00	0.00
4799. Totals (Lines 4701 through 4703 plus 4798)(Line 47 above).....	0.00	0.00	(148,800.00)

For the month of March 2012

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	1,358,465.66		6,310,071.00
2. Net investment income	0.00		0.00
3. Miscellaneous income	13,680.91		0.00
4. Total (Lines 1 to 3)	1,372,146.57	0.00	6,310,071.00
5. Benefit and loss related payments	1,076,510.31		5,901,275.00
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	988,895.35		2,046,590.00
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	0.00		0.00
10. Total (Lines 5 through 9)	2,063,405.66	0.00	7,947,865.00
11. Net cash from operations (Line 4 minus Line 10)	(691,259.09)	0.00	(1,637,794.00)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	0.00		0.00
12.2 Stocks	0.00		0.00
12.3 Mortgage loans	0.00		0.00
12.4 Real estate	0.00		0.00
12.5 Other invested assets	0.00		0.00
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0.00		0.00
12.7 Miscellaneous proceeds	0.00		0.00
12.8 Total investment proceeds (Lines 12.1 to 12.7)	0.00	0.00	0.00
13. Cost of investments acquired (long-term only):			
13.1 Bonds	0.00		0.00
13.2 Stocks	0.00		0.00
13.3 Mortgage loans	0.00		0.00
13.4 Real estate	0.00		0.00
13.5 Other invested assets	0.00		0.00
13.6 Miscellaneous applications	0.00	0.00	0.00
13.7 Total investments acquired (Lines 13.1 to 13.6)	0.00		0.00
14. Net increase (or decrease) in contract loans and premium notes	0.00		0.00
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	0.00	0.00	0.00
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0.00		0.00
16.2 Capital and paid in surplus, less treasury stock	1,310,000.00		0.00
16.3 Borrowed funds	0.00		0.00
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0.00		0.00
16.5 Dividends to stockholders	0.00		0.00
16.6 Other cash provided (applied)	(39,770.28)		3,448,899.00
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	1,270,229.72	0.00	3,448,899.00
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	578,970.63	0.00	1,811,105.00
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	2,680,468.00		869,363.00
19.2 End of period (Line 18 plus Line 19.1)	3,259,438.63	0.00	2,680,468.00

Note: Supplemental disclosures of cash flow information for non-cash transactions:



FINANCIAL SERVICES
COMMISSION

CHARLIE CRIST
GOVERNOR

ALEX SINK
CHIEF FINANCIAL OFFICER

BILL MCCOLLUM
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

Sent by Electronic Transmission

March 5, 2009

Henry H. Neely
Vice President, Operations
AvaHealth, Inc
3030 North Rocky Point Dr. W,
Suite 800
Tampa, FL 33607

Mr. Neely:

Thank you for your email dated March 2, 2009 regarding the \$1,195,192 receivable from parent received on March 2, 2009.

In reference to the advance of the receivable due from the parent reported on the 2008 annual statement, per the Statement of Statutory Accounting Principles No. 72, paragraph 8:

“Notes or other receivables received as additional capital contributions satisfied by receipt of cash or readily marketable securities prior to the filing of the statutory financial statement shall be treated as a Type I subsequent event in accordance with SSAP No. 9 and as such shall be considered as admitted asset based on the evidence of collection and approval of the domiciliary commissioner”.

Note that the advance of a receivable due from the parent should be approved *prior* to the filing of the statement. We will approve the advance of the receivable from the parent for the 2008 annual statement, but any future receivable from the parent under similar circumstances without prior approval from the Office of Insurance Regulation (“Office”) may be disallowed

As a result of the review of the 2008 Annual Statement, we will require a revised current business plan for AvaHealth, Inc. due April 3, 2009. Please provide quarterly pro-forma financial statements for AvaHealth, Inc. through year-end 2009.

RAY KENNEDY • INSURANCE EXAMINER • LIFE & HEALTH FINANCIAL OVERSIGHT
200 EAST GAINES STREET • TALLAHASSEE, FL 32301-4113 • TEL (904) 413-5029 • FAX (850) 488-7061
WEBSITE: WWW.FLORIDAIR.COM • E-MAIL: EDY@FLORC.OM



Additionally, AvaHealth, Inc. will be required to provide monthly statements to the Office beginning with the April monthly statement. The monthly statement filing will be due each month, 25 days after the end of the month. The first monthly statement will be due May 25th for the month of April. The monthly reporting shall continue until permission to cease is received in writing from the Office.

The following pages will be required for the monthly filing:

- Signed & Notarized Jurat Page
- Assets Page
- Liabilities, Capital and Surplus
- Statement of Revenue and Expenses
- Cash Flow
- Exhibit of Premiums, Enrollment and Utilization
- Schedule T – Premiums and Other Considerations

We appreciate your attention to our comments and filing requirements as outlined above.

Sincerely,



Ray Kennedy

cc: Robert A. Willis
Paul Johns
Valerie Reglat

Schoenecker, Catharine

From: Kennedy, Ray
Sent: Thursday, April 26, 2012 7:41 AM
To: Wilkerson, Toma; Johns, Paul; Reglat, Valerie
Subject: FW: March 31, 2012 Monthly Financial Statement

From: kwconnolly@aol.com [kwconnolly@aol.com]
Sent: Wednesday, April 25, 2012 10:23 PM
To: Kennedy, Ray
Subject: Re: March 31, 2012 Monthly Financial Statement

Ray, I want to let you know that the financial statements have been appropriately uploaded today along with the executed Jurat page.

Please be aware that I am completely aware that the minimum requirements for reserve requirements are not met. It should be noted that this is prior to the April date of new management and we have infused addl capital into the appropriate capital. We do have proof of this.

Please call me with any questions. Karen Connolly.
Sent from my Verizon Wireless BlackBerry

From: "Kennedy, Ray" <Ray.Kennedy@floiir.com>
Date: Tue, 24 Apr 2012 18:55:40 +0000
To: 'Karen Connolly' <kwconnolly@aol.com>
Cc: Reglat, Valerie <Valerie.Reglat@floiir.com>; Johns, Paul <Paul.Johns@floiir.com>
Subject: March 31, 2012 Monthly Financial Statement

Karen – The Monthly Financial Statement for March 31, 2012 is due April 25, 2012 in the Regulatory Electronic Filing System (REFS).

Due in REFS for monthly reporting is the company contact, the monthly financial statement, and the signed notarized Jurat page.

Ray Kennedy
Reinsurance Specialist
Florida Office of Insurance Regulation
Life & Health Financial Oversight
200 East Gaines Street
Tallahassee, Florida 32399-0327
Phone: 850-413-5029
Fax: 850-488-7061



DEPARTMENT OF FINANCIAL SERVICES
OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

CONSENT TO ORDER OF RECEIVERSHIP

IT IS HEREBY agreed as follows:

1. AvaHealth, Inc., also doing business as Avalon Healthcare, Inc. (herein "Respondent"), is a Florida corporation and is a domestic insurer authorized to transact an insurance business in the State of Florida.
2. Respondent admits that grounds exist for appointment of a Receiver under Section 631.051, Florida Statutes.
3. Pursuant to Section 631.051, Florida Statutes, Respondent consents through a majority of its directors, stockholders, members, or subscribers, to the entry of an order of Rehabilitation appointing the Department of Financial Services as receiver for purposes of Rehabilitation and consents to any injunctions this court deems necessary and appropriate. The Resolution of the Board of Directors of AvaHealth, Inc. is attached hereto as Exhibit B.
4. Respondent consents and agrees to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Rehabilitation Injunction, and Notice of Automatic Stay.

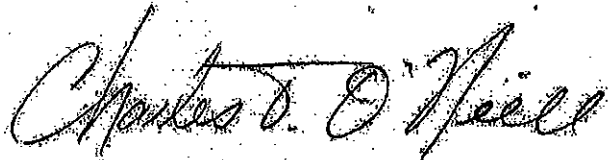
EXHIBIT

tabbies
2

5. If the Receiver in its sole discretion determines that further efforts to rehabilitate Respondent would be useless, the Receiver may apply to the Court for entry of an order of liquidation of Respondent, without further notice or hearing. Respondent consents to the entry of such an order, and waives any and all right to notice and hearing.

Dated this 23 day of April, 2010.

AVAREALTH, INC



Charles Thomas O'Neill, President
AvaHealth, Inc.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
AVAHEALTH, INC.**

The undersigned, being all the Directors of AvaHealth, Inc. hereby make the following resolutions as follows:

RESOLVED, that the Directors consent to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Rehabilitation, Injunction, and Notice of Automatic Stay.

FURTHER RESOLVED, that if the Receiver determines in its sole discretion that further efforts to rehabilitate AvaHealth, Inc., would be useless, the Receiver may apply to the Court for entry of an order of liquidation of AvaHealth, Inc., without further notice or hearing. The Directors consent to the entry of such an order, and waive any and all rights to notice and hearing.

FURTHER RESOLVED, that the President and the other Officers of AvaHealth, Inc. are hereby authorized to execute any and all consent agreements or other documents on behalf of AvaHealth, Inc. to obtain entry of the Order of Rehabilitation and are authorized to take any and all additional actions deemed necessary or appropriate by the Department of Financial Services to effectuate the foregoing or to comply with the Order, without further approval of the Shareholders or Directors.

Date this 23 day of April, 2010.

EXHIBIT B

Directors of AvalHealth, Inc.

Charles T. O'Neill
Charles Thomas O'Neill
Director

resigned
Henry Harrison Neely
Director

resigned
Judith Anne Lyons
Director

resigned
Paul William Kowalski
Director

resigned
Joseph Gaglia
Director

resigned
Joyce Brown Suarez
Director

EXHIBIT B

**IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,
IN AND FOR LEON COUNTY, FLORIDA**

State of Florida, ex rel., the
Department of Financial Services of
the State of Florida,

Relator,

v.

AvaHealth, Inc. d/b/a Key Insurance Plan,

Respondent,

CASE NO: 21012-CA-001400

**AMENDED ORDER TO SHOW CAUSE, INJUNCTION, AND
NOTICE OF AUTOMATIC STAY FOR PURPOSES OF REHABILITATION**

THIS CAUSE was previously considered on the Application of the State of Florida, Department of Financial Services (hereinafter the "Department") for an Order to Show Cause on the appointment of a Receiver of AvaHealth, Inc. d/b/a Key Insurance Plan (hereinafter the "Respondent" or "Company") for purposes of rehabilitation. On May 31, 2012, Respondent filed an Agreed Motion for Extension of Time. The Court, having considered the matter set forth in said Application and otherwise being fully informed in the premises, finds as follows:

1. The Department has made a prima facie showing that Respondent meets one or more of the following statutory grounds for the appointment of the Florida Department of Financial Services as Receiver by this Court:

A. Respondent does not comply with the minimum capital and surplus requirements of Section 624.408, Florida Statutes, and therefore, is impaired. Section 631.051(1), Florida Statutes.

B. Respondent is found by the Office to be in such condition, as to render its further transaction of insurance hazardous to its policyholders, creditors, stockholders, or the public. Section 631.051(3), Florida Statutes.

2. Respondent shall appear before the Honorable Kevin Carroll, Circuit Judge, in Room 330, Leon County Courthouse, Tallahassee, Florida, at 9:00 a.m. on July 13, 2012, to show good cause if any, as to why the Florida Department of Financial Services should not be appointed Receiver of Respondent for the purposes of rehabilitation in accordance with Chapter 631, Part I, Florida Statutes. Respondent shall file its written response, along with any defenses it may have, to the Department's allegations no later than twenty (20) days after the entry of this ORDER. Should the hearing date fall within thirty-five (35) days after the date of this ORDER, then Respondent's defenses are due fifteen (15) days prior to the hearing date set by this ORDER. Said response shall include a list of all witnesses; a summary of the testimony of each witness and dates when those witnesses will be available for deposition by the Department; and any and all evidence and copies of all documents to be presented on behalf of Respondent at the hearing.

3. Pursuant to Sections 631.041(3) and 631.041(4), Florida Statutes, all persons, firms, corporations, associations and Respondent's affiliates as defined by Section 631.011, Florida Statutes, and all other persons or entities within the jurisdiction of this Court, including but not limited to Respondent and its officers, directors, stockholders, trustees, members, agents, and employees shall be enjoined and restrained from removing, destroying, or otherwise disposing of any documents, books, records, or assets of Respondent (or pertaining to Respondent); from doing, through

acts of commission or omission, or permitting to be done any action which might waste or otherwise dispose of the books, records, and assets of, or directly or indirectly relating to the Respondent; from in any manner interfering with the Department or the conduct of these proceedings; from the removal, concealment or other disposition of the property, books, records, and accounts of, or directly or indirectly relating to, the Respondent, and from the commencing or prosecuting of any actions against the Respondent, or the obtaining of preferences, judgments, writs of attachment or execution against Respondent or its property or assets. However, regulatory actions against Respondent by any regulatory body shall not be stayed or enjoined.

4. The Department is hereby authorized to conduct, at its discretion, an investigation authorized by Section 631.391, Florida Statutes, of Respondent and its affiliates to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent and its parent corporation(s), its subsidiaries, and affiliates shall make all books, documents, accounts, records, and affairs, which either belong to or pertain to Respondent, wherever located, available for full, free and unhindered inspection and examination by the Department during normal business hours (8:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of this Order. This investigation shall include a full and complete examination of any and all reviews, compilations, audits or any other work of whatever nature performed by any accounting firm to include all work papers, on behalf of, related to or in any way connected with Respondent, its affiliates and/or Respondent's corporate structure and affiliations. Respondent and its affiliates are hereby ordered and enjoined to cooperate with the Department to the fullest extent required by Section

631.391, Florida Statutes. Such cooperation shall include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates, and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

5. Any officer, director, manager, trustee, agent, accountants, adjuster, employee, or independent contractor of Respondent, and any other person who possesses any executive authority over, or who exercises any control over any segment of the affairs of Respondent shall fully cooperate with the Department as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraphs.

6. The failure of Respondent and its affiliates and all other persons or entities within the jurisdiction of this Court to cooperate with the Department's investigation(s) as required by Section 631.391, Florida Statutes, or the failure to comply with this Order to Show Cause issued by this Court, shall result in the immediate entry of an order of rehabilitation.

7. Notice is hereby given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial application herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of the order, and which prohibits:

a. The commencement or continuation of judicial, administrative or other action proceeding against the insurer or against its assets or any part thereof;

b. The enforcement of a judgment against the insurer or an affiliate, provided that such affiliate is owned by or constitutes an asset of Respondent, obtained either before or after the commencement of the delinquency proceeding;

c. Any act to obtain possession of property of the insurer;

d. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes.


e. Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631; and

f. The set-off for offset of any debt owing to this insurer except offsets as provided in Section 631.281, Florida Statutes.

8. All Sheriffs and all law enforcement officials of this state shall cooperate with and assist the Receiver in the implementation of this Order.

9. The Officers and Directors of Respondent shall comply with the provisions of Section 626.9541(1)(w), Florida Statutes.

DONE and ORDERED in Chambers at the Leon County Courthouse in Tallahassee, Leon County, Florida this 4th day of June, 2012.


CIRCUIT JUDGE

**IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,
IN AND FOR LEON COUNTY, FLORIDA**

State of Florida, ex rel., the
Department of Financial Services of
the State of Florida,

Relator,

v.

CASE NO: 2012-CA-1400

AvaHealth, Inc. d/b/a Key Insurance Plan,

Respondent,
_____ /

**ORDER APPOINTING THE FLORIDA DEPARTMENT OF
FINANCIAL SERVICES AS RECEIVER FOR PURPOSES OF REHABILITATION,
INJUNCTION, AND NOTICE OF AUTOMATIC STAY**

THIS CAUSE was considered on the Application of the State of Florida, Department of Financial Services (hereinafter the “Department”) for an Order to Show Cause on the Appointment of a Receiver of AvaHealth, Inc. d/b/a/ Key Insurance Plan (hereinafter the “Respondent” or “Company”) for Purposes of Rehabilitation filed on May 3, 2012 (hereinafter, “Application”). After consideration, this Court entered its Order to Show Cause, Injunction and Automatic Stay on May 8, 2012 and its Amended Order to Show Cause, Injunction and Automatic Stay on June 4, 2012.

The Court, having reviewed and considered the relevant pleadings of record and otherwise being fully informed in the premises, finds:

1. This Court has jurisdiction pursuant to Section 631.021(1), Florida Statutes, and venue is proper pursuant to Section 631.021(2), Florida Statutes.
2. Respondent is a corporation authorized pursuant to the Florida Insurance Code to transact business in the state of Florida as a life and health insurer since July 8, 2005.

Respondent's principal place of address is located at 5440 Mariner Street, Suite 110, Tampa, FL 33609.

3. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving a Florida domiciled insurer.

4. Sections 631.031 and 631.061(1), Florida Statutes, authorize the Department to apply to this Court for an Order directing it to rehabilitate or liquidate a domestic insurer upon the existence of any grounds specified in Section 631.051, Florida Statutes, or if an insurer is or is about to become insolvent.

5. Section 631.031 directs the Department to initiate such delinquency proceedings after receiving notification from the Director of the Office of Insurance Regulation as to the existing grounds for the initiation of such proceedings.

6. On May 1, 2012, pursuant to Section 631.031(1), Florida Statutes, Kevin McCarty, Commissioner of the Florida Office of Insurance Regulation ("Office"), advised by letter to Florida's Chief Financial Officer, Jeff Atwater, that the Office determined grounds existed for the initiation of delinquency proceedings against Respondent.

7. Respondent does not comply with the minimum capital and surplus requirements of Section 624.408, Florida Statutes, and therefore, is impaired. Also, Respondent was found by the Office to be in such condition, as to render its further transaction of insurance hazardous to its policyholders, creditors, stockholders, or the public. Accordingly, grounds exist pursuant to Sections 631.051(1) and (3), Florida Statutes, for entry of an order appointing the Department as receiver of Respondent for purposes of Rehabilitation.

8. On June 26, 2012, Respondent filed its Second Notice and Response to Amended Order (the "Response"). In the Response, Respondent agreed "to its entry into Receivership for purposes of rehabilitation."

9. Pursuant to Section 631.051, Florida Statutes, this Court finds that it is in the best interests of Respondent, its creditors and its members that the relief requested in the Department's Petition be granted.

THEREFORE, IT IS ORDERED AND ADJUDGED as follows:

10. The Department of Financial Services of the State of Florida shall be and is hereby appointed Receiver of Respondent for purposes of rehabilitation effective as of July 2, 2012.

11. The Receiver shall be authorized and directed to:

A. Take immediate possession of all the property, assets, and estate, and all other property of every kind whatsoever and wherever located, belonging to Respondent, pursuant to Sections 631.101 and 631.141, Florida Statutes, including but not limited to: offices maintained by the Respondent, rights of action, books, papers, evidences of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, and all real property of Respondent, wherever situated, whether in the possession of Respondent or its officers, directors, trustees, employees, consultants, attorneys, agents, affiliates, or other persons.

B. Conduct the business of Respondent and take all steps, as the Court may direct, toward the removal of the causes and conditions which have made this Order of Rehabilitation necessary and to take such further action, as the Receiver deems necessary or appropriate, to reform and revitalize the Respondent.

C. Employ and authorize the compensation of legal counsel, actuaries, accountants, clerks, consultants, and such assistants as it deems necessary, purchase or lease personal or real property as it deems necessary, and authorize the payment of the expenses of these proceedings and the necessary incidents thereof, as approved by the Court, to be paid out of the funds or assets of the Respondent in the possession of the Receiver or coming into its possession.

D. Reimburse such employees, from the funds of this receivership, for their actual necessary and reasonable expenses incurred while traveling on the business of this receivership.

E. Not defend or accept service of process on legal actions wherein the Respondent, the Receiver, or the insured is a party defendant, commenced either prior to or subsequent to the order, without authorization of this Court; except, however, in actions where Respondent is a nominal party, as in certain foreclosure actions, and the action does not affect a claim against or adversely affect the assets of Respondent, the Receiver may file appropriate pleadings in its discretion.

F. Commence and maintain all legal actions necessary, wherever necessary, for the proper administration of this receivership proceeding.

G. Collect all debts that are economically feasible to collect which are due and owing to the Respondent.

H. Deposit funds and maintain bank accounts in accordance with Section 631.221, Florida Statutes.

I. Take possession of all Respondent's securities and certificates of deposit on deposit with the Chief Financial Officer of Florida, if any, and convert to cash as much as

may be necessary, in its judgment, to pay the expenses of administration of this receivership or otherwise best benefit the estate.

J. Negotiate and settle subrogation claims and Final Judgments without further order of this Court.

K. Sell any salvage recovered property without further order of this Court.

L. For purposes of this Order, the term "affiliate" shall be defined in accordance with Section 631.011(1), Florida Statutes, and shall include, but not be limited to, Key Insurance Plans, Inc.

M. The Receiver is granted all of the powers of the Respondent's directors, officers, and managers, whose authority shall be suspended, except as such powers are re-delegated in writing by the Receiver. The Receiver has full power to direct and manage the affairs of Respondent, to hire and discharge employees, and to deal with the property and business of the Respondent.

N. Apply to this Court for further instructions in the discharge of its duties as the Receiver deems necessary.

IT IS FURTHER ORDERED AND DIRECTED:

12. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of Respondent's affairs or the affairs of its affiliates is required to fully cooperate with the Receiver, pursuant to Section 631.391, Florida Statutes. Any person who fails to cooperate with the Receiver, interferes with the Receiver, or fails to follow

the instructions of the Receiver, may be excluded from the building where the Respondent's offices are located at the Receiver's discretion.

13. Title to all property, real or personal, all contracts, rights of action and all books and records of Respondent, wherever located, is vested in the Receiver pursuant to Sections 631.111 and 631.141, Florida Statutes.

14. All officers, directors, trustees, administrators, agents and employees and all other persons representing Respondent or currently employed or utilized by Respondent in connection with the Conduct of its business are discharged forthwith; provided, however, the Receiver may retain such persons in the Receiver's discretion.

15. All attorneys employed by Respondent as of the date of the Order, within ten (10) days of receiving notice of this Order, are required to report to the Receiver on the name, company claim number and status of each file they are handling on behalf of the Respondent. Said report should also include an accounting of any funds received from or on behalf of the Respondent. All attorneys employed by Respondent are advised that pursuant to Sections 631.011(17) and 631.011(21), Florida Statutes, a claim based on mere possession does not create a secured claim and all attorneys employed by Respondent, pursuant to In Re the Receivership of Syndicate Two, Inc., 538 So.2d 945 (Fla. 1st DCA 1989), who are in possession of litigation files or other material, documents or records belonging to or relating to work performed by the attorney on behalf of Respondent are required to deliver such litigation files, material, documents or records intact and without purging to the Receiver, on request, notwithstanding any claim of a retaining lien which, if otherwise valid, should not be extinguished by the delivery of these documents.

16. All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Respondent are required to account for and pay all premiums and commissions unearned due to cancellation of policies in the normal course of business owed to the Respondent directly to the Receiver within thirty (30) days of demand by the Receiver or appear before this Court to show cause, if any they may have, as to why they should not be required to account to the Receiver or be held in contempt of Court for violation of the provisions of the Order. No agent, broker, premium finance company or other person should use premium monies owed to the Respondent for refund of unearned premium or for any purpose other than payment to the Receiver.

17. Any premium finance company, which has entered into a contract to finance a premium for a policy, which has been issued by the Respondent, is required to pay any premium owed to the Respondent directly to the Receiver.

18. Reinsurance premiums due to or payable by the Respondent shall be remitted to, or disbursed by, the Receiver. The Receiver shall handle reinsurance losses recoverable or payable by the Respondent. All correspondence concerning reinsurance shall be between the Receiver and the reinsuring company or intermediary.

19. Upon request by the Receiver, any company providing telephonic services to the Respondent is directed to provide a reference of calls from the number presently assigned to the Respondent to any such number designated by the Receiver or perform any other services or changes necessary to the conduct of the receivership.

20. Any bank, savings and loan association, financial institution or other person which has on deposit, in its possession, custody or control any funds, accounts and any other assets of the Respondent is directed to immediately transfer title, custody and control of all such

funds, accounts and other assets to the Receiver. The Receiver shall be authorized to change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution shall be permitted to exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever, or refuse to transfer any funds or assets to the Receiver's control without permission of this Court.

21. Any entity furnishing telephone, water, electric, sewage, garbage or trash removal services to the Respondent is required to maintain such service and transfer any such accounts to the Receiver as of the date of the Order, unless instructed to the contrary by the Receiver.

22. Any data processing service, which has custody or control of any data processing information and records including but not limited to source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to the Respondent is directed to transfer custody and control of such records to the Receiver. The Receiver shall be authorized to compensate any such entity for the actual use of hardware and software, which the Receiver finds to be necessary to this proceeding. Compensation should be based upon the monthly rate provided for in contracts or leases with Respondent which was in effect when this proceeding was instituted, or based upon such contract as may be negotiated by the Receiver, for the actual time such equipment and software is used by the Receiver.

23. The United States Postal Service shall be directed to provide any information requested by the Receiver regarding the Respondent and to handle future deliveries of Respondent's mail as directed by the Receiver.

24. All insurance policies, bonds or similar contracts of coverage issued by the Respondent shall remain in full force and effect until they are cancelled.

25. Except for contracts of insurance, all executory contracts to which the Respondent was a party shall be cancelled and stand cancelled unless specifically adopted by the Receiver within ninety (90) days of the date of this Order or from the date of the Receiver's actual knowledge of the existence of such contract, whichever is later. "Actual Knowledge" means the Receiver has in its possession a written contract to which the Respondent is a party, and the Receiver has notified the vendor in writing acknowledging the existence of the contract.

Further, the Receiver shall have the authority to do the following:

1) Pay for services provided by any of Respondent's vendors, in the ninety (90) day period prior to assuming or rejecting the contract, which are necessary to administer the Receivership estate;

2) Once the Receiver determines Respondent's vendor is necessary in the continued administration of the Receivership estate for a period to exceed the ninety (90) days from the date of this order, or from the date of Receiver's actual knowledge of such contract, whichever is later, the Receiver may make minimal modifications to the terms of the contract, including, but not limited to, the expiration date of the agreement, the scope of the services to be provide, and/or the compensation to be paid to Respondent's vendor pursuant to the contract. "Minimal Modifications" shall mean any minimum alteration made to the contract in order to adapt to the new circumstances of the Receivership estate. In no event will any minimal modification be construed as the receiver entering into a new contract with Respondent's vendor.

Any vendor, including but not limited to, any and all employees / contractors of insurer, claiming the existence of a contractual relationship with the insurer shall provide notice to the Receiver of such relationship. This notice shall include any and all documents and information regarding the terms and conditions of the contract, including a copy of the written contract between the vendor and the insurer, if any, what services or goods were provided pursuant to the contract, any current, future and/or past due amounts owing under the contract, and any supporting documentation for third party services or goods provided. Failure to provide the required information may result in vendors' contractual rights not being recognized by the Receiver. The rights of the parties to any such contracts are fixed as of the date of the Order and any cancellation under this provision shall not be treated as an anticipatory breach of such contracts.

26. All affiliated companies and associations, including but not limited to Key Insurance Plans, Inc. shall make their books and records available to the Receiver, to include all records located in any premises occupied by said affiliate, whether corporate records or not, and to provide copies of any records requested by the Receiver whether or not such records are related to Respondent. The Receiver shall have title to all policy files and other records of, and relating to Respondent, whether such documents are kept in offices occupied by an affiliate company or any other person, corporation, or association. The Receiver shall be authorized to take possession of any such records, files, and documents, and to remove them to any location in the Receiver's discretion. Any disputed records shall not be withheld from the Receiver's review, but should be safeguarded and presented to this Court for review prior to removal by the Receiver.

27. The Receiver shall have complete access to and administrative control of all information technology resources of the Respondent and its affiliates at all times including, but not limited to, Respondent's computer hardware, software and peripherals. Each affiliate shall be given reasonable access to such records for the purpose of carrying out its business operations.

28. Any person, firm, corporation or other entity having notice of the Order that fails to abide by its terms is directed to appear before this Court to show good cause, if any they may have, as to why they should not be held in contempt of Court for violation of the provisions of this Order.

29. Pursuant to Sections 631.041(3) and (4), Florida Statutes, all persons, firms, corporations and associations within the jurisdiction of this Court, including, but not limited to, Respondent and its officers, directors, stockholders, members, subscribers, agents and employees, are enjoined and restrained from the further transaction of the insurance business of the Respondent; from doing, doing through omission, or permitting to be done any action which might waste or dispose of the books, records and assets of the Respondent; from in any means interfering with the Receiver or these proceedings; from the transfer of property and assets of Respondent without the consent of the Receiver; from the removal, concealment, or other disposition of Respondent's property, books, records, and accounts; from the commencement or prosecution of any actions against the Respondent or the Receiver together with its agents or employees, the service of process and subpoenas, or the obtaining of preferences, judgments, writs of attachment or garnishment or other liens; and, from the making of any levy or execution against Respondent or any of its property or assets. Notwithstanding the provisions of this paragraph, the Receivers should be permitted to accept and be subpoenaed for non-party production of claims files in its possession, including medical records, which may be contained

therein. In such cases, the requesting party must submit an affidavit to the Receiver stating that notice of the non-party production was appropriately issued and provided to the patient and that the patient was given the opportunity to object and either did not object to the non-party production, or objected and the Court overruled the objection, in which case a copy of the Court's ruling must be attached to the affidavit. The Receiver should be authorized to impose a charge for copies of such claim files pursuant to the provisions of Sections 119.07(1)(a), and 624.501, Florida Statutes.

30. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Respondent shall fully cooperate with the Receiver in the effort to rehabilitate Respondent.

31. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Respondent having any interest in the building located at 5440 Mariner Street, Suite 110, Tampa, FL 33609 or any other facility in which Respondent may operate, shall make available, at that location and at no charge to the Receiver or to Respondent, office space, and related facilities (telephone service, copiers, computer equipment and software, office supplies, parking, etc.) to the extent deemed necessary by the Receiver in its sole discretion.

32. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Respondent having any interest in the computer equipment and software currently used by or for Respondent shall make such computer equipment and software available to the Receiver at no charge to the Receiver or Respondent to the extent deemed necessary by the Receiver in its sole discretion.

CONTINUATION OF INVESTIGATION

33. The Receiver shall be authorized to conduct an investigation as authorized by Section 631.391, Florida Statutes, of Respondent and its affiliates, as defined above, to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent's parent corporations, its subsidiaries, and affiliates are required to make all books, documents, accounts, records, and affairs, which either belong to or pertain to the Respondent, available for full, free and unhindered inspection and examination by the Receiver during normal business hours (8:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of the Order. Respondent and the above-specified entities are required to cooperate with the Receiver to the fullest extent required by Section 631.391, Florida Statutes. Such cooperation should include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

34. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of the affairs of Respondent or its affiliates is directed to fully cooperate with the Receiver as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraph. Upon receipt of a certified copy of the Order, any bank or financial institution is directed to immediately disclose to the Receiver the existence of any accounts of

Respondent and any funds contained therein and any and all documents in its possession relating to Respondent for the Receiver's inspection and copying.

35. All Sheriffs and all law enforcement officials of this state shall cooperate with and assist the Receiver in the implementation of this Order.

36. In the event the Receiver determines that reorganization, consolidation, conversion, reinsurance, merger, or other transformation of the Respondent is appropriate, the Receiver shall prepare a plan to effect such changes and submit the plan to this Court for consideration.

37. Upon petition by the Receiver stating that further efforts to rehabilitate Respondent would be useless, this Court will consider entry of an order of liquidation of Respondent.

NOTICE OF AUTOMATIC STAY

38. Notice is hereby given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial petition herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of the order, and which prohibits:

A. The commencement or continuation of judicial, administrative or other action or proceeding against the insurer or against its assets or any part thereof;

B. The enforcement of a judgment against the insurer or an affiliate obtained either before or after the commencement of the delinquency proceeding;

C. Any act to obtain possession of property of the insurer;


D. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;

E. Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631;

F. The set-off or offset of any debt owing to the insurer except offsets as provided in Section 631.281, Florida Statutes.

39. This Court retains jurisdiction of this cause for the purpose of granting such other and further relief as from time to time shall be deemed appropriate.

DONE and ORDERED in Chambers at the Leon County Courthouse in Tallahassee, Leon County, Florida this 27th day of June, 2012.



KEVIN J. CARROLL
CIRCUIT JUDGE

IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT, IN AND
FOR LEON COUNTY, FLORIDA

CIVIL ACTION NO.: 2012-CA-001400

In Re: The Receivership of
AVAHEALTH, INC. d/b/a KEY INSURANCE PLAN,
_____ /

**ORDER APPOINTING THE FLORIDA DEPARTMENT OF FINANCIAL
SERVICES AS RECEIVER FOR PURPOSES OF LIQUIDATION,
INJUNCTION AND NOTICE OF AUTOMATIC STAY**

THIS CAUSE was considered on the Petition of the State of Florida, Department of Financial Services (hereinafter the "Department") for entry of an Order of liquidation of **AvaHealth, Inc.** (hereinafter the "Respondent" or "Company"). The Court, having reviewed the pleadings of record, and otherwise being fully informed in the premises finds that:

1. This Court has jurisdiction pursuant to section 631.021(1), Florida Statutes, and venue is proper pursuant to Section 631.021(2), Florida Statutes.
2. Respondent is a corporation authorized since March 22, 2005 pursuant to the Florida Insurance Code to transact business in the State of Florida as a life and health insurer. Respondent's principal place of business is located at 5440 Mariner Street, Suite 110 Tampa, FL 33609.
3. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving an insurer.
4. Sections 631.031 and 631.061(1), Florida Statutes, authorize the

Department to apply to this Court for an Order directing it to liquidate a domestic insurer upon the existence of any grounds specified in Section 631.051, Florida Statutes, or if an insurer is or is about to become insolvent. Further, Section 631.025(2), Florida Statutes, authorizes the Department to initiate delinquency proceedings against any insurer if the statutory grounds are present as to that insurer.

5. On June 27, 2012 this Court entered an Order Appointing the Florida Department of Financial Services as Receiver for Respondent for Purposes of Rehabilitation. The Order had an effective date of July 2, 2012.

6. Respondent is insolvent within the meaning of 631.061(1), Florida Statutes.

7. Respondent must be liquidated to protect the remaining assets of Respondent for the benefit of its policyholders, creditors, and the public.

8. Respondent does not object to the granting of the Petition of the State of Florida, Department of Financial Services for entry of an Order of liquidation of AvaHealth, Inc.

9. Pursuant to Section 631.061, Florida Statutes, this Court finds that it is in the best interests of Respondent, its creditors and its members that the relief requested in the Department's Petition be granted.

THEREFORE, IT IS ORDERED AND ADJUDGED as follows:

10. The Department of Financial Services of the State of Florida shall be and is hereby appointed Receiver of Respondent for purposes of Liquidation, effective upon the signing of this order.

11. The Receiver shall be authorized and directed to:

A. Take immediate possession of all the property, assets, and estate, and all other property of every kind whatsoever and wherever located belonging to Respondent pursuant to Sections 631.111 and 631.141, Florida Statutes, including but not limited to: offices maintained by Respondent, rights of action, books, papers, evidences of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, wherever situate and however titled, whether in the possession of Respondent or its officers, directors, shareholders, trustees, employees, consultants, attorneys, agents or affiliates and all real property of Respondent, wherever situate, whether in the possession of Respondent or its officers, directors, shareholders, trustees, employees, consultants, attorneys, agents or affiliates or other persons.

B. Liquidate the assets of Respondent, including but not limited to, funds held by Respondent's agents, subagents, producing agents, brokers, solicitors, service representatives or others under agency contracts or otherwise which are due and unpaid to Respondent, including premiums, unearned commissions, agents' balances, agents' reserve funds, and subrogation recoveries.

C. Employ and authorize the compensation of legal counsel, actuaries, accountants, clerks, consultants, and such assistants as it deems necessary, purchase or lease personal or real property as it deems necessary, and authorize the payment of the expenses of these proceedings and the necessary incidents thereof, as approved by the Court, to be paid out of the funds or assets of the Respondent in the possession of the Receiver or coming into its possession.

D. Reimburse such employees, from the funds of this receivership, for

their actual necessary and reasonable expenses incurred while traveling on the business of this receivership.

E. Not defend or accept service of process on legal actions wherein Respondent, the Receiver, or the insured is a party defendant, commenced either prior to or subsequent to the order, without authorization of this Court; except, however, in actions where Respondent is a nominal party, as in certain foreclosure actions, and the action does not affect a claim against or adversely affect the assets of Respondent, the Receiver may file appropriate pleadings in its discretion.

F. Commence and maintain all legal actions necessary, wherever necessary, for the proper administration of this receivership proceeding.

G. Collect all debts which are economically feasible to collect which are due and owing to Respondent.

H. Deposit funds and maintain bank accounts in accordance with Section 631.221, Florida Statutes.

I. Take possession of all of Respondent's securities and certificates of deposit on deposit with the Chief Financial Officer of Florida or any similar official of any other state, if any, and convert to cash as much as may be necessary, in its judgment, to pay the expenses of administration of this receivership.

J. Publish notice specifying the time and place fixed for the filing of claims with the Receiver once each week for three consecutive weeks in the Florida Administrative Weekly published by the Secretary of State, and at least once in the Florida Bar News and to publish notice by similar methods in all states where Respondents may have issued insurance policies.

K. Negotiate and settle subrogation claims and Final Judgments without further order of this Court.

L. Sell any salvage recovered property without further order of this Court.

M. Coordinate the operation of the Receivership with Florida Life and Health Insurance Guaranty Association ("FLAHIGA") pursuant to Part III, Chapter 631, Florida Statutes. The Receiver shall provide FLAHIGA with access to the company records as necessary. The Receiver may in its discretion, contract with the appropriate guaranty association to provide services as are necessary to carry out the purposes of Chapter 631.

N. Give notice of this proceeding to Respondent's agents pursuant to Section 631.341, Florida Statutes, and to its insureds.

O. For purposes of this Order, the term "affiliate" shall be defined in accordance with Section 631.011(1), Florida Statutes and includes but is not limited to CUSP, LLC, Key Insurance Plans, Inc., Avalon Healthcare Holdings, Inc., and Meditech, Inc.

P. The Receiver is granted all of the powers of the Respondent's directors, officers, and managers, whose authority is hereby suspended, except as such powers are re-delegated in writing by the Receiver. The Receiver has full power to direct and manage the affairs of Respondent, to hire and discharge employees, and to deal with the property and business of the Respondent.

Q. Apply to this Court for further instructions in the discharge of its duties as the Receiver deems necessary.

IT IS FURTHER ORDERED AND DIRECTED:

12. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of Respondent's affairs or the affairs of its affiliates shall be required to fully cooperate with the Receiver, pursuant to Section 631.391, Florida Statutes, notwithstanding the provisions of the above paragraph. Any person who fails to cooperate with the Receiver, interferes with the Receiver, or fails to follow the instructions of the Receiver, may, at the Receiver's discretion, be excluded from Respondent's business premises.

13. Title to all property, real or personal, all contracts, rights of action and all books and records of Respondent, wherever located, is vested in the Receiver pursuant to Sections 631.111 and 631.141, Florida Statutes. The Receiver can destroy records that are, in the Receiver's sole discretion, obsolete. Prior to the actual destruction of these records, the Division of Rehabilitation and Liquidation will obtain a "Disposal Authorization Certificate" from the Division of Archives, History and Records Management of the Florida Department of State. The Receiver will also inform the attorneys of the Respondent before destroying obsolete records.

14. All officers, directors, trustees, administrators, agents and employees and all other persons representing Respondent or currently employed or utilized by Respondent in connection with the Conduct of its business are discharged forthwith; provided, however, the Receiver may retain such persons in the Receiver's discretion.

15. All attorneys employed by Respondent as of the date of the Order, within

10 days notice of the Order, are required to report to the Receiver on the name, company claim number and status of each file they are handling on behalf of the Respondent. Said report shall also include an accounting of any funds received from or on behalf of the Respondent. All attorneys employed by Respondent shall be discharged as of the date of the Order unless their services are retained by the Receiver. All attorneys employed by Respondent shall be advised that pursuant to Section 631.011(21), Florida Statutes, a claim based on mere possession does not create a secured claim and all attorneys employed by Respondent, pursuant to In Re the Receivership of Syndicate Two, Inc., 538 So.2d 945 (Fla. 1st DCA 1989), who are in possession of litigation files or other material, documents or records belonging to or relating to work performed by the attorney on behalf of Respondent shall be required to deliver such litigation files, material, documents or records intact and without purging to the Receiver, on request, notwithstanding any claim of a retaining lien which, if otherwise valid, shall not be extinguished by the delivery of these documents.

16. All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Respondent shall be required to account for and pay all premiums and commissions unearned due to cancellation of policies by the Order or in the normal course of business owed to the Respondent directly to Receiver within 30 days of demand by the Receiver or appear before this Court to show cause, if any they may have, as to why they shall not be required to account to the Receiver or be held in contempt of Court for violation of the provisions of the Order. No agent, broker, premium finance company or other person shall use premium monies owed to the Respondent for refund of unearned premium or for any purpose other than payment

to the Receiver.

17. Reinsurance premiums due to or payable by Respondent shall be remitted to, or disbursed by, the Receiver. Reinsurance losses recoverable or payable by Respondent shall be handled by the Receiver. All correspondence concerning reinsurance shall be between the Receiver and the reinsuring company or intermediary.

18. Upon request by the Receiver, any company providing telephonic services to Respondent shall be required to provide a reference of calls from the number presently assigned to Respondent to any such number designated by the Receiver or perform any other services or changes necessary to the conduct of the receivership.

19. Any bank, savings and loan association, or other financial institution which has on deposit, in its possession, custody or control any funds, accounts and any other assets of Respondent, shall be required to immediately transfer title, custody and control of all such funds, accounts and other assets to the Receiver. The Receiver shall be authorized to change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution shall be permitted to exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever, or refuse to transfer any funds or assets to the Receiver's control without the permission of this Court.

20. Any entity furnishing telephone, water, electric, sewage, garbage or trash removal services to Respondent shall be required to maintain such service and transfer any such accounts to the Receiver as of the date of the Order, unless instructed to the contrary by the Receiver.

21. Any data processing service, which has custody or control of any data processing information and records including but not limited to source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to Respondent is directed to transfer custody and control of such records to the Receiver. The Receiver shall be authorized to compensate any such entity for the actual use of hardware and software which the Receiver finds to be necessary to this proceeding. Compensation should be based upon the monthly rate provided for in contracts or leases with Respondent which was in effect when this proceeding was instituted, or based upon such contract as may be negotiated by the Receiver, for the actual time such equipment and software is used by the Receiver.

22. The United States Postal Service shall be directed to provide any information requested by the Receiver regarding Respondent and to handle future deliveries of Respondent's mail as directed by the Receiver.

23. All claims shall be filed with the Receiver on or before 11:59:59 p.m. on the date of six months following the entry of this Order, or be forever barred, and all such claims shall be filed on proof of claim forms prepared by the Receiver.

24. In order to assure the validity of claim assignments, to assure that the processing of assignments does not create an undue burden on estate resources, and to assure that assignment decisions are made using the best information available, the Receiver shall not recognize or accept any assignment of claim by the claimant of record unless the following criteria are met:

A. A distribution petition has not been filed with this Court;

B. The Receiver has been provided with a properly executed and notarized assignment of claim agreement entered into between the parties; and

C. The Receiver has been provided with a properly executed and notarized Receiver's Assignment of Claim Change Form and required supporting documentation.

D. The Receiver's Assignment of Claim Change Form shall contain an acknowledgement by the claimant, or someone authorized to act on behalf of the claimant, that:

1. The claimant is aware that financial information regarding claims distributions and payments published on the Receiver's website or otherwise available can assist the claimant in making an independent and informed decision regarding the sale of the claim;

2. The claimant understands that the purchase price being offered in exchange for the assignment may differ from the amount ultimately distributed in the receivership proceeding with respect to the claim;

3. It is the claimant's intent to sell their claim and have the Receiver's records be permanently changed to reflect the new owner; and

4. The claimant understands that that they will no longer have any title, interest, or rights to the claim including future mailings and distributions if they occur.

25. All executory contracts (excluding contracts with medical providers) to which the Respondent was a party shall be cancelled and stand cancelled unless

specifically adopted by the Receiver or FLAHIGA within ninety (90) days of the date of this Order or from the date of the Receiver's actual knowledge of the existence of such contract, whichever is later. "Actual Knowledge" means the Receiver has in its possession a written contract to which the Respondent is a party, and the Receiver has notified the vendor in writing acknowledging the existence of the contract.

Further, the Receiver shall have the authority to do the following:

- 1) Pay for services provided by any of Respondent's vendors, in the ninety (90) day period prior to assuming or rejecting the contract, which are necessary to administer the Receivership estate;
- 2) Once the Receiver determines Respondent's vendor is necessary in the continued administration of the Receivership estate for a period to exceed the ninety (90) days from the date of this order, or from the date of Receiver's actual knowledge of such contract, whichever is later, the Receiver may make minimal modifications to the terms of the contract, including, but not limited to, the expiration date of the agreement, the scope of the services to be provide, and/or the compensation to be paid to Respondent's vendor pursuant to the contract. "Minimal Modifications" shall mean any minimum alteration made to the contract in order to adapt to the new circumstances of the Receivership estate. In no event will any minimal modification be construed as the receiver entering into a new contract with Respondent's vendor.

Any vendor, including but not limited to, any and all employees / contractors of insurer, claiming the existence of a contractual relationship with the insurer shall provide notice to the Receiver of such relationship. This notice

shall include any and all documents and information regarding the terms and conditions of the contract, including a copy of the written contract between the vendor and the insurer, if any, what services or goods were provided pursuant to the contract, any current, future and/or past due amounts owing under the contract, and any supporting documentation for third party services or goods provided. Failure to provide the required information may result in vendors' contractual rights not being recognized by the Receiver. The rights of the parties to any such contracts are fixed as of the date of the Order and any cancellation under this provision shall not be treated as an anticipatory breach of such contracts.

26. All affiliated companies and associations, including but not limited to CUSP, LLC, Key Insurance Plans, Inc., Avalon Healthcare Holdings, Inc., and Meditech, Inc. shall make their books and records available to the Receiver, to include all records located in any premises occupied by said affiliate, whether corporate records or not, and to provide copies of any records requested by the Receiver whether or not such records are related to Respondent. The Receiver shall have title to all policy files and other records of, and relating to Respondent, whether such documents are kept in offices occupied by an affiliate company or any other person, corporation, or association. The Receiver shall be authorized to take possession of any such records, files, and documents, and to remove them to any location in the Receiver's discretion. Any disputed records shall not be withheld from the Receiver's review, but shall be safeguarded and presented to this Court for review prior to copying by the Receiver.

27. The Receiver shall have complete access to and administrative control of all information technology resources of the Respondent and its affiliates at all times

including, but not limited to, Respondent's computer hardware, software and peripherals. Each affiliate shall be given reasonable access to such records for the purpose of carrying out its business operations.

28. Any person, firm, corporation or other entity having notice of the Order that fails to abide by its terms is directed to appear before this Court to show good cause, if any they may have, as to why they shall not be held in contempt of Court for violation of the provisions of this Order.

29. Pursuant to Section 631.717, Florida Statutes, FLAHIGA will assume the current AvaHealth policies. FLAHIGA will comply with Florida law and provide AvaHealth policyholders with at least 180 days notice prior to cancelling the policies or any policy riders.

30. Pursuant to Sections 631.041(3) and (4), Florida Statutes, all persons, firms, corporations and associations within the jurisdiction of this Court, including, but not limited to, Respondent and its officers, directors, stockholders, members, subscribers, agents and employees, are enjoined and restrained from the further transaction of the insurance business of the Respondent; from doing, doing through omission, or permitting to be done any action which might waste or dispose of the books, records and assets of the Respondent; from in any means interfering with the Receiver or these proceedings; from the transfer of property and assets of Respondent without the consent of the Receiver; from the removal, concealment, or other disposition of Respondent's property, books, records, and accounts; from the commencement or prosecution of any actions against the Respondent or the Receiver together with its agents or employees, the service of process and subpoenas, or the obtaining of

preferences, judgments, writs of attachment or garnishment or other liens; and, from the making of any levy or execution against Respondent or any of its property or assets. Notwithstanding the provisions of this paragraph, the Receivers should be permitted to accept and be subpoenaed for non-party production of claims files in its possession, including medical records, which may be contained therein. In such cases, the requesting party must submit an affidavit to the Receiver stating that notice of the non-party production was appropriately issued and provided to the patient and that the patient was given the opportunity to object and either did not object to the non-party production, or objected and the Court overruled the objection, in which case a copy of the Court's ruling must be attached to the affidavit. The Receiver should be authorized to impose a charge for copies of such claim files pursuant to the provisions of Sections 119.07(1)(a), and 624.501, Florida Statutes.

31. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Respondent shall fully cooperate with the Receiver in the effort to liquidate Respondent.

32. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Respondent having any interest in the building located at 5440 Mariner Street, Suite 112, Tampa, FL 33609 or any other facility in which Respondent may operate, shall make available, at that location and at no charge to the Receiver or to Respondent, office space, and related facilities (telephone service, copiers, computer equipment and software, office supplies, parking, etc.) to the extent deemed necessary by the Receiver in its sole discretion.

33. All subsidiaries, affiliates, parent corporations, ultimate parent

corporations, and any other business entity affiliated with Respondent having any interest in the computer equipment and software currently used by or for Respondent shall make such computer equipment and software available to the Receiver at no charge to the Receiver or Respondent to the extent deemed necessary by the Receiver in its sole discretion.

CONTINUATION OF INVESTIGATION

34. The Receiver shall be authorized to conduct an investigation as authorized by Section 631.391, Florida Statutes, of Respondent and its affiliates, as defined above, to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent and its affiliate shall be required to make all books, documents, accounts, records, and affairs, which either belong to or pertain to Respondent, available for full, free and unhindered inspection and examination by the Receiver during normal business hours (8:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of the Order. Respondent and the above specified entities shall be required to cooperate with the Receiver to the fullest extent required by Section 631.391, Florida Statutes. Such cooperation shall include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

35. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of the affairs of Respondent or its affiliates shall be required to fully cooperate with the Receiver as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraph. Upon receipt of a certified copy of the Order, any bank or financial institution shall be required to immediately disclose to the Receiver the existence of any accounts of Respondent and any funds contained therein and any and all documents in its possession relating to Respondent for the Receiver's inspection and copying.

36. All Sheriffs and all law enforcement officials of this state shall cooperate with and assist the Receiver in the implementation of this Order.

NOTICE OF AUTOMATIC STAY

37. Notice is hereby given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial petition herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of this order, and which prohibits:

A. The commencement or continuation of judicial, administrative or other action or proceeding against the insurer or against its assets or any part thereof;

B. The enforcement of judgment against the insurer or an affiliate, provided that such affiliate is owned by or constitutes an asset of Respondent, obtained either before or after the commencement of the delinquency proceeding;

C. Any act to obtain possession of property of the insurer;

D. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;

E. Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631;

F. The set-off or offset of any debt owing to the insurer except offsets as provided in Section 631.281, Florida Statutes.

38. This Court retains jurisdiction of this cause for the purpose of granting such other and further relief as from time to time shall be deemed appropriate.

DONE and ORDERED in Chambers at the Leon County Courthouse in Tallahassee, Florida this 31 day of August 2012.



KEVIN J. CARROLL
CIRCUIT JUDGE