STATE OF WASHINGTON
OFFICE OF THE INSURANCE

FINANCIAL EXAMINATION

OF

PacifiCare of Washington, Inc.
Mercer Island, Washington

NAIC CODE 48038
DECEMBER 31, 2002

Exhibit A
Order No. G 06-04
PacifiCare of Washington, Inc.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of PacifiCare of Washington, Inc. of Mercer Island, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

February 8, 2006

Date

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SALUTATION

Seattle, Washington
February 8, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

PacifiCare of Washington, Inc.
of
Mercer Island, Washington

hereinafter referred to as "PCW" or the "Company," at the location of its home office, 7525 SE 24th Mercer Island, Washington 98040. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1997 through December 31, 2002 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. Payment of Surplus Notes Require Prior Approval

The Company made two payments to its parent company, PacifiCare Health Plan Administrators (PHPA) and subsequently asked for OIC's approval to reduce surplus notes. The terms of the surplus notes state that all payments to reduce the surplus notes shall be subject to prior written approval by OIC.

In December 2000, the Company transferred $21,000,000 to PHPA. Subsequently, on April 10, 2001, OIC approved the cash transfer as a payment on surplus notes. On August 9, 2001, the Company transferred another $24,000,000 to PHPA. Subsequently, on June 2, 2002 in a Form D filing, the Company requested approval of the transfer as a payment on surplus notes. OIC responded to the Form D filing in a letter dated July 2, 2002 asking for information as to how PCW was going to maintain capital at the 10% level of annualized premium in which the Company had agreed to in a letter dated September 14, 2000. OIC did not approve the reduction of the surplus note for the

second payment until December 15, 2004, by which time the Company supplied the requested information to OIC on its minimum surplus requirements.

The Company justified the payments without receiving prior approval based on its interpretation of the risk-based capital net worth requirements as provided under the Health Carrier Holding Company Act. The adoption of the Health Carrier Holding Company Act (Chapter 48.31C) did not alter or supersede the terms of the solicitation permit. The repayment of the surplus notes is governed by the terms of Solicitation Permit No. 276. According to the terms of the solicitation permit, the Company cannot make any payment on the surplus notes without the prior approval of the Commissioner.

The first and second payments by the Company to PHPA are in violation of Solicitation Permit No. 276 which requires OIC's permission for payment on the surplus notes. The second payment is also in violation of the Health Carrier Holding Company Act 48.31C.050(2) which requires the Company to notify the Commissioner in writing before entering certain specific transactions.

The Company is instructed to comply with RCW 48.31C.060 and the requirements of Solicitation Permit No. 276 as required by RCW 48.06.180, pursuant to RCW 48.44.015.

2. Custodial Agreement with Bank of New York Not in Compliance with NAIC's Annual Statement Instructions

The OIC investment specialist reviewed the Custodial Agreement (Agreement) that PacifiCare of Washington, Inc. (PCW) executed with Bank of New York, Western Trust Company (BNY) to determine if the Agreement was in compliance with Part 1-General, Section IV. H - Custodial or Safekeeping Agreements of the FCEH.

The Company's response to the General Interrogatory 22.01 of its 2002 NAIC Annual statement incorrectly indicated that it complied with the FCEH since the Custodial Agreement with BNY did not comply with Part 1-General, Section IV. H - Custodial or Safekeeping Agreements of the FCEH. The OIC investment specialist determined that the agreement with BNY is not in compliance with pages I-73 - I-75 of the FCEH or with state statutes relating to the safeguarding of securities, as detailed below.

- The Agreement does not state that PacifiCare's certificated securities shall be held separate from all other securities or in fungible bulk.
- The Agreement does not state that PacifiCare's securities held in fungible bulk by BNY through a clearing corporation, or in the Federal Reserve book-entry system, shall be separately identified on BNY's books as being owned by PacifiCare.
- The Agreement does not allow PacifiCare's securities that are not held subject to deposit requirements to be withdrawable upon demand.
- Confirmation of all transfers by hard-copy or in electronic format is not expressly required by the Agreement.

- The Agreement does not require BNY to indemnify PacifiCare for the loss of PacifiCare's securities caused by BNY's negligence or dishonesty of its officers, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

- For the loss of securities which BNY is obligated to indemnity PacifiCare, BNY is not required to promptly replace the securities or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities.

- The Agreement does not require that in the event BNY gains entry in a clearing corporation through an agent [to include national bank, state bank, or trust company], there will be written agreement between BNY and the said agent, subjecting the agent to the same liability for loss of the securities as BNY.

- The Agreement does not require BNY to provide written notice to our office within three business days of PacifiCare's safekeeping account being terminated or all funds being withdrawn.

- The Agreement does not require BNY to allow an officer or employee of PacifiCare, or an independent accountant selected by PacifiCare and the OIC, to be entitled to examine BNY's records relating to the securities on the premises of BNY during regular business hours.

- The Agreement does not require BNY to send to PacifiCare all reports it receives from its outside auditor, from a clearing corporation, or the Federal Reserve book-entry system, which permit such reports to be redistributed, addressing the respective systems of internal control.

- To the extent that certain information maintained by BNY is relied upon by PacifiCare in preparation of its annual statement and supporting schedules, the Agreement does not require BNY to maintain records sufficient to determine and verify such information.

- The Agreement does not require BNY to provide appropriate affidavits with respect to PacifiCare's securities held by BNY, upon written request from a regulator or an authorized officer of PacifiCare.

- The Agreement does not require BNY to secure and maintain adequate insurance protection over PacifiCare's assets covered by the Agreement.

- The Agreement allows BNY to use depositories or subcustodians acceptable to them. The only acceptable depository is a custodian which meets the statutory qualifications of a qualified custodian. A qualified custodian is either a participating financial institution or clearing corporation. Statutory authority contemplates all depositories being qualified custodians.

The Company is instructed to follow the NAIC's Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). Adherence to the FCEH is included

in these requirements, so the Company is instructed to correct all deficiencies noted above and to execute a revised or amended custodial agreement.

3. The Incurred But Not Paid (IBNP) Model Does Not Reconcile to Company General Ledger

For the review of Claims Unpaid liability for the year ending December 31, 2002, the information supplied to the OIC actuary was incorrect and included inappropriate costs in the Claims Unpaid liability account. In the review of the Claims Unpaid liability as of December 31, 2002, the OIC actuary reviewed paid data claims for the period January 1, 2000 through November 11, 2003 by lines of business to determine the consistency and quality of data. Paid claim amounts, as provided by the Company's actuaries, could not be reconciled to the Company's 2002 NAIC Annual Statement. It was determined late in the examination process that the paid claims information provided by the Company's actuaries included paid claims for both Oregon and Washington.

The general ledger was properly recording paid claims for each state but the actuarial database was overstating paid claims in Oregon's IBNP model and understating paid claims in Washington's IBNP model.

The Company is instructed to comply with RCW 48.12.070 and produce records, books and other information that are reasonably necessary to ascertain the financial condition of the Company.

4. Errors in NAIC Annual Statement Filings

a) Misclassification of Escheat Balance

The Company incorrectly classified uncashed checks pending escheats to Washington State in the Company's 2002 NAIC Annual Statement as General Expenses Due or Accrued. Uncashed checks pending escheats for claims payments, capitation payments and provider services in the amount of $121,533 should be recorded in the Liabilities, Capital and Surplus Statement as Aggregate Write-Ins for Other Liabilities.

RCW 48.43.097 and WAC 284-07-050(2) require annual statement forms to be in general form and context as approved by the NAIC. The 2002 NAIC Annual Statement Instructions requires checks pending escheats to be classified as Aggregate Write-ins for Other Liabilities. Since capital and surplus was not affected, no examination reclassification is recommended.

b) Misclassification of expenses for Increase in Reserves for Accident and Health Contracts

The Company incorrectly classified expenses for the Increase in Reserves for Accident and Health Contracts in the amount of $1,304,000 as General and Administrative expenses and as Aggregate Write-ins for Medical and Hospital Expenses.

The 2002 NAIC Annual Statement Instructions require that expenses for accident and health contracts be recorded as an Increase in Reserves for Accident and Health Contracts. Since capital and surplus was not affected, no examination reclassification is recommended.

c) Misclassification of Premium Taxes

The Company incorrectly classified premium tax expense in the Underwriting and Investments Exhibit of its 2002 NAIC Annual Statement as State and Local Insurance taxes. Premium taxes should be recorded in the Underwriting and Investments Exhibit of the NAIC Annual Statement as State Premium Taxes. Total misclassification as of December 31, 2002 is $3,600,000. Since capital and surplus was not affected, no examination reclassification is recommended.

d) Claims Overpayment Receivables

The Company incorrectly classified claims overpayment receivables in the amount of $1,595,932 as Claims Unpaid in the Liability section of the Company's 2002 NAIC Annual Statement. Claims overpayment receivables should be reported as a Health Care Receivable in the asset section of the NAIC Annual Statement. Since capital and surplus was not affected, no examination reclassification is recommended.

The Company is instructed to correctly classify all transactions as required by RCW 48.44.095, WAC 284-07-050, and the NAIC Annual Statement Instructions.

COMMENTS AND RECOMMENDATIONS

No comments or recommendations were noted based on our examination.

COMPANY PROFILE

Company History

PCW obtained its Certificate of Registration in Washington State on March 6, 1986 as a Health Maintenance Organization (HMO). On February 28, 1994, PCW purchased Network Health Plan (NHP). NHP began operating in Washington State on June 20, 1986. Its Certificate of Registration is as a Health Care Service Contractor (HCSC). On June 30, 1994 PCW surrendered its HMO license and merged into PacifiCare of Oregon (PCO). On October 1, 1994, NHP changed its name to PacifiCare of Washington (PCW). PCW is owned 100% by PacifiCare Health Plan Administrators (PHPA) and PHPA is owned 100% by PacifiCare Health Systems, Inc. (PHS).

Territory and Plan of Operation

PCW is a health care service contractor that only conducts business in the state of Washington. Its primary operations include managed care products for employer groups and Medicare beneficiaries. The Medicare Plus Choice business segment contributes approximately 70% of the Company's revenues. PacifiCare capitates approximately 48% of its hospital contracts and 52% are shared risks. On the physician side, 78% of the contracts are capitated and 22% are shared risk. PHS is the ultimate parent for thirty-one affiliated companies which includes PCW. The majority of these companies are health, dental and other health related companies predominately located in the Western region of the United States. PCW is a health care service contractor that offers fee for service and capitation arrangements with the following products:

- Medicare - Title XVIII about 71%
- Commercial about 27%
- Federal Employee Health Benefits Act (FEHBA) about 2%
- Individual almost 0%

Growth of Company

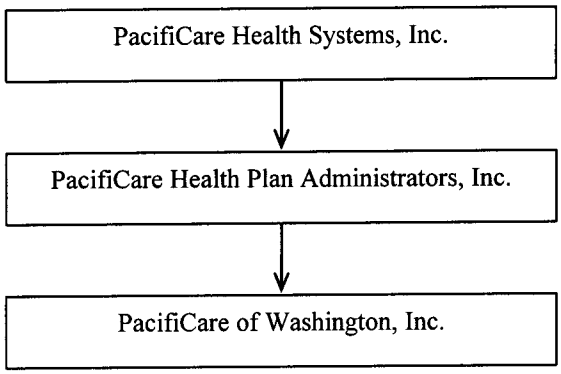
The following schedule shows the Company's growth for selected categories as reported in the Company's NAIC Annual Statement:

Year	Net Premiums Written	Net Losses Paid	Admitted Assets	Surplus as Regards Policyholders
1997	$ 356,153,613	$ 67,761,200	$ 40,620,737	$ 9,557,342
1998	394,986,293	346,410,018	125,157,274	61,184,817
1999	414,403,533	368,647,694	125,440,133	72,078,219
2000	494,358,063	429,035,632	117,427,497	50,680,761
2001	541,296,333	474,521,204	129,515,253	42,977,496
2002	$ 544,488,500	$ 485,598,143	$139,418,841	$ 47,492,689

AFFILIATED COMPANIES

The Company's shares are not actively traded and none of the Company's shares are owned by management. PHS, a Delaware corporation, is the parent and sole shareholder of PHPA which is the sole shareholder of the Company. PHS is a publicly traded company on the New York Stock Exchange. PHS is listed as the ultimate parent for thirty-one affiliated companies including PCW.

Organization Chart



Intercompany Contracts

PHPA provides substantially all administrative services necessary to operate and manage the business of the Company pursuant to a management agreement which provides for the Company to pay an administrative fee equal to actual costs. These fees include amounts for compensation, occupancy, depreciation, marketing, utilization review and case management services, professional fees and other administrative services. The charges for these services were included in other general administrative expenses and claims adjustment expenses and totaled $53,810,000 in 2002.

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Name	Principle Occupation
Bradford Bowlus	Chairman and Executive Vice President
Gregory Scott	Treasurer and Executive Vice President
Samuel Ho, MD	Senior Vice President and Chief Medical Officer
Donald E. Costa	President and CEO

Officers

Name	Title
Donald E. Costa	President
Joseph Samuel Konowiecki	Secretary
Gregory Winfield Scott	Treasurer

Conflict of Interest

The Company has policies and procedures to identify any conflict of interest at the level of manager and above. Annually the Ethics and Integrity Department send to employees at the level of manager and above a copy of the policy along with a Conflict of Interest and Business Ethics Questionnaire. Each manager and above is required to complete and return the questionnaire. When the Ethics and Integrity Department is made aware of a potential conflict of interest, it is its responsibility to discuss the situation with the employee involved. If, after discussion with the employee, the conflict of interest remains unresolved, the matter is brought to the Chief Ethics Officer for review. If, after consideration of the facts, the conflict is deemed by the Company to violate the Company's policy, the employee is instructed to eliminate the conflict or resign from the Company.

Fidelity Bond and Other Insurance

PHPA has a financial institution bond policy that includes coverage for its subsidiaries. The aggregate liability covered by the bond is $10,000,000 which exceeds the NAIC recommended amount. PHPA also has a program of coverage for its subsidiaries that includes: casualty excess, umbrella, employment practices, professional liability, directors and officers' liability, and fiduciary liability insurance.

Officer's, Employees', and Agents' Welfare and Pension Plans

All employees of the Company are employed by the parent, PHPA. Therefore, all pension plans, profit sharing systems and bonuses are paid by PHPA to PHPA employees. PHS, the parent of PHPA, has a nonqualified and unfunded pension plan for executives from PHS. No executives from the Company are qualified.

CORPORATE RECORDS

There were no changes to the Company's Bylaws and Articles of Incorporation during the examination period. The Stockholders, Board of Directors' and Committee minutes documented approval of the Company's transactions and events. Its primary operations include managed care products for employer groups and Medicare beneficiaries.

LOSS EXPERIENCE

The Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2002, were reviewed by the OIC actuarial staff. This review included: examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities, verifying that claims liabilities include provisions for all components noted in the AP&P, reviewing historical paid claims and loss ratios, checking the consistency of the incurred-paid data reported in the Company's NAIC Annual Statements, and estimating claims unpaid for the valuation date of December 31, 2002.

The reserving model and methodologies for claims unpaid is one of the methods prescribed by the American Academy of Actuaries. The unpaid claims and unpaid claim adjustment expenses were estimated based on the incurred claim data. The difference between the estimated figure and the amount recorded in the Company's 2002 NAIC Annual Statement was reasonable. No adjustments were recommended. However, during the review of Claims Unpaid liability for the year ending December 31, 2002, the information supplied to the OIC actuary was incorrect and included inappropriate costs in the Claims Unpaid liability account. This resulted in a great deal of additional time expended by both the OIC actuary and examiners on the issue of data quality. (See Instruction No. 3.)

Premium deficiency reserve assumptions were reviewed and determined reasonable. Since the amount of premium deficiency reserves was not material an independent estimate was not made.

REINSURANCE

PCW has an excess of loss agreement with an affiliate, PacifiCare Life Assurance Company. The excess of loss agreement provides PCW with coverage for claim losses that exceed $250,000 for up to $2,000,000 lifetime maximum per member. There were no reinsurance recoveries for year 2002. Due to the infrequency of reinsurance claims, we limited our examination to a review of the reinsurance agreement. A summary of the reinsurance agreement is as follows:

Secure Horizons (Medicare plus program): The deductible amount is $250,000 of the loss for each member for each contract year. Maximum lifetime benefit for eligible hospital services for each member is $2,000,000.

Point of Service: The deductible amount is $250,000 of the loss for each member for each contract year. Maximum lifetime benefit for eligible hospital services for each member is $2,000,000.

Capitated Provider Groups: The deductible amount is $250,000 of the loss for each member for each contract year. Maximum lifetime benefit for eligible hospital services for each member is $2,000,000.

For Eligible Hospital Services: Once the deductible has been satisfied, PacifiCare Life Assurance Company (reinsurer) will indemnify the plan for the excess loss for eligible hospital services.

STATUTORY DEPOSITS

As of December 31, 2002, the Company has the following statutory deposits for Washington State with BNY:

Type of Investment	Total Cost	Market Value
U. S. Treasury Notes	$ 5,498,788	$ 5,543,906
Treasury Obligations	128,342	128,342

ACCOUNTING RECORDS AND PROCEDURES

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for the Company's NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Ernst & Young, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The management of the Company is sufficiently knowledgeable of the information systems (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company. The Company's Information System (IS) Department has the ability to recover from an incident or disaster and has documented these procedures in a detailed, written disaster recovery plan.

SUBSEQUENT EVENTS

1. An amended custodial agreement between PacifiCare and BNY was received on March 3, 2004. The amended agreement has corrected the deficiencies noted above in Instruction 8 except for the following:

    a. Requiring an agent to be liable to the same extent as the custodian, if the custodian uses the agent to access a clearing corporation.

b. Requiring the custodian to secure and maintain insurance protection in an adequate amount [custodian wanted the option to maintain financial bond and the have the adequacy standard be determined by the custodian].

c. US custodians must hold all securities other than those foreign securities required to do business in a foreign jurisdiction.

2. In a letter to PCW dated December 15, 2004, the Commissioner approved the application of the $24 million advance made by PCW to PHPA in August 2001 as payment on the surplus notes. The letter further states that the approval does not waive any rights or actions that the Commissioner may take against PCW for violation of RCW 48.31C.060 and the terms of Solicitation Permit No. 276 for having made the advance to PHPA in August 2001 without prior approval.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments were corrected except the following:

1. Custodial Agreement

A review of the custodial agreement with First Interstate Bank disclosed that the agreement did not conform to NAIC requirements which state that the bank or trust company as custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody. The bank or trust company shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the bank or trust company. The Company is instructed to revise the custodial agreement with First Interstate Bank to include the indemnity clause required by the NAIC. (See Instruction No. 2.)

FINANCIAL STATEMENTS

Statement of Assets and Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

PACIFICARE OF WASHINGTON, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2002

	BALANCE PER COMPANY	REF. NOTE	EXAM ADJ.	BALANCE PER EXAM
Assets				
Bonds	$64,803,837			$64,803,837
Stocks:				
Preferred stocks	3,787,081			3,787,081
Cash and short-term investments	51,087,557			51,087,557
Subtotal, cash and invested assets	119,678,475		$0	119,678,475
Accident and health premiums due and unpaid	3,439,385			3,439,385
Health Care Receivables	771,713			771,713
Investment income due and accrued	790,439			790,439
Amounts due from parent, subsidiaries and affiliates	1,214,102			1,214,102
Federal and foreign income tax recoverable and interest thereon	1,352,164			1,352,164
Aggregate write-ins for other than invested assets	12,172,563			12,172,563
Total assets	**$139,418,841**		**$0**	**$139,418,841**
Liabilities, Capital and Surplus				
Claims unpaid	$52,789,403			$52,789,403
Accrued medical incentive pool and bonus payments	780,942			780,942
Unpaid claims adjustment expense	551,821			551,821
Aggregate policy reserves	1,304,403			1,304,403
Premiums received in advance	32,360,482			32,360,482
General expenses due or accrued	1,395,278			1,395,278
Amounts due to parent, subsidiaries, and affiliates	2,743,823			2,743,823
Total liabilities	**91,926,152**		**0**	**91,926,152**
Common capital stock	0	1		0
Gross paid in and contributed surplus	99,456,000			99,456,000
Surplus funds	46,000,000			46,000,000
Unassigned funds (surplus)	4,534,195			4,534,195
Aggregate write-ins for other than special surplus funds	(102,497,506)			(102,497,506)
Total capital and surplus	47,492,689		0	47,492,689
Total liabilities, capital and surplus	**$139,418,841**		**$0**	**$139,418,841**

PACIFICARE OF WASHINGTON, INC.
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2002

	BALANCE PER COMPANY	REF	EXAM ADJ	BALANCE PER EXAM
Member months	1,454,497			
Net premium income	$ 544,488,500		$ 0	$ 544,488,500
Total revenues	544,488,500		0	544,488,500
Hospital and Medical:				
Hospital/medical benefits	448,853,070			448,853,070
Emergency room and out-of-area	14,526,343			14,526,343
Prescription drugs	22,932,778			22,932,778
Aggregate write-ins for other hospital and medical	1,126,468			1,126,468
Incentive pool and withhold adjustments	(1,486,892)			(1,486,892)
Subtotal:	485,951,767		0	485,951,767
Less:				
Net reinsurance recoveries	(353,624)		0	(353,624)
Total medical and hospital	486,305,391			486,305,391
Claim adjustment expenses	7,380,643			7,380,643
General administrative expenses	51,813,315			51,813,315
Total underwriting deductions	545,499,349			545,499,349
Net underwriting gain or loss	(1,010,849)			(1,010,849)
Net investment income earned	3,681,251			3,681,251
Net realized capital gains or (losses)	1,292,852			1,292,852
Net investment gains or (losses)	4,974,103			4,974,103
Net income (loss)	$ 3,963,254		$ 0	$ 3,963,254
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus prior-reporting period	$ 42,977,496		$ 0	$ 42,977,496
Net income or (loss)	3,963,254			3,963,254
Change in net deferred income tax	629,167			629,167
Change in nonadmitted assets	(60,939)			(60,939)
Aggregate write-ins for gains or (losses) in surplus	(16,289)			(16,289)
Net change in capital and surplus	4,515,193		0	4,515,193
Capital and surplus end of reporting period	$ 47,492,689		$ 0	$ 47,492,689

PACIFICARE OF WASHINGTON, INC.
FIVE YEAR RECONCILIATION OF SURPLUS
FOR THE YEARS ENDED DECEMBER 31,

	2002	2001	2000	1999	1998
Capital and surplus, December 31, previous	$ 42,977,496	$ 50,680,761	$ 72,078,219	$ 61,184,817	$ 59,557,342
Net income or (loss)	3,963,254	11,446,723	16,794,563	6,766,644	1,353,692
Net unrealized capital gains or (losses)	0	0	0	0	0
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	629,167	(268,056)	0	0	0
Change in nonadmitted assets	(60,939)	1,344,182	(25,192,021)	126,758	(600,859)
Change in provision for reinsurance	0	0	0	0	0
Change in surplus notes	0	(21,000,000)	(13,000,000)	0	0
Cumulative effects of changes in accounting principles	0	773,886	0	0	0
Aggregate write-ins for gains and losses in surplus	(16,289)	0	0	4,000,000	874,642
Net change in capital and surplus	4,515,193	(7,703,265)	(21,397,458)	10,893,402	1,627,475
Capital and surplus end of reporting year	$ 47,492,689	$ 42,977,496	$ 50,680,761	$ 72,078,219	$ 61,184,817

NOTES TO THE FINANCIAL STATEMENTS

1. 7,850 shares of Common Capital Stock with no par or stated value have been issued under the laws of the state of Washington and issued without registration under the securities act of 1933. They were issued for investment only, not for sale or distribution.

The Company has no special consents, permitted practices or orders from the state of Washington and there were no examination adjustments.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of PacifiCare of Washington, Inc. during the course of this examination.

In addition to the undersigned Mike Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Team Leader; John Jacobson, AFE, IS Specialist; Tarik Subbagh, CPA; Constantine Arustamian, CPA, CFE; Juanita Turley, CPA; and Lichiou Lee, Health Actuary, ASA, MAAA; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Carl M. Baker

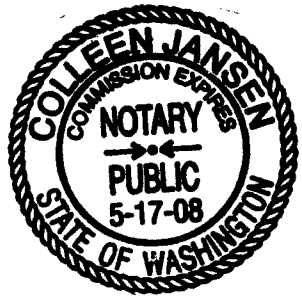
Carl M. Baker, CPA, CISA, CFE
Examiner-in-Charge
State of Washington

Carl M. Baker, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of PacifiCare of Washington, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Carl M. Baker

Carl M. Baker, CPA, CISA, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 8th day of February, 2006.

Notary Public in and for the
State of Washington.