



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

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MARK HAIRE
Deputy Commissioner of Insurance

September 9, 2010

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Richard J. Hale, President
HMO of Mississippi, Inc.
3545 Lakeland Drive
Flowood, MS 39232

RE: Report of Examination as of December 31, 2008

Dear Mr. Hale:

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

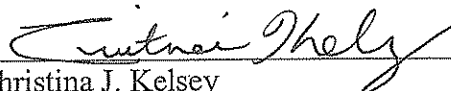
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department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

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

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


Christina J. Kelsey
Senior Attorney

MC/CJK/bs
Encls. Order w/exhibit

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

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

CAUSE NO. 10-6171

ORDER

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

JURISDICTION

I.

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

II.

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

FINDINGS OF FACT

III.

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

IV.

That on or about March 31, 2010, the draft Report of Examination concerning HMO of Mississippi, Inc. for the period of January 1, 2006, through December 31, 2008, was submitted to the Department by the Examiner-In-Charge, Joseph A. Rome.

V.

That on or about August 6, 2010, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal in writing on or about September 3, 2010, and in response thereto, no revisions were made to the report.

CONCLUSIONS OF LAW

VI.

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

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

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


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

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

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

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

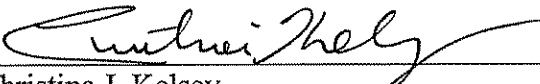
SO ORDERED, this the 9 day of September 2010.


MIKE CHANEY
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 9th day of September 2010, to:

**Mr. Richard J. Hale, President
HMO of Mississippi, Inc.
3545 Lakeland Drive
Flowood, MS 39232**



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



Mississippi Insurance Department

Report of Examination

of

HMO OF MISSISSIPPI, INC.

**3545 Lakeland Drive
Flowood, Mississippi 39232**

As of December 31, 2008

**NAIC Group Code 1126
NAIC Company Code 95289
NAIC ETS No. MS029-C57**

State of Louisiana,

Parish
County of East Baton Rouge,

Joseph Rome, being duly sworn, states as follows:

1. I have authority to represent Mississippi in the examination of HMO of Mississippi, Inc as of December 31, 2008.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of HMO of Mississippi, Inc. was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Joseph Rome
Examiner's Signature

Subscribed and sworn before me by Joseph Rome on this 26th day of August, 2010.

(SEAL)

Cathy J. Moss
Notary Public Cathy J. Moss ID# 61622

My commission expires at my death [date].

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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

April 1, 2010

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

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2008, of the affairs and financial condition of:

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

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

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department ("MID") and covered HMO of Mississippi, Inc.'s ("HMOMS" or "Company") operations and financial condition from January 1, 2006 through December 31, 2008, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2006 through December 31, 2008, and the examination date is defined as December 31, 2008. The Company was previously examined by the MID as of December 31, 2005.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

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

We conducted this examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. These key function areas were identified and risk and controls relating to these functions were included as part of our risk mitigation and residual risk assessment process. On a limited basis, and where appropriate, the examiners relied upon audit work performed by the Company's independent public accountants and work performed by the Company's internal audit department as part of its Model Audit Rule compliance work.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company.

HISTORY OF THE COMPANY

HMOMS was incorporated on June 21, 1995, pursuant to the laws of the State of Mississippi, to operate as a for-profit health maintenance organization. The Company was licensed effective October 1, 1995, under the Mississippi Health Maintenance Organization, Preferred Provider Organization and Other Prepaid Health Benefit Plans Protection Act. HMOMS is a wholly-owned subsidiary of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company (BCBSMS).

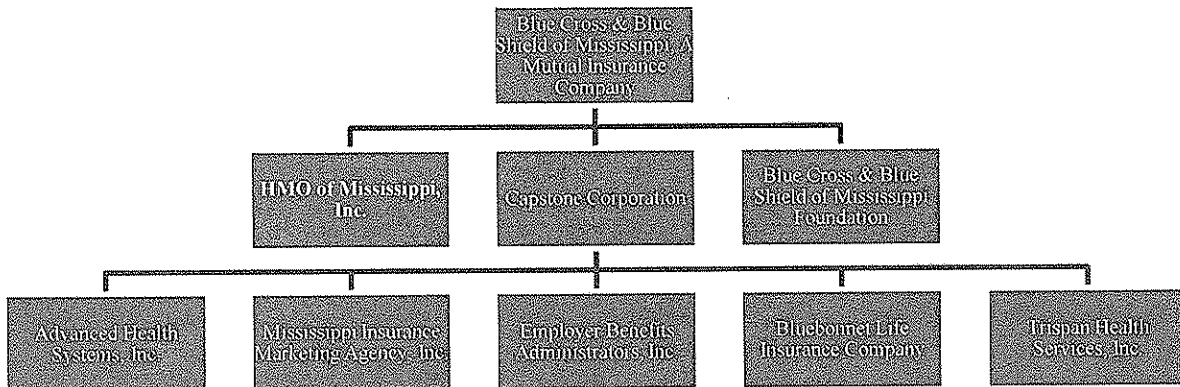
The Company operates under a management agreement with BCBSMS, whereby BCBSMS provides certain administrative and management services. As of January 1, 1999, the Company's membership was reduced to zero.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements, in conjunction with its parent and affiliates, with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed during the examination of the parent company, and it appeared that any changes and material transactions between the Company and its parent and affiliates were reported.

Organizational Chart

The following chart depicts the Company's organizational structure as of December 31, 2008. A brief description of the Company's parent and affiliates, including their principal activities, follows the organizational chart.



Blue Cross & Blue Shield Of Mississippi, A Mutual Insurance Company ("BCBSMS"): BCBSMS is the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. BCBSMS provides hospitalization and other health care benefits under contract to subscribers. This company also performs administrative services and processes claims for other Blue Cross & Blue Shield plans and for certain other programs, such as Medicare.

Capstone Corporation ("Capstone"): Capstone, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

Blue Cross & Blue Shield Of Mississippi Foundation ("Foundation"): Foundation, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians. BCBSMS is the sole source of contributions to the Foundation.

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

Mississippi Insurance Marketing Agency, Inc. ("MIMA"): MIMA, a wholly owned subsidiary of Capstone, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company is that of a general insurance agency, which includes the selling and brokerage of insurance coverage and the administration of claims and other services.

Employer Benefits Administrators, Inc. ("EBA"): EBA, a wholly owned subsidiary of Capstone, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans. EBA's name was changed from Bluestone Administrative Services, Inc. in February 1987. EBA is currently licensed as a third party administrator with the MID.

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

Trispan Health Services, Inc. ("THS"): THS, a wholly owned subsidiary of Capstone, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company is to execute contracts related to federal and/or state government health care programs.

Related Party Transactions

Tax Sharing Agreement with BCBSMS:

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

Service and Lease Agreement with BCBSMS:

Effective August 31, 1996, the Company entered into a Service and Lease Agreement with BCBSMS, whereby BCBSMS provides certain business services to the Company. These services include: general management services; financial services; accounting; printing; mailing; corporate data systems and programming; public relations; personnel; payroll; purchasing; legal; and other services. BCBSMS allocated or directly charged the Company its portion of salaries, travel, fees, and expenses.

Insolvency Plan Agreement with BCBSMS:

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

MANAGEMENT AND CONTROL

Stockholders

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

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2008, were as follows:

Name and Residence	No. of Years as Director	Principal Occupation
Arthur Claiborne Kelly, Chairman Starkville, MS	3	Administrator/Chief Executive Officer, Oktibbeha County Hospital
Richard John Hale Madison, MS	12.5	President & Chief Executive Officer, Blue Cross & Blue Shield of MS
Jeffery Thomas Leber Madison, MS	4	Chief Financial Officer – Blue Cross & Blue Shield of MS
Mary Carol Pigott Ridgeland, MS	10	Chief Operating Officer – Blue Cross & Blue Shield of MS
Robert Clark Williams Madison, MS	4	Director of Legal Operations – Blue Cross & Blue Shield of MS

Committees

The Board, by resolution adopted by majority of the full Board, may designate from among its members an executive committee and one or more other committees. Each such committee, to the extent provided in such resolution, shall have and may exercise all of the authority of the Board, but no such committee shall have the authority of the Board in reference to amending the Articles of Incorporation; authorizing distributions; adopting a plan of merger or consolidation; recommending to the shareholders the sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the property and assets of the Corporation otherwise than in the usual and regular course of its business; recommending to the shareholders a voluntary dissolution of the Corporation or a revocation thereof; or amending the Bylaws of the Corporation. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board, or any member thereof, of any responsibility imposed by law.

Officers

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

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

Conflict of Interest

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

Corporate Governance

The examiner's assessment of the Company's corporate governance was considered moderate. The examiners found that oversight of operational processes, business planning, non-routine transactions, and material events are vetted through appropriate levels of management and the Board. Management maintains effective controls over its IT environment and maintains frequent correspondence with its external auditors, Carr, Riggs & Ingram LLC. The audit committee members are independent from management. The management structure of the Company shows clear assignment of responsibilities within the Company and authorization for transactions is clearly established at appropriate levels.

The cause for the examiner's moderate assessment was that the parent company, BCBSMS, is a mutual insurance company and is owned by its policyholders yet membership signs its application indicating that they accept the President, Executive VP and Secretary of BCBSMS, as their proxies to cast their votes, thereby providing all the proxy ballots to the President and Secretary. An Executive Vice President was not elected during the period of our examination; thereby the President and Secretary are the proxy voters. This process provides the management of HMOMS and other affiliates a higher degree of control.

Enterprise Risk Management

The Company's enterprise risk management is informal. Risk management is practiced by all levels of management. Risk management is discussed in regular meetings by management and plans are developed to manage and mitigate those risks. Departments interact and communicate with each other frequently. Management reports are sufficiently detailed to allow management to make sound decisions.

Internal Audit

This unit performs the normal functions of an internal audit department including operational audits, Model Audit Rule testing, audit coordination with external auditors and other audits.

The Director of Internal Audit presents the testing plan and results to the finance committee, which is active in its input into the scope and results of the work. The Board and the Finance Committee have an active role in overseeing the Company's operations and results.

CORPORATE RECORDS

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

FIDELITY BOND AND OTHER INSURANCE

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

OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

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

TERRITORY AND PLAN OF OPERATION

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

As of January 1, 1999, the Company discontinued writing policies. During the period under examination, HMOMS received no premium, had no enrollees, and paid no claims. HMOMS maintained its company license, certificate of authority, and minimum statutory capital and surplus during the examination period.

ACCOUNTS AND RECORDS

The 2008 trial balance of the Company's accounts was reconciled to the balance sheet of the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-41-325 (5). The following chart displays the Company's deposits at December 31, 2008:

<u>Mississippi</u>	<u>Book Value</u>	<u>Par Value</u>	<u>Fair Value</u>
Bonds	\$527,993	\$ 531,000	\$ 516,703

FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Capital and Surplus at December 31, 2008, a Statement of Revenue and Expenses for year ended December 31, 2008, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Capital and Surplus at December 31, 2008.

**STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2008**

ASSETS

Bonds	\$ 1,912,721
Common stock	301
Cash, cash equivalents and short-term investments	477,834
Investment income due and accrued	<u>24,138</u>
Total Assets	<u>\$ 2,414,994</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

General expenses due or accrued	\$ 4,500
Amounts due to parent, subsidiaries and affiliates	15,414
Amounts withheld or retained for the account of others	301
Amounts due to parent, subsidiaries and affiliates	3,817
Aggregate write-ins for liabilities	<u>2,227</u>
Total Liabilities	26,259

Common Capital Stock	2,500,000
Unassigned funds (surplus)	<u>(111,265)</u>
Total Capital and Surplus	2,388,735

Total Liabilities, Capital and Surplus	<u>\$ 2,414,994</u>
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**STATEMENT OF REVENUE AND EXPENSES
FOR YEAR ENDED DECEMBER 31, 2008**

General administrative expenses	\$ <u>27,831</u>
Total underwriting deductions	<u>27,831</u>
Net underwriting gain or (loss)	(27,831)
Net investment gains (losses)	93,374
Net investment gains (losses)	<u>(18)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	65,525
Less: federal income taxes incurred	<u>16,236</u>
Net income (loss)	<u>\$ 49,289</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2008**

	2006	2007	2008
Capital and surplus, beginning of the year	\$ 2,321,584	\$ 2,327,893	\$ 2,337,030
Net income	6,308	11,671	49,289
Change in net unrealized capital gains (losses)	1	(8)	(111)
Change in net deferred income tax	-0-	6	141
Change in nonadmitted assets	-0-	(2,532)	2,386
Examination Adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	\$ 2,327,893	\$ 2,337,030	\$ 2,388,735

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2008**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2008 annual statement. The capital and surplus reported by the Company of \$2,388,735 is accepted as reasonably stated for purposes of the balance sheet per the examination.

COMMITMENTS AND CONTINGENCIES

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

SUBSEQUENT EVENTS

As of the end of field work, the examiner did not identify any material transactions that could be identified as a significant subsequent event.

COMMENTS AND RECOMMENDATIONS

The examination did not identify any material comments and recommendations. All items were addressed in a management letter.

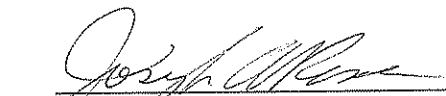
ACKNOWLEDGMENT

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

Examiner:	Richard McKnight, CFE
Examiner:	Don Sanders, CFE
Supervising Examiner:	Don Carbone, CPA, CFE
Actuary:	Joseph C. Higgins, FSA, MAAA, INS Consultants, Inc.

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

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Examiner-in-charge