SUPERIOR COURT OF THE DISTRICT OF COLUMBIA

CIVIL DIVISION

DISTRICT OF COLUMBIA,
Department of Insurance, Securities and Banking,

Petitioner,

v.

D.C. CHARTERED HEALTH PLAN, INC.,

Respondent.

Civil Action No. 2012 CA 008227 2
Judge: Melvin R. Wright
Next Event: none scheduled

ORAL HEARING REQUESTED

D.C. HEALTHCARE SYSTEMS, INC.'S REPLY IN SUPPORT OF ITS MOTION FOR (1) A STAY PENDING APPEAL OF THE ORDER APPROVING THE ASSET PURCHASE AGREEMENT, PLAN OF REORGANIZATION AND RELATED MATTERS; AND (2) INJUNCTIVE RELIEF

Contrary to the Rehabilitation Act and the Rehabilitation Order, the Rehabilitator has not undertaken a good faith effort to rehabilitate Chartered. Instead, a liquidation improperly was preordained. The Rehabilitation was brought about because Chartered's capital had become depleted by the District's own failure to reimburse Chartered for amounts the District required Chartered to pay. Faced with this capital depletion, the Rehabilitator was duty-bound to explore all options to add capital; instead, he explored only one option: Chartered's dismemberment and sale. When, after only five weeks, the Rehabilitator had not sold the company, he ended Chartered's business by prohibiting it from bidding on the DHCF Contract[1] that is Chartered's sole source of revenue, made Chartered assist AmeriHealth in its bid for the contract in exchange for a payment of $5 million conditioned on AmeriHealth being awarded the contract, and then committed to give almost all of Chartered's assets to AmeriHealth for *no additional compensation*.

[1] "DHCF Contract" refers to the contract that will be awarded by the District for the provision of services to Medicaid and Alliance program enrollees pursuant to RFP DHCF 2013-R-0003.

The Rehabilitator was brought in to make independent judgments in an effort to solve the situation created by Chartered's capital depletion. But he leapt to a sale to the exclusion of other means of adding capital to Chartered and never conducted any analysis to determine a fair market value for Chartered's assets. Nor did he seek the Court's advance permission to terminate Chartered's business, a step that made liquidation unavoidable. Moreover, all of the Rehabilitator's conduct was taken, and all his judgments were made, under the cloud of multiple conflicts of interest. The most significant and pervasive conflict is that the District is putting Chartered out of business due to inadequate capitalization when Chartered's capital was depleted by paying benefits the District required Chartered to pay, which the District has not reimbursed to Chartered. Chartered surely is one of the District's largest creditors, and the District is putting Chartered out of business and leaving Chartered in a weakened position, without its employees, books and records, systems and revenue, to pursue its claims against the District. These conflicts of interest and the Rehabilitator's actions in excess of his authority impel this Court to carefully scrutinize the Rehabilitator's conduct and to issue a stay and injunctive relief to address and correct improper actions, before the injuries to Chartered, its employees and DCHSI become irreparable.

At the March 1, 2013 status hearing, this Court expressed concern as to whether the beneficiaries of the Medicaid and Alliance programs would receive seamless care if this Court stays the Rehabilitator's agreement to transfer Chartered's assets to AmeriHealth. The answer, unequivocally, is that under no scenario will the enrollees or the providers suffer any loss of service or payment. Chartered is in the midst of a financial recovery—because the District is now paying prospectively the rates it still has not paid retrospectively. Chartered is operating at a profit and will be able to fulfill its obligations for however long it operates under the contract.

In this Reply, DCHSI addresses a number of the points the Government has raised, and at the outset emphasizes two overarching points:

1. Chartered is in the midst of a financial recovery. Despite the District's massive debt to Chartered, the most recent financial data the Rehabilitator has made available shows that

Chartered is operating at a profit and has increased its reserves 50%—facts the District buries. Chartered is recovering because the District significantly increased its rates prospectively as of May 2012. Thus, Chartered's financial statement as of September 30, 2012 shows that Chartered earned approximately $7 million more in premiums in the first nine months of 2012 than it incurred in related costs, i.e., Chartered is earning a profit. Consequently, Chartered's capital levels increased by 50% in that same period to $9 million. Although Chartered's reserves have not yet fully recovered, the key issue for purposes of DCHSI's motion is whether there is a risk of harm to others in maintaining the status quo while the merits are determined. The Rehabilitator's own financial analysis shows that there is no such risk.

2. Conflicts pervade this rehabilitation. The supposed purpose of this rehabilitation proceeding was to increase Chartered's financial reserves. Chartered's reserves decreased in 2011 because the District imposed new costs on Chartered without reimbursement. Effective August 2010, the District required Chartered to incur new expenses (driven primarily by the extension of HIV pharmacy benefits to high-risk populations) that were not covered when the District established the reimbursement rates. Although the District belatedly increased its rates as of May 2012, it did so only prospectively and still has not reimbursed Chartered for substantial costs incurred from August 2010 through April 2012. Chartered's reserves also suffered because the District failed to set actuarially sound rates for the period July 2010 to July 2011 in the Alliance Program, due at least in part, as DHCF has admitted, to the District's own budget shortfall. The District attempted to solve its own budget woes on the back of Chartered. As a result, Chartered now has over $60 million (plus interest) in reimbursement claims against the District. The District thus is glaringly conflicted: Although it is a substantial debtor to Chartered, the District is putting Chartered out of business and leaving Chartered in a weakened position to pursue its claims against the District, without its personnel, books and records, systems and any revenues.

Moreover, the District admits that the Deputy Rehabilitator's brother was an officer of Chartered (it misstates that he was CFO; in fact, he was COO, responsible for the entirety of

Chartered's day-to-day operations). The District also admits that the law firm retained to represent the Rehabilitator also represents AmeriHealth and UnitedHealth, another bidder for the Medicaid contract (whether the law firm represents those competitors on unrelated matters is irrelevant; the conflict persists). This Court has never been afforded the opportunity to explore these conflicts, as it might have done if the District had not ignored the Rehabilitator's statutory obligation to seek this Court's approval for any compensation paid to the Rehabilitator and his counsel and consultants.

In sum, DCHSI—which for the first time on this motion has been able to present evidence—has now established a likelihood of success. The Rehabilitator is not rehabilitating Chartered, he is liquidating it—and doing so without prior Court approval or having made any good faith attempt to replenish Chartered's capital. *See* Exhibit 1, attached hereto, Gregory Serio Affidavit ("G. Serio Aff.") ¶¶ 17-19, 23.[2] Without a stay, DCHSI and Chartered will be irreparably injured; indeed, they will be destroyed without ever having the benefit of a hearing on the merits. Preserving the status quo through a stay will prevent that irreparable harm and will not injure any other party or nonparty. Although the Rehabilitator used the impending contract award date—which he claims DHCF insisted would be around February 1—to justify hurried action, the contract still has not been awarded. There also is no guarantee that AmeriHealth will be awarded the contract, the sole result on which the Rehabilitator gambled the livelihoods of Chartered's employees and a condition to closing the asset transfer. The relief DCHSI seeks is just, equitable, and necessary.

ARGUMENT

I. DCHSI agrees that the interests of Chartered's enrollees and providers are paramount; a stay will protect those interests.

The Government argues that DCHSI's motion for a stay is an attempt to put its interests ahead of those of Chartered's 100,000 enrollees, 160 employees, and 5,000 providers, and that a

[2] DCHSI supports this reply with an affidavit from former New York State Insurance Department Superintendent Gregory Serio, an expert in insurance company rehabilitations. G. Serio Aff. ¶¶ 1-14 (detailing Serio's extensive qualifications).

stay will harm them. That is simply not true, and the District offers no support for its mere assertion. In fact, the enrollees, employees and providers will be unaffected by a stay.

First, Chartered's most recent financial statements (as of September 30, 2012), prepared at the Rehabilitator's direction, show that Chartered can satisfy its going-forward financial obligations. Chartered earned pre-tax operating profits of $6.7 million in the first nine months of 2012. *See* Exhibit 2, attached hereto, Sept. 30, 2012 Quarterly Statement at 3. Chartered's pre-tax net income was $728,224 because of an unexplained one-time write-off of $6 million, *id.* ("premium balances charged off"), but that does not change the fact that Chartered now is profitable. Chartered is earning approximately $33.4 million in monthly revenues and has $10 million in cash or cash equivalents on hand. *Id.* at 2-3. Thus, Chartered will be able to continue meeting its financial obligations to providers and enrollees during the relatively short period that would be necessary to conduct a proper re-bid and award of the DHCF Contract.

Second, under any possible scenario, the enrollees will continue to receive health care and the providers will be paid. If the Court stays its March 1, 2013 decision and orders that bidding on the DHCF Contract be re-opened, the status quo—under which enrollees are receiving care and providers are being paid—will be maintained. Chartered's financial status demonstrates that Chartered can continue to perform. Absent judicial relief, Chartered's employees will lose their jobs if AmeriHealth is not awarded the contract; a stay may avoid that result, and the consequences if there is no stay are entirely attributable to the Rehabilitator's ill-advised gamble. The biggest variable is whether and how badly Chartered, and consequently DCHSI, will be harmed. The only way to maintain the status quo, protect the interests of enrollees, providers and Chartered's employees, *and* ensure that Chartered is not dismembered but instead has an actual opportunity to be "reformed and revitalized" or to realize fair value in a sale is for the Court to stay its March 1, 2013 Order, enjoin the proposed asset transfer to AmeriHealth, and cause the Medicaid contract to be re-bid.[3]

Finally, permitting the transaction to go forward would require notices to providers with an opt-out provision. *See* Special Deputy to the Rehabilitator's Second Status Report at 7, 11, Ex. 2 at § 7.02(i). This would be more disruptive, and more confusing to enrollees in particular, than maintaining the status quo.

II. The Rehabilitator is improperly liquidating Chartered.

Setting aside how the District improperly ruined Chartered's finances and forced it into rehabilitation, the purpose of Chartered's rehabilitation proceeding was to devise a way to *rehabilitate* Chartered, not to destroy it. Even the case quoted by the Rehabilitator explains that the "primary duty" is "to conserve and restore the company to viable status." Opp. at 17 (quoting *Kueckelhan v. Fed. Old Line Ins. Co. (Mutual)*, 74 Wash. 2d 304, 316, 444 P.2d 667, 674 (Wash. 1968)).

The Rehabilitator was first obligated to attempt a rehabilitation—"to reform and revitalize Chartered"—before deciding to liquidate the company. *See* D.C. Code § 31-1312(c); Emergency Consent Order of Rehabilitation at 2, 3; *Consedine v. Penn Treaty Network Am. Ins. Co.*, 2012 WL 6721078, *63, 68 (Pa. Commw. Ct. May 3, 2012). In derogation of that duty, the Rehabilitator instead jumped directly to liquidation (without this Court's prior approval), and now disingenuously denies that a liquidation is occurring. G. Serio Aff. ¶¶ 17-19, 30.

The Government argues that the sale of Chartered's assets to AmeriHealth Mercy (including its sole revenue source, its Medicaid contract) is *not* a "liquidation," but rather a "transformation" of Chartered. Opp. at 19. This is mere wordplay. G. Serio Aff. ¶ 23. Indeed, the Rehabilitator himself described his plan as a "wind down" of Chartered's assets. Special Deputy to the Rehabilitator's Second Status Report at 8. Chartered's entire business was to service the

[3] DCHSI will shortly be filing a separate action in Superior Court seeking injunctive relief with respect to the collusive, conflict-laden and anticompetitive bidding process that prevented Chartered and DCHSI from bidding on the DHCF Contract.

DHCF Contract; thus, when the Rehabilitator decided to "no-bid" the contract, he effectively put Chartered out of business. G. Serio Aff. ¶¶ 23, 25. The Government argues that Chartered will "continue to exist, albeit in a substantially different form," which supposedly is not a liquidation because Chartered will retain two assets: (1) its more than $60 million claim against the District, and (2) $14 million pledged as security for a loan to DCHSI, taken to pay a liability of Chartered. Opp. at 19. But stripping Chartered of all continued operations and leaving it with nothing more than two assets is at the very least a "partial liquidation." *See* Black's Law Dictionary (9th ed. 2009) ("partial liquidation" is "a liquidation that does not completely dispose of a company's assets"); 1 Couch on Ins. § 5:32 (drawing distinction between reorganization and *liquidation of insurer by transferring its assets to a new corporation*) (treatise cited at Opp. at 17); *see also* Paul B. Rodden & James E. Carpenter, *Corporate Insolvency—Liquidation or Rehabilitation*, 36 U. Colo. L. Rev. 117, 121-22 (1963-64) (liquidation is the bulk sale of assets, typically for cash, with payment of sale proceeds to creditors to "wind up the business"); *id*. at 133, 136 (rehabilitation allows debtor's business to continue, consisting of steps to give debtor a fresh start). Note also that in cases like *In re Rehabilitation of Am. Investors Assur. Co.*, 521 P.2d 560, 561 (Utah 1974) (cited at Opp. at 17), the new company assumed "all of the assets and liabilities" of the old one. Here, however, AmeriHealth is not assuming *all* assets and liabilities of Chartered, and instead, the Rehabilitator is dissecting Chartered's assets—a hallmark of liquidation.

Further, the Government's plan severely diminishes the value of Chartered's two remaining assets. The notion that Chartered's $60 million claim somehow allows Chartered to remain a "going concern" is false. Allowing Chartered to pursue the recovery of money it is owed is not rehabilitating Chartered, but merely part of liquidating it; the recovered money could not be invested in the business because there will be no ongoing business. And the fact that the District's existing plan leaves Chartered without personnel, books and records, systems or any revenue source or revenue-generating assets weakens Chartered's ability to pursue its claims. The Rehabilitator would put Chartered in such a position that the District will have almost no incentive to pay Chartered the money it owes short of a full and final litigated judgment, because the District will not have a continuing relationship with Chartered. (Indeed, if the plan to liquidate Chartered is allowed to proceed, the claim against the District should be controlled by DCHSI, not the Rehabilitator, to remove the conflict inherent in the District effectively controlling the claim against itself.) And even if Chartered eventually can recover all or a portion of the $60 million, it will already have been stripped of all its continuing operations and revenue-generating assets by the Rehabilitator's actions. Regardless of Chartered's recovery of money it is owed, it will have been liquidated, and DCHSI's business in turn will be destroyed.

The $14 million loan "asset" fares no better in establishing that Chartered is not being liquidated. This $14 million is pledged to secure a loan that DCHSI obtained to satisfy a debt Chartered incurred (i.e., a settlement agreement Chartered entered with the D.C. Attorney General in 2008, yet the Rehabilitator nevertheless appears to believe DCHSI owes that money to Chartered). But Chartered cannot "use" that money to pursue the District because it is security for a loan, and DCHSI is also being stripped of its only revenue sources (dividends and rental income from Chartered). Again, allowing Chartered to keep this "asset" does nothing to allow Chartered to remain a going concern.

The Government argues that its actions do not liquidate Chartered, in an attempt to avoid the conclusion that it has not followed the Rehabilitation Act's requirements to convert a rehabilitation to a liquidation. But there is no credible argument that Chartered is not being liquidated. Thus, the Government retreats to the argument that its conduct actually does accord with existing law. It does not.

III. The Rehabilitator abandoned Chartered's prospects too quickly, converting its rehabilitation into a liquidation—without an adequate showing, and usurping this Court's and DCHSI's authority.

The Rehabilitator ignored his obligation under D.C. Code § 31-1314(a) to seek prior court approval to liquidate Chartered. The Government, quoting § 31-1314(***b***), argues that the only time it must seek a liquidation order is when "payment of policy obligations [was] suspended in substantial part for a period of 6 months at any time after the appointment of the rehabilitator and the rehabilitator has not filed an application for approval of a plan under § 31-1312(e)." Opp. at 18. This position misreads the law: § 31-1314(***b***) describes when the Rehabilitator *must* seek a petition for liquidation; § 31-1314(***a***)[4] describes the circumstances in which the Rehabilitator *may* seek a petition for liquidation. But both sections require the Rehabilitator to petition the Court before implementing a liquidation of an insurer in rehabilitation.

The Rehabilitator almost instantly abandoned any effort to find a solution to Chartered's capitalization deficit and declared rehabilitation futile because, he states, Chartered was destined to lose its contract and unable to qualify even to bid for a new contract. Opp. at 19; *see also* Opp. at 18 (blaming "the significant legal, financial and timing challenges facing Chartered"). The Rehabilitator argues that Chartered could not have been awarded the contract given the purported requirements that it "solve[] its financial problems through new ownership" and emerge from rehabilitation. Opp. at 7. Even assuming that these were legitimate conditions—and there is no legitimate basis for accepting the notion that Chartered was required to have a new owner when all it needed was additional capital, so the Rehabilitator should have rejected it[5]—Chartered could have submitted its own response to the RFP and taken several more weeks, perhaps even months, to evaluate potential buyers or to find another capital source. The Rehabilitator's hasty decision was irrational, at least if liquidation was not preordained. G. Serio Aff. ¶¶ 32, 33.

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[4]Section 31-1314(a) states: "Whenever the Commissioner believes further attempts to rehabilitate an insurer would substantially increase the risk of loss to creditors, policyholders, or the public, or would be futile, the Commissioner may petition the Superior Court of the District of Columbia for an order of liquidation. A petition under this subsection shall have the same effect as a petition under § 31-1315. The Superior Court of the District of Columbia shall permit the directors of the insurer to take any action reasonably necessary to defend against the petition and may order payment from the estate of the insurer of the costs and other expenses of defense as justice may require."

[5] This is precisely the point of *Consedine,* 2012 WL 6721078—that the rehabilitator there gave up too quickly by accepting and failing to contest adequately certain negative conduct.

By not bidding and instead agreeing to put Chartered's "resources, assets, and know-how" behind AmeriHealth's own bid, and to sell Chartered's assets to AmeriHealth five weeks into the proceeding in exchange only for a contingent, non-binding agreement from AmeriHealth, the Rehabilitator abdicated his duty to attempt to rehabilitate Chartered and even his ability to realize fair value for Chartered's assets. Opp. Ex. 3 at 1; *see also* G. Serio Aff. ¶¶ 32-37. The Rehabilitator admits that "[s]everal well capitalized strategic parties declined to participate in the process given the financial and legal condition of Chartered *and the compressed timeframe in which they were required to execute a letter of intent and respond to the RFP*" and that one of the selection criteria was "the likelihood that party would be regarded highly in the RFP process and thus likely to secure a new contract." Opp. at 9, Ex. 2 (KBW Overview) at 5. That timeframe, however, was built on a false deadline. If Chartered had submitted its own bid that it had been preparing for months, it would not have been stuck with "a compressed timeframe," but would have had weeks or even months to find a buyer or other source of capital.

The fact that Chartered's financial health has only improved since it entered rehabilitation also belies the Government's contention that Chartered could not have won the DHCF Contract. In examining the September 30, 2012 quarterly statement filed for Chartered, it seems entirely possible—even probable—that Chartered successfully could have exited rehabilitation, *see* G. Serio Aff. ¶ 31, and met the financial requirements set forth in the DHCF Contract solicitation under Section C.3.1.6 by the time the contract was awarded (which still has not taken place). Although the Government points to the requirements in the DHCF Contract solicitation (as well as DHCF-imposed requirements *outside* the formal solicitation) as reasons for the Rehabilitator's decision to no-bid the contract on behalf of Chartered, the Government fails to realize that AmeriHealth did not qualify at the time of the bid because, for example, it had not yet secured an HMO license. Opp. at 13, ¶ 31(c).Yet the Rehabilitator gambled the livelihoods of Chartered's employees on the hope that AmeriHealth would become eligible for the contract and then win it. That AmeriHealth may ultimately be awarded the contract would be fortunate for those of

Chartered's employees that AmeriHealth may decide to hire—and certainly for the Chartered executives that the Rehabilitator specifically negotiated to protect—but that does not excuse his hasty and ill-considered decision to disregard his obligations to reform and revitalize Chartered only five weeks into this proceeding and without prior Court approval.

The feeble nature of the Rehabilitator's efforts to rehabilitate Chartered are also apparent in the Rehabilitator's admission that he looked only for an outright sale, and in doing so focused heavily on the need for Medicaid expertise. But there were other possibilities beyond a sale to keep Chartered a going concern, such as capital investment, recovery of funds from the District, bidding on the contract, or any combination of those, and Medicaid expertise was superfluous given that Chartered has abundant expertise and only needed capital. G. Serio Aff. ¶¶ 23, 26-27, 33.

Consedine, supra, supports Chartered, not the Government. The Government quotes *Consedine* for the proposition that when "an insolvent insurer's immediate financial circumstances are in such disarray that they are completely unsalvageable," continued rehabilitation efforts are unnecessary. Opp. at 21. That reliance is disingenuous, however, because Chartered's capital was depleted by the District's non-payment of more than $60 million, but nevertheless is being replenished as Chartered is now recovering financially; Chartered is operating profitably given the May 2012 increase in reimbursement rates.[6]

IV. The Court has the authority to grant the relief sought by DCHSI.

The Government acknowledges that DCHSI provided legal support for the proposition that a court may enjoin award of a government contract if there is proof that the bid process was

[6] The Rehabilitator also overreaches in arguing he is not bound by Chartered's articles of incorporation and that his powers are supreme. Nothing in the law or this Court's order grants the Rehabilitator such sweeping authority. Instead, the Rehabilitator had the powers of Chartered's directors, officers, and managers—but under Chartered's articles of incorporation, board actions required approval from the shareholder, DCHSI. This would not have made the Rehabilitator DCHSI's "puppet" (Opp. at 23), because the Rehabilitator always could have sought approval from this Court, or even asked to be relieved from the requirements of the articles of incorporation. Instead, as with so many of his duties and obligations, the Rehabilitator simply ignored them.

tainted. Opp. at 23. But the Government then argues that those authorities do not support the (necessarily corresponding) proposition that the court may extend an existing contract or reopen the bidding process. Not so: the cases DCHSI cited in its motion (Opp. at 31) provide that authority; e.g., *Dist. of Columbia v. Group Ins. Admin.*, 633 A.2d 2, 8 (D.C. 1993) (Superior Court has authority "to order emergency relief forcing the rebidding of a public contract").

In any event, DCHSI will shortly be filing a separate action in Superior Court seeking injunctive relief with respect to the collusive, conflict-laden and anticompetitive bidding process that prevented Chartered and DCHSI from bidding on the DHCF Contract.

V. DCHSI acted promptly under the circumstances; it did not remain idle once it learned of Chartered's failure to bid on the DHCF Contract.

The Government argues (without citation to authority) that relief should be denied because DCHSI is guilty of laches—waiting too long to seek relief to the prejudice of others. The Government argues that DCHSI learned that the Rehabilitator would not bid on the DHCF Contract on Chartered's behalf in December 2012, and should have acted then. Opp. at 26. In fact, DCHSI did act: DCHSI promptly filed a bid protest.

Beyond that, DCHSI was not made aware at that time of the details of the simultaneously announced non-binding letter of intent between AmeriHealth Mercy and Chartered. *See* Exhibit 3, Stephen I. Glover Affidavit ("S. Glover Aff.") ¶¶ 4, 6. It was possible that the Rehabilitator was fulfilling his duty to maximize Chartered's value and that DCHSI would find the transaction acceptable. Thus, rather than rush to court to object to a deal about which it lacked information, it requested information, repeatedly and to no avail. S. Glover Aff. ¶ 3. DCHSI reasonably expected that the information would be forthcoming; after all, DCHSI had consented to Chartered being placed under rehabilitation with the understanding that it would have access to relevant information and that the Rehabilitator's actions would be transparent. S. Glover Aff. ¶¶ 4, 6, 7.

As the Government correctly notes, DCHSI was obligated to cooperate with the Rehabilitator under the terms of the Rehabilitation Act. DCHSI strove to do so, and viewed going to court as a last resort—particularly in light of the fact that the Rehabilitator told DCHSI that taking judicial action would *harm* the rehabilitation. S. Glover Aff. ¶ 10. Nevertheless, after *eight* separate requests for information from October 2012 to January 2013, and with the filing of the Rehabilitator's First Status Report on January 11, 2013, DCHSI concluded it would have to go to court to protect its rights. S. Glover Aff. ¶ 3.

DCHSI promptly filed a notice of appearance as an interested party, and met with the Government immediately after the January 15, 2013 hearing on the First Status Report in an attempt once again to work out mutually acceptable terms for providing the information DCHSI had been seeking since October. This conversation was memorialized in a formal letter request to the Government later that same day. *See* Exhibit 4, attached hereto, January 15, 2013 Letter from David Killalea to E. Louise R. Phillips. The Government agreed to provide some of the information once a confidentiality agreement could be worked out. DCHSI promptly sent the Government proposed terms for such an agreement. In retrospect, the Government plainly strung DCHSI along while it finalized the agreement with AmeriHealth, and delayed signing a confidentiality agreement and producing documents until February 22, 2013, the same day the Government filed the Rehabilitator's Second Status Report and requested expedited approval of the proposed AmeriHealth-Chartered Asset Purchase Agreement. S. Glover Aff. ¶¶ 3, 6, 7, 9, 11.

DCHSI immediately requested a hearing to establish a briefing schedule to address the merits of the Rehabilitator's proposed "sale." Rather than setting a briefing schedule, however, on March 1 the Court granted the Government's substantive motion over DCHSI's objections and without the benefit of merits briefing. This motion, therefore, is the first opportunity DCHSI has had to address the merits, particularly the alleged merits of the AmeriHealth deal.

DCHSI acted reasonably and timely throughout (S. Glover Aff. ¶ 10); it is the Government that has played games with timing and non-disclosure, and there has been no showing of any harm that would result from granting the requested stay and injunction.

VI. The Government, not DCHSI, is guilty of unclean hands.

The Government also accuses DCHSI of coming to court with unclean hands and making disingenuous arguments. It is the Government, however, that labors under glaring conflicts of interest: e.g., acting to weaken its substantial creditor, Chartered; appointing as Deputy Rehabilitator a person whose brother ran Chartered during much of the relevant period; and hiring a law firm that represents AmeriHealth (and competitor United Healthcare). The Government further contends that DISB and DHCF have no connection to one another, when in fact they worked together for months to put Chartered into rehabilitation and the DHCF Director instructed the Rehabilitator that Chartered would have to satisfy additional, manufactured criteria to win the DHCF Contract. *See* Testimony of Wayne Turnage, Motion Ex. 4 at 6.

Moreover, it is the Government that argues it is not really "liquidating" Chartered, but simply "transforming" it, while admitting that its plan is to effect a "winding down" of Chartered.

Nor is there equity in one arm of the Government creating the conditions forcing an insurer into rehabilitation (i.e., DHCF not paying more than $60 million owed to Chartered as a result of the District's unilateral change to the covered Medicaid population in 2010) and using those conditions as a pretext for denying the insurer a chance to compete for the very contract it has been performing for decades. Similarly, DHCF imposed Chartered-unique conditions in the bid process and caused a non-independent Rehabilitator not to bid. This inequity is only amplified with the recognition that one of the reasons that DHCF failed to pay Chartered what was owed was a governmental budget shortfall. In sum, the District helped solve its own financial woes by defaulting on its debt to Chartered, and then blamed Chartered for not having enough money and liquidated Chartered as a consequence.

Finally, in an attempt to portray the equities in its favor, the Government asserts that DCHSI has "unclean hands" because DCHSI allegedly owes "Chartered nearly $4 million under a Tax Allocation Agreement." Opp. at 27. That claimed debt is disputed. To date, the Rehabilitator has failed to provide DCHSI with adequate evidentiary support for the claim, and the Rehabilitator's claim has been a moving target. S. Glover Aff. ¶ 12. In any event, an allegation that DCHSI owes a debt to Chartered is not an allegation of "unclean hands." *See Zanders v. Reid*, 980 A.2d 1096, 1100-01 (D.C. 2009).

CONCLUSION

Granting the stay and injunctive relief that DCHSI requests will allow consideration of the merits while preserving the status quo and without harm to anyone.

This Court should enter an order (1) staying its March 1 Order (Approving the Asset Purchase Agreement, Plan of Reorganization and Related Matters) pending any further review ordered by this Court or any expeditiously sought appellate review; (2) requiring the DISB to replace the conflicted Deputy Rehabilitator and his conflicted counsel with a substitute Deputy Rehabilitator, whose appointment will be subject to Court approval; (3) preliminarily enjoining the Rehabilitator from liquidating Chartered or otherwise exceeding the limits of his authority under the Rehabilitation Act and Rehabilitation Order; (4) vacating or rendering void all of the Rehabilitator's purported agreements with AmeriHealth; (5) requiring the Rehabilitator to use all reasonable and available efforts to seek to have the bidding process for the DHCF Contract reopened and to cause Chartered to submit its own bid; (6) requiring the Rehabilitator to comply with Chartered's Restated Articles of Incorporation by obtaining DCHSI's advance approval of any decision that would change the nature or operation of Chartered's business or have a material affect on DCHSI's interest in Chartered; and (7) requiring Petitioner District of Columbia to reopen the bidding process for the DHCF Contract and to extend all deadlines for a reasonable period sufficient to allow Chartered to submit a bid on its own behalf.

March 20, 2013

Respectfully submitted,

/s/

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CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of March, 2013, a copy of the foregoing was filed and served by email upon:

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SUPERIOR COURT OF THE DISTRICT OF COLUMBIA
CIVIL DIVISION

DISTRICT OF COLUMBIA,
Department of Insurance, Securities and Banking,

Petitioner,

Civil Action No. 2012-8227
Judge Melvin R. Wright

v.

D.C. CHARTERED HEALTH PLAN, INC.,

Respondent.

AFFIDAVIT OF JENNIFER A. SINCAVAGE IN SUPPORT OF PARTY-IN-INTEREST D.C. HEALTHCARE SYSTEMS, INC.'S REPLY IN SUPPORT OF ITS MOTION FOR (1) A STAY PENDING APPEAL OF THE ORDER APPROVING THE ASSET PURCHASE AGREEMENT, PLAN OF REORGANIZATION AND RELATED MATTERS; AND (2) INJUNCTIVE RELIEF

JENNIFER A. SINCAVAGE declares under penalty of perjury that:

1. I am an attorney with Manatt, Phelps & Phillips, LLP, attorneys for D.C. Healthcare Systems, Inc. ("DCHSI"). I submit this affidavit in support of DCHSI's Reply in Support of its Motion for (1) a Stay Pending Appeal of the Order Approving the Asset Purchase Agreement, Plan of Reorganization and Related Matters; and (2) Injunctive Relief.
2. Annexed as Exhibit 1 is a true and correct copy of the Affidavit of Gregory V. Serio, dated March 20, 2013.
3. Annexed as Exhibit 2 is a true and correct copy of D.C. Chartered Health Plan, Inc.'s quarterly statement to the Department of Insurance, Securities and Banking for the District of Columbia for the quarter ended September 30, 2012.

4. Annexed as Exhibit 3 is a true and correct copy of the Affidavit of Stephen I. Glover, dated March 20, 2013. [1]

5. Annexed as Exhibit 4 is a true and correct copy of a Letter from David Killalea to E. Louise R. Phillips, dated January 15, 2013.

Jennifer A. Sincavage

Sworn to before me in Los Angeles, California this

____ day of __________, 2013

____

Notary Public

[1] This affidavit is distinct from the affidavit of Stephen I. Glover that accompanied DCHSI's initial Motion.

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of Los Angeles

On March 20, 2013 before me, Cynthia A Taylor, Notary Public
Date | Here Insert Name and Title of the Officer

personally appeared Jennifer A. Sincavage
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(~~s~~) whose name(~~s~~) is/~~are~~ subscribed to the within instrument and acknowledged to me that ~~he~~/she/~~they~~ executed the same in ~~his~~/her/~~their~~ authorized capacity(~~ies~~), and that by ~~his~~/her/~~their~~ signature(~~s~~) on the instrument the person(~~s~~), or the entity upon behalf of which the person(~~s~~) acted, executed the instrument.

CYNTHIA A. TAYLOR
Commission # 1861527
Notary Public - California
Los Angeles County
My Comm. Expires Sep 13, 2013

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Cynthia A. Taylor
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

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Capacity(ies) Claimed by Signer(s)

Signer's Name: ______
- ☐ Individual
- ☐ Corporate Officer — Title(s): ______
- ☐ Partner — ☐ Limited ☐ General
- ☐ Attorney in Fact
- ☐ Trustee
- ☐ Guardian or Conservator
- ☐ Other: ______

Signer Is Representing: ______

RIGHT THUMBPRINT OF SIGNER
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Signer's Name: ______
- ☐ Individual
- ☐ Corporate Officer — Title(s): ______
- ☐ Partner — ☐ Limited ☐ General
- ☐ Attorney in Fact
- ☐ Trustee
- ☐ Guardian or Conservator
- ☐ Other: ______

Signer Is Representing: ______

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EXHIBIT 1

DISTRICT OF COLUMBIA,
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING,

Petitioner,

Civil Action No.:
Judge Melvin R. Wright

v.

D.C. CHARTERED HEALTH PLAN, INC.

Respondent,

STATE OF NEW YORK)
ss:
COUNTY OF ALBANY)

AFFIDAVIT OF GREGORY V. SERIO IN SUPPORT OF PARTY-IN-INTEREST D.C. HEALTHCARE SYSTEM, INC.'S MOTION FOR (1) A STAY PENDING APPEAL OF THE ORDER APPROVING THE ASSET PURCHASE AGREEMENT, PLAN OF REORGANIZATION AND RELATED MATTERS; AND (2) INJUNCTIVE RELIEF

GREGORY V. SERIO, being duly sworn, deposes and says:

BACKGROUND AND QUALIFICATIONS

1. I am a partner at Park Strategies, LLC, and director of its risk and insurance management practice group. In this role, and as a practicing attorney licensed to practice law before the courts of the State of New York and Connecticut, I have had the opportunity to be involved with, and evaluate, more than 70 insurance companies in rehabilitation or liquidation, and engage with various officials of the New York Liquidation Bureau and like entities of other states and members and representatives of the National Association of Insurance Commissioners on these issues. I submit this affidavit in support of Respondents' Motion for (1) a Stay pending appeal of the order approving the asset purchase agreement, plan of reorganization and related matters and (2) injunctive relief in the above referenced action.

2. I am the former Superintendent (commissioner) of the New York State Insurance Department (now Department of Financial Services), and as such, was a member of the cabinet of the Governor of the State of New York, serving in that capacity from May, 2001 to January, 2005 after having been confirmed therefor by the New York State Senate. As Superintendent, I was the chief insurance regulator of the state, responsible for the regulation of all forms of insurance transacted in New York.

3. As Superintendent, I was also a member of the National Association of Insurance Commissioners (the "NAIC"), an organization of state and territorial insurance regulators from the United States. The NAIC members determine major issues in insurance regulation, oversee the financial safety and soundness of the American insurance system and insurers operating within that system and coordinate with other financial supervisors and insurance regulators from other countries. As a member of the NAIC, I served as chairman of the Federal Affairs Committee, responsible for the coordination of state insurance regulator relations with federal legislators and regulators.

4. As Superintendent of Insurance I was also the statutory receiver of more than 70 insolvent or impaired insurance companies. I supervised many insurance company rehabilitations and liquidations, including the rehabilitation of Interboro Mutual, a New York auto insurer which is a successfully operating insurer today. I supervised a number of company estates that went from operating under orders of rehabilitation to orders of liquidation. As superintendent, I was also the administrator of one or more guaranty funds maintained for the purpose of paying the claims and obligations of liquidated insurers when there were insufficient assets within insurers for those purposes.

5. As Superintendent I was familiar with and engaged in discussions with other regulators, insurers and guaranty funds on issues pertaining to rehabilitations, liquidations and the NAIC Insurers Rehabilitation and Liquidation Model Act ("NAIC Model Act"), including the past commissioner of the District of Columbia.

6. Prior to my appointment as Superintendent, I served as First Deputy Superintendent of Insurance of New York State. In this capacity, I was the chief operating officer of the New York

Insurance Department, responsible for the day-to-day operations of the second largest insurance regulatory organization in the United States. In this role, I assisted the Superintendent in the execution of the duties of the office, as described in paragraph 2 above. I held this position from January 1995 until my selection as Superintendent. During my tenures as First Deputy Superintendent and as Superintendent, I was routinely engaged directly with boards and management of insurers concerning the financial condition of companies and regularly oversaw the Department's prudential safety and soundness oversight activities.

7. During my tenure at the New York Insurance Department, this insurance regulatory agency became the first in the country to create a "Capital Markets Bureau" in which risk-based analysis—including new asset/liability matching analysis-- of insurers' financial conditions would be joined with the traditional actuarial and claims reserving analyses to give a more comprehensive, and real time, view of their actual financial strength. This innovation and the advent of risk-based examinations, which has led to among other things a Capital Markets unit in the Securities Valuation Office of the NAIC, gave new dimension to the risk-based capital rules adopted in the early 1990s. As a result, I have become knowledgeable with the application of the Risk Based Capital ("RBC") Standards.

8. As First Deputy Superintendent and as Superintendent, I either presided over or was otherwise integrally involved in numerous rehabilitations, liquidations and other situations involving insurer financial duress, including those pertaining to Empire Blue Cross/Blue Shield of Greater New York (non-profit health plan brought to brink of financial ruin and successfully managed through the regulatory process to financial stability), Oxford Health Plans (precipitous drop in share price revealed significant financial weakness, resulting in direct regulator engagement with the company board to develop a workout plan), United Community Insurance Company (property/casualty carrier found to be impaired and taken into rehabilitation, modified by court order to liquidation), Lloyd's of London Reconstruction and Renewal (seminal regulatory effort in United States and United Kingdom to stabilize the world's largest insurance marketplace and usher in new corporate, financial and operating platforms to protect against future financial crises), Reliance Insurance Co. (Pennsylvania domestic insurer with significant commercial presence in New York liquidated after disastrous workers' compensation insurance

program created significant financial strain on the company), and Frontier Insurance Co. (insurer placed into long-term rehabilitation for purposes of stabilizing company as assets were garnered, operations streamlined and bulk of claims paid), among others.

9. While I was Superintendent, I oversaw the New York Insurance Department's and insurance regulatory community's response to the World Trade Center atrocities, still the single largest insurance loss on record, which involved complex coverage and insurer financial condition issues. No insurers or insurance markets became crippled by exposure to World Trade Center losses, and a record number of property, casualty and life insurance claims were paid out.

10. As First Deputy Superintendent, the Liquidation Bureau of the State of New York reported to me, during which time numerous estates were successfully closed and staff of the bureau streamlined to make the agency more efficient and effective.

11. My tenure as First Deputy Superintendent included serving the Department as its General Counsel from 1995 to 1997. I was also the Chief Counsel to the New York Senate Standing Committee on Insurance from 1989 to 1995.

12. Since returning to the private sector, I have become heavily engaged in insurance company, agent and adjuster legal, management and governance matters as a consultant, counsel and board member. I served on the board of the Employers Security Assurance Company, a bond insurer protecting professional staff leasing organizations. I currently serve on the boards of the Senior Health Insurance Plan of Pennsylvania, the Senior Health Insurance Plan Oversight Trust, and Fuzion Analytics ("SHIP"), all related to the run-off of the Conseco Senior Health Insurance Co. under the auspices of the commissioner of insurance of the Commonwealth of Pennsylvania.

13. I am presently a member of the board of the publicly-traded Radian Group, Inc., a mortgage insurance and financial guaranty provider. I am also on the board of the Pension Plan for Insurance Organizations, a pension fund for the employees of insurance –industry support entities, such as the Insurance Information Institute. Additionally, I am a member of the board of AFP Risk, Inc., a Vermont-domiciled captive insurance company.

14. Along with my legal and advisory practices I have also served as an expert witness in numerous matters involving insurance companies, insurance regulation, coverage disputes and carrier dissolutions. I have represented carrier, policyholder, shareholder and regulator interests in these proceedings.

15. Party-in-interest's counsel has asked me to provide my expert opinion concerning the actions of the D.C. Department of Insurance Securities and Banking Commissioner as Rehabilitator and those of the Special Deputy ("Rehabilitator") designated in the matter pertaining to D.C. Chartered Healthcare Plan, Inc. ("Chartered"). Specifically, I have been asked to opine on the management of the rehabilitation, the sale of assets during the rehabilitation and other matters pertaining thereto.

16. This affidavit is based on my professional knowledge and experience, as discussed above, and my familiarity with the facts, pleadings and proceedings of this matter. Documents which I have reviewed are listed in Exhibit 1.

SUMMARY OF CONCLUSIONS

17. The Rehabilitator failed to meet the straightforward mandate of "reforming and revitalizing" Chartered, as the Emergency Order of Rehabilitation ("Rehabilitation Order") and the D.C. Code required of him.

18. The Rehabilitator failed to conduct essential steps necessary to a rehabilitation and failed to perform steps in a manner consistent with the mandate of the Rehabilitation Order and D.C. Code. The Rehabilitator's actions are far more consistent with a liquidation rather than a rehabilitation, which caused great harm to the carrier.

19. This rehabilitation and de facto liquidation are mired in a morass of conflicts of interests both in the selection of the Special Deputy to run Chartered as well as between the various parts of the District of Columbia government itself. Such conflicts call into question several key decisions made by the Rehabilitator which have worked to the detriment of Chartered and its owner D.C. Healthcare System, Inc. ("DCHSI").

20. The rehabilitation appears to be a situation wherein so many options available to the Rehabilitator were so quickly converted into the worst options, in terms of the interest of the carrier and contrary to the purpose of a rehabilitation.

ROLE AND RESPONSIBILITY OF THE REHABILITATOR

21. I acknowledge at the outset that a Rehabilitator and his deputies are afforded significant latitude in the approach to the management of a rehabilitation, and in my experience such discretion is important when dealing with the unique set of circumstances that each rehabilitation presents. At the same time, though, such discretion is not absolute by any means; such discretion is framed by the provisions of the law pertaining to such proceedings, the terms and conditions both of orders appointing the Rehabilitator and of orders establishing the rehabilitation, and by directives and instructions from the rehabilitation court. There are also well established practices informed by years of experience that provide the foundation of any rehabilitation. With the power of discretion comes the responsibility, for example, to report often to the court so that the court is able to supervise the proceedings meaningfully and interested parties are able to understand how they might be affected. This applies equally to liquidation matters.

22. In my experience in New York, and in proceedings outside New York, the court's role has been critical to both serving as a check on the Rehabilitator's powers as well as serving as the venue in which objections to a rehabilitation plan can be heard. In the cases in which I have been involved, and based on my understanding and observations of the basic, universal principles of the rehabilitation process, the court's role is substantive, primary and integral to the integrity of the rehabilitation process. My review of the D.C. Code with respect to rehabilitations and liquidations is that it is so substantially similar to most of the rehabilitation and liquidation statutes around the United States that this principle is applicable in this case and all rehabilitations in this jurisdiction.

23. Indeed, D.C. Code Section §31-1311(a), states "the rehabilitator [shall] take possession of the assets of the insurer, and to administer them under the general supervision of the court." As noted, the provision that the rehabilitator operates under the court's supervision is vitally important, and requires that the Rehabilitator involve the court, in advance, into every primary

activity of the rehabilitation. Based on my review of the record in this case, I believe the Rehabilitator here failed in his duty to bring important decisions to the Court and that his process has been defective.

24. For example, the Rehabilitator in his role did not provide advance information to the court with respect to: 1)a full recitation of the actual financial condition of the company, the assets and liabilities thereof, and, for example, the amount, status and likelihood of collecting the receivables due and owing to the insurer from the District; 2) the critical decision to not have Chartered bid on the renewal of the D.C. Health Care Finance ("DHCF") Medicaid contract, a decision which amounted to the de facto liquidation of Chartered, as the DHCF Medicaid contract is Chartered's only method of producing income; 3) the Rehabilitator's evaluations of available options to successfully rehabilitate Chartered and providing an analysis of the strengths and weaknesses of each option, and 4) a valuation of Chartered, both with the contract and in particular, in the context of an asset sale, to establish the fair value of its assets.

25. While courts have been known to "rely upon" the representations of the commissioner as regulator upon an initial application for rehabilitation, which is usually ex-parte, once the proceeding is filed the Rehabilitator has a duty to frequently report to the court and create a record of information as he moves forward with developing a plan of rehabilitation, executing on that plan, and ultimately either applying to terminate the rehabilitation because the company has been "rehabilitated" or convert it to a petition for liquidation. In all events, it is crucial for the Rehabilitator to develop a detailed and transparent record for the interests of those who have a statutory or common law protection or recourse further into the rehabilitation process such as the court, directors, creditors and equity stakeholders; the Rehabilitator fell well short of complying with his duties by merely filing two status reports, the first of which contained little meaningful information, after he already had implemented decisions that effectively implemented a liquidation and eliminated Chartered's only prospect for rehabilitation.

CHARTERED'S FINANCIAL CONDITION

26. My review of the record indicates that the Rehabilitator disclosed inadequate information concerning the actual financial condition of Chartered, what financial improvements were

necessary to accomplish a successful rehabilitation, and what aspects of that financial condition the Rehabilitator utilized to conclude so quickly, within a matter of weeks, that it would be futile to continue attempts at a rehabilitation. Based on my review of the record and experience, the Rehabilitator's conclusion was reached too quickly, without involving the court, without notice to interested parties, and based on reasoning that is deeply flawed an inconsistent with the universal objectives of rehabilitation. In effect, it was a game changing decision by the Rehabilitator for which he did not give the court an opportunity to review and approve (or disapprove).

27. Also, the financial information in the record does not support liquidation, de facto or otherwise. It appears that the rehabilitation was brought on due to a low risk-based capital number. That number, however, is suspect based on the $60 million receivable owed to Chartered by DHCF for retrospective premiums. (as well as the investment income lost from not having the obligation satisfied). I have not been provided with the details of Chartered's claim against the Government and therefore have not evaluated its merits. However, I am advised that the claim was filed by the Deputy Rehabilitator and that, for him to have filed the claim, he must have determined in good faith that the claim has merit. That of course does not mean that there is a guarantee that the claim will be recovered in full, but from a regulatory perspective, in my experience, no insurer would be liquidated or otherwise deprived of its ongoing business if it 1) is meeting its ongoing obligations and 2) has a capital shortfall that would be solved with the collection of even a reasonable portion of a receivable that the Rehabilitator had evaluated and determined had merit. The Rehabilitator's conduct here undermined and disserved the goals of rehabilitation. In my experience, with a receivable that large, on its own and in proportion to the company's finances, it should have been the centerpiece of any rehabilitation plan. More importantly, the Rehabilitator should have used the existence of this receivable to the company in pushing back on DHCF's insistence that it would not award the contract to Chartered, emphasizing how self-serving DHCF's unreasonable position appeared to be. In my opinion, had DHCF paid to Chartered even a reasonable portion of the funds allegedly due and owing, Chartered's financial condition would be even stronger at that point than it had been in several previous years.

28. The treatment of the receivable on the record is troubling. Despite the critical fact that the Rehabilitator had assessed, calculated and asserted a claim for a receivable large enough to remove any glint of doubt as to Chartered's ability to survive, meet any conceivable (and still unexplained) capital requirement and satisfy its obligations under the Medicaid contract, the debt owed by DHCF to Chartered is mentioned in only a cursory way to the court in any of the reports filed by the Rehabilitator. The diligent pursuit of the collectability of that receivable, and reporting on same to the court, should have been "job one" of the Rehabilitator.

29. The failure of the Rehabilitator to make as his first priority the aggressively pursuit of the collection of the receivable or its monetization, in one of many forms by which it could have been credited to the financial statement, becomes compounded in its impact when one takes into account the pressure imposed by DHCF when it unilaterally imposed contract bidding rules pertaining only to Chartered centered on its financial condition and rehabilitation status. It became a self-fulfilling prophecy that Chartered would not get the DHCF Medicaid contract because of the actions of both the Rehabilitator and DHCF. These critical facts should have been more fully disclosed to the court, in advance of the decision not to bid and to support a competitor's bid, and additional options to alleviate the situation should have been pursued. For example, had the Rehabilitator decided to bid on the contract it would have given the Rehabilitator maximum flexibility and leverage to negotiate an agreement with AmeriHealth, or others, that could be done in a less compressed timeframe and with the prospect of independence. That would have gone far to assure maximum value for the insurer upon a sale, if a sale was indicated; There was no reason, however, to make sale the only option, as an investment, loan, or other asset monetization would have worked; it would have given Chartered time to recover on its own (see below); and it would have removed the need (if it existed at all) to use Medicaid experience as a criterion for selection of an investment partner, as Chartered has 25 plus years experience and all it needed was capital, not experience, to solve its singular capital deficiency.

30. Risk-Based Capital ("RBC") is one of the leading methods of determining the financial health of an insurer. By measuring the ratio between its capital resources and the amount of risk that an insurer carries, it is a reliable measure of an insurer's financial strength in relation to the

risks that are on its books. RBC helps insurers and regulators determine the types and amount of risk an insurer may assume. The greater the risk assumed, the greater the amount of capital that the insurer must hold. RBC is not designed, however, to be a standalone indicator of insurer solvency, and is one of several tools that regulators have at their disposal to maintain real time and long term surveillance on insurers.

31. The condition of Chartered's RBC appears to be the reason for its rehabilitation, though the record is unclear whether the RBC standard was in fact the basis for the petition for rehabilitation, or if there were other financial indicators relied upon by the Rehabilitator (or, more accurately, the Commissioner as regulator, who makes the petition to the court for an order of rehabilitation). The financial picture itself, RBC included, is as puzzling as the Rehabilitator's actions in this matter. Chartered's audited financials for 2011, as well as its Third Quarter financials for 2012 show a significantly better picture of Chartered's financial condition. In fact, Chartered experienced a $700,000 profit for the first three quarters of 2012. This much improved financial condition, combined with the large receivable due from DHCF and Chartered's unbroken 25-year history of servicing DHCF's Medicaid contract, casts significant doubt that Chartered's financial position was ever as dire as was presented by DISB, but, in any case, would present very positive chances for its successful rehabilitation.

FAILURE OF THE REHABILITATOR

32. The Rehabilitator is charged with taking "such action as deemed necessary and appropriate to reform and revitalize the insurer." D.C. Code §31-1312(c); Emergency Consent Order of Rehabilitation. The Order further provides that the Rehabilitator is provided the "(vi) Authority to accept new or renewal business or extension of Chartered contracts." This authority is provided in conjunction with the mandate to "reform and revitalize" in order to stabilize the company, give the Rehabilitator an opportunity to evaluate the long-term prospects for the success of the rehabilitation, <u>and then to report back to the rehabilitation court on his findings and recommendations</u>, rather than summarily taking action on his own that seals the fate of the company and that of those with rights and responsibilities under the law, such as directors, creditors and equity stakeholders.

33. Established practice within rehabilitations and liquidations, in my experience, involves common, almost universal initial steps; 1) evaluate and often replace senior management, who generally played a role in causing problems giving rise to a rehabilitation, or at least in allowing the problems to get out of hand; 2) value the company's assets and liabilities; and 3) promptly seek to settle accounts concerning both assets and liabilities. Here, in contrast, the Rehabilitator 1) seems to have retained all of Chartered's senior executives and entrusted them with day-to-day control and then negotiated to ensure that they would be protected with similar jobs with AmeriHealth (First Status Report and Deputy Superintendent's letter to McAlpine); 2) has not conducted any valuation of Chartered, which should have been done as a going concern, and if an asset sale was appropriate, it is unprecedented to have done so without a prior valuation of those assets or, at least an open auction; and, 3) did not make the aggressive recovery of the District receivables outstanding, as well as reinsurance and other assets, his first job.

34. These failures by the Rehabilitator here are compounded by his next two actions: almost immediately putting the company up for sale and quickly deciding not to bid on retainer of the single most important and valuable asset of the company. These two actions are inconsistent between themselves, because the loss of the contract substantially devalues the company in any sale; they also are inconsistent with the plain meaning of the D.C. Code provisions on rehabilitation and the terms of the Rehabilitation Order, because the actions are not steps to "revitalize" Chartered but are more in keeping with liquidation. As such, they should only have been pursued after a plan of rehabilitation was submitted to the court and attempted and, if that failed, a petition for liquidation and a plan of liquidation submitted to and approved by the rehabilitation court. The Rehabilitator undertook each of these actions without informing or receiving guidance from this court.

35. The Rehabilitator gave up his best leverage to assume maximum value for Chartered when he decided to not put in a bid for the DHCF Medicaid contract. That decision immediately significantly reduced the value of Chartered to a prospective buyer. Had he decided to enter a bid on behalf of Chartered, there would undoubtedly be far more prospects for its purchase than the number that ultimately showed interest. The decision to not bid unnecessarily reduced the viable rehabilitation period to a mere six weeks by forcing the Rehabilitator into finding a buyer

for Chartered in advance of the December 3, 2012 bid submission deadline and gutted the value of the company in the process. Had the Rehabilitator decided to put a bid in for Chartered he could then continue to search for rehabilitation options for a much longer period with a greater leverage of Chartered in the running to renew the contract. A prudent and independent Rehabilitator would not have given away such valuable time and leverage by deciding not to enter a bid from Chartered.

Selling the Company

36. Given the questionable severity of the financial condition of the company which precipitated the rehabilitation order (as noted above, the record is lacking in any credible detail on this crucial point), it is curious that the Rehabilitator almost immediately decided that a sale of the company was not only indicated, but urgently needed as well. From my review of the record, no genuine effort was taken to "reform" or "revitalize" Chartered and, for the reasons stated above and below, doing so should have been relatively easy. There is no indication as to how sale of the company furthered these goals, and in fact the sale, as structured by this Rehabilitator, was done in the worst possible way if the goal was to "reform" or "revitalize."

37. The negotiation of the Asset Purchase Agreement with AmeriHealth by the Rehabilitator has been done without any proper valuation of Chartered. It appears from the record that AmeriHealth agreed to pay $5 million to Chartered for Chartered's assistance in preparing AmeriHealth's bid—itself a perplexing and unprecedented step for a Rehabilitator—if AmeriHealth wins the contract. It further appears, and I am advised, that all of Chartered's other assets, including its contracts, its provider network, its personal property, its intellectual property, and its accounting records among other things, are to be transferred to AmeriHealth for no additional compensation. No reasonable Rehabilitator would transfer a company's valuable assets to a competitor for no payment whatsoever. The Rehabilitator should have commissioned a valuation and presented that to the court along with substantiation for his sale of the asset, or a competitive sale of the assets to achieve maximum recovery for Chartered. Instead the Rehabilitator gives Chartered's assets away, something I have never seen through dozens of rehabilitation and liquidation proceedings during my career.

Failing to Bid

38. The D.C. Code and this Court's Rehabilitation Order gives explicit authority to the Rehabilitator to engage in contracts, whether new or the renewal of existing contracts, for the simple reason that the Rehabilitator is charged with maintaining the entity as a going concern while the reasons for rehabilitation are mitigated or abated. Restoration of the company to financial health should be the first priority. Wholesale reformation of a company is not envisioned by the rehabilitation laws premised upon the NAIC Model Act, at least until all less extreme avenues are explored. Study, evaluation, plan development and regular interfacing with the rehabilitation court are all contemplated under the law and the practice of insurer rehabilitation and insolvency management in the United States.

39. From my review of the record, it appears that DHCF told the Rehabilitator that Chartered could not win the Medicaid contract unless it had new ownership and was out of rehabilitation. In my experience, the "new ownership" requirement lacks any basis. As to getting out of rehabilitation, assuming that is a legitimate requirement, there were many opportunities to "cure" Chartered's capital depletion that the Rehabilitator foreclosed by not bidding. But the first thing that strikes me from my review of the record is that the Rehabilitator apparently accepted the DHCF's conditions without question or resistance. It is the Rehabilitator's duty to fight for the company in rehabilitation, and by accepting seemingly untoward conditions the Rehabilitator here breached his obligations. It is the purpose of the rehabilitation that the subject company be released from rehabilitation to carry on its business in the future. The Rehabilitator ensured that Chartered could not do so. Instead, the Rehabilitator should have bid on the DHCF contract, then explored all options with more time and more leverage, as discussed above.

40. The Rehabilitators failure to conduct a proper rehabilitation in accordance with the D.C. Code leads me to the inescapable conclusion that the Rehabilitator was operating under a pre-ordained and de facto liquidation plan that was not presented to or approved by the court, rather than a genuine effort at rehabilitation. A true rehabilitation would have required the Rehabilitator to do so much more than come to the precipitous decision not to have Chartered bid

on the DHCF Medicaid contract, thereby cutting off the company's lifeblood and enter into the terms and conditions of the Asset Purchase Agreement with AmeriHealth which gave away Chartered's essential and valuable assets.

CONFLICTS OF INTEREST

41. Conflicts of interest are pervasive in the administration of this rehabilitation proceeding. As a regulator and otherwise, I have seen any number of insurers who are brought into receivership because of problems arising from conflicts of interest. I have never, before this case seen a receivership that itself was so conflict ridden. The first and most critical conflict is that the District government owes Chartered $60 million (or more); forced Chartered into rehabilitation because Chartered had inadequate capital (when its capital would be more than adequate if the District government had paid); then through the agency that owes the money imposed suspect conditions on Chartered's ability to win the contract (DHCF asserted it would not renew Chartered's Medicaid contract as Chartered was then constituted, which the Rehabilitator says justifies his precipitous decision not to submit a bid on behalf of Chartered); and then, through the DISB/Rehabilitator, quit Chartered's business and left the claims against the government with the remains of Chartered, which has no resources, revenue or ability to generate revenue to fight for its claim. As such, it appears this whole proceeding has the effect of putting a major creditor of the District government in the weakest possible position to collect from the government. I have never seen such a pervasive conflict. At a minimum, this conflict alone required the Rehabilitator to seek court guidance and permission even more than the usual case, when in fact the Rehabilitator failed to bring matters to the court's attention at a level expected even in the absence of conflicts.

42. This conflict must explain why this proceeding was not readily resolved. It is highly unusual in insurer receivership that all key players are so closely related. Given that the controlling players are two governmental agencies, I would have thought it would be relatively easy for the Rehabilitator to facilitate a readily-available remedy for Chartered rather than the death sentence that was delivered. A small amount of cooperation among the interested parties could have resolved Chartered's capital depletion, but instead the D.C. agencies threatened one another on the one hand, and then operated apparently in concert on the other, giving Chartered

little chance of coming out of the rehabilitation process reformed or revitalized. Offering an extended contracting period without punitive demands relative to the company's status in rehabilitation, an acknowledgement of the debt owed by the District to the carrier and a negotiated settlement thereon, and the development of a legitimate plan for rehabilitation all would have given Chartered, its directors, creditors and equity stakeholders fairer treatment. Instead, a genuine rehabilitation appears to have been frustrated by governmental self-interest.

43. Further, the structure of the contract with AmeriHealth reveals the extent of the conflict. The Chartered claim against DHCF is left to Chartered to pursue, with no Medicaid contract, expert staff or income with which to pursue the claim. The Government thus has engineered a situation where, instead of the Rehabilitator serving the interests of Chartered and its employees, enrollees and providers, it serves the Government's interests in leaving a substantial creditor in a weakened position to pursue its claims.

CONCLUSION

44. In my experience, based upon many opportunities to interface with directors both as a regulator and as a private attorney and consultant, it would have been irrational for Chartered's board to agree to rehabilitation if they knew the proceeding would quickly lead to liquidation, as the Rehabilitator's actions effectively does. The Rehabilitator did not fulfill his duties to inform the Court of his plan before implementing it and, given the nature of that plan, to file a petition for liquidation prior to bypassing the opportunity to bid and entering into an agreement with AmeriHealth. This would have given the directors, as provided by the D.C. Code, and others, including creditors and shareholders, an opportunity to be heard by the courts so it could make an informed decision on a robust record. That is what the rehabilitation statute requires.

45. The court's role in rehabilitation is critical, as expressed above, if for no other reason than to make certain that the Rehabilitator is operating according to the rule of law, provisions of the Rehabilitation Order and in the interests of those to be served by the rehabilitation process. Party-in-interest cited to, and I reviewed as part of my analysis, the decision in the matter of Consedine v. Penn Treaty Network America Insurance Co. In my twenty-five years in and around insurance, insurance regulation and rehabilitations/liquidations, I have not found another

case decision as important to understanding how rehabilitations are supposed to work. The court there went to great lengths to analyze the law under an NAIC Model Act and then determine that the rehabilitator there abused his powers in thwarting the reforming and revitalizing of the subject carriers in favor of setting the stage for a liquidation of those entities. I see many parallels between the facts there and here. Here, the Rehabilitator frustrated the ability of Chartered to rehabilitate, foreclosed opportunities to reform and revitalize Chartered, and acted contrary to Chartered's best interests and his own duties.

46. In conclusion, in my view, the Rehabilitator did a disservice to this Court, by putting it in the position of having to pass on actions that might have been reasonable had this been a liquidation, but were wholly inappropriate for a rehabilitation. It is my opinion that the Rehabilitator in this case should have undertaken far more extensive steps to conduct a true rehabilitation of Chartered and that given its experience Chartered could have and still could emerge from a successful rehabilitation to continue operating as a viable insurance entity.

Dated: Albany, New York
March 20, 2013

GREGORY V. SERIO

Sworn to before me this
20th day of March, 2013

Notary Public

PETER J. MOLINARO
NOTARY PUBLIC-STATE OF NEW YORK
No 02MO6186279
Qualified in Albany County
My Commission Expires April 28, 2016

EXHIBIT I

List of Reviewed Materials

1. Party-In-Interest D.C. Healthcare System, Inc.'s Motion for (1) Stay Pending Appeal of the Order Approving the Asset Purchase Agreement, Plan of Reorganization and Related Matters; and (2) Injunctive Relief.

2. D.C. Chartered Health Plan, Inc. Statutory Statements of Cash Flows; Admitted Assets, Liabilities, and Capital and Surplus; Revenue and Expenses; Changes in Capital and Surplus Period Ending September 30, 2012.

3. Affidavit of Lorie E. Lupkin in Support of Party-In-Interest D.C. Healthcare System, Inc.'s Motion for (1) A Stay Pending Appeal of the Order Approving the Asset Purchase Agreement, Plan of Reorganization and Related Matters; and (2) Injunctive Relief; And all Accompanying Exhibits.

4. The Special Deputy to the Rehabilitator's Verified Memorandum of Points and Authorities in Opposition to the Party-In-Interest D.C. Healthcare System, Inc.'s Motion for (1) Stay Pending Appeal of the Order Approving the Asset Purchase Agreement, Plan of Reorganization and Related Matters; and (2) Injunctive Relief; And all accompanying exhibits.

5. D.C. Code Title 31, Chapter 13 Insurers Rehabilitation and Liquidation Procedures;

6. Special Deputy to the Rehabilitator's First Status Report; And all accompanying exhibits;

7. Special Deputy to the Rehabilitator's Second Status Report; And all accompanying exhibits;

8. Consedine v. Penn Treaty Network Am. Ins. Co., 2012 WL 6721078, *68 (Pa. Comm. Ct. May 3, 2012).

9. Email dated March 18, 2013 from the D.C. Attorney General's Office From Thomas M. Glassic to Jennifer Sincavage re: September 9, 2012 D.C. Chartered Health Plan, Inc. Quarterly Statement.

EXHIBIT 2

D.C. CHARTERED HEALTH PLAN, INC.
Statutory Statements of Cash Flows
Period Ended September 30, 2012

Cash flows from operating activities	
Premiums collected, net of reinsurance	$ 289,299,226
Benefit payments	(257,456,561)
General and administrative expenses paid	(39,424,329)
Net investment income	157,581
Federal income taxes (paid) recovered	-
Net cash (used in) provided by operating activities	(7,424,083)
Cash flows from investing activities	
Proceeds from investments	2,515,700
Costs of investments acquired	(2,916,667)
Net cash used in investing activities	(400,967)
Cash flows from financing activities	
Other cash provided, net	842,746
Net cash (used in) provided by investing activities	842,746
Net decrease in cash, cash equivalents and short-term investments	(6,982,304)
Cash, cash equivalents and short-term investments	
Beginning of year	16,975,318
End of year	$ 9,993,014

D.C. CHARTERED HEALTH PLAN, INC.
Statutory Statement of Admitted Assets, Liabilities, and Capital and Surplus
September 30, 2012

Admitted Assets	
Bonds, at cost which approximates fair value	$ 15,628,805
Cash, cash equivalents and short-term investments	9,993,014
Total cash and invested assets	25,621,819
Accrued investment income	175,707
Uncollected premiums	4,982,344
Accrued retrospective premiums	32,000,000
Reinsurance recoverable	18,855
Electronic data processing equipment and software	152,535
Health care receivables	-
Total admitted assets	$ 62,951,260
Liabilities, capital and surplus	
Claims unpaid	$ 45,807,749
Unpaid claims adjustment expenses	1,275,722
Other liabilities and accrued expenses	6,575,692
Federal income tax payable	254,878
Total liabilities	53,914,041
Class A common stock - $0.10 par value, 1,000 shares authorized, issued and outstanding	100
Gross paid-in and contributed surplus	4,690,419
Unassigned surplus	4,346,700
Total capital and surplus	9,037,219
Total liabilities, capital and surplus	$ 62,951,260

D.C. CHARTERED HEALTH PLAN, INC.
Statutory Statement of Revenue and Expenses
Period Ended September 30, 2012

Underwriting income	
Net premium income	$ 300,950,889
Underwriting expenses	
Claims incurred	262,021,803
Claims adjustment expenses	7,981,318
General administrative expenses	23,937,896
Total underwriting expenses	293,941,017
Net underwriting income	7,009,872
Net investment income	210,605
Net loss from premium balances charged off	6,000,000
Other income (expense)	(492,253)
Net income (loss) before federal taxes	728,224
Federal income tax expense	254,878
Net income	$ 473,346

D.C. CHARTERED HEALTH PLAN, INC.
Statutory Statement of Changes in Capital and Surplus
Period Ended September 30, 2012

Capital and surplus, beginning of year	$ 5,949,445
Net income (loss)	473,346
Change in nonadmitted assets	2,614,428
Change in net deferred income taxes	-
Capital and surplus, end of year	$ 9,037,219

QUARTERLY STATEMENT

OF THE

DC CHARTERED HEALTH PLAN, INC.

of

WASHINGTON

in the state of

District of Columbia

2012

TO THE

Insurance Department

OF THE STATE OF

District of Columbia

FOR THE QUARTER ENDED
September 30, 2012

HEALTH

2012

95748201220100103 2012 Document Code: 201

QUARTERLY STATEMENT

AS OF September 30, 2012

OF THE CONDITION AND AFFAIRS OF THE

DC CHARTERED HEALTH PLAN, INC.

NAIC Group Code 0000 (Current Period), 0000 (Prior Period) NAIC Company Code 95748 Employer's ID Number 52-1492499

Organized under the Laws of District of Columbia, State of Domicile or Port of Entry District of Columbia

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health[ ] Property/Casualty[ ] Hospital, Medical & Dental Service or Indemnity[ ]
Dental Service Corporation[ ] Vision Service Corporation[ ] Health Maintenance Organization[X]
Other[ ] Is HMO Federally Qualified? Yes[ ] No[X] N/A[ ]

Incorporated/Organized 09/12/1986 Commenced Business 09/12/1986

Statutory Home Office 1025 15TH STREET NW (Street and Number), WASHINGTON, DC 20005-2601 (City, or Town, State and Zip Code)

Main Administrative Office 1025 15TH STREET NW (Street and Number)

WASHINGTON, DC 20005-2601 (City or Town, State and Zip Code) (202)408-4720 (Area Code) (Telephone Number)

Mail Address 1025 15TH STREET NW (Street and Number or P.O. Box), WASHINGTON, DC 20005-2601 (City, or Town, State and Zip Code)

Primary Location of Books and Records 1025 15TH STREET NW (Street and Number)

WASHINGTON, DC 20005-2601 (City, or Town, State and Zip Code) (202)408-3973 (Area Code) (Telephone Number)

Internet Web Site Address www.chartered-health.com

Statutory Statement Contact MAYNARD GEORGE MCALPIN (Name) (202)408-3973 (Area Code)(Telephone Number)(Extension)

MMcalpin@chartered-health.com (E-Mail Address) (202)289-6642 (Fax Number)

OFFICERS

Name	Title
MAYNARD GEORGE MCALPIN	President & CEO

VICE PRESIDENT

PARMINDER SINGH SETHI, CIO
KEITH ANTHONY MACCANNON, SVP, Health Plan Services, Marketing and Com.
SHAROL AGATHE LEWIS, SVP, Medical Affairs and Chief Medical Officer #

DIRECTORS OR TRUSTEES

DAVID DONALD WOLF #
JOHNNIE BROOKS BOOKER
MYRTLE ROSALIND GOMEZ
NICHOLAS GEORGE KAREMBALAS
WILLIAM JEFFREY STRUDWICK
LIVIO RENATO BROCCOLINO ESQ #
GEOFFREY STEWART CLASPER #

State of District of Columbia
County of ______ ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the 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.

(Signature)	(Signature)	(Signature)
MAYNARD GEORGE MCALPIN	DANIEL LAWRENCE WATKINS	EDWARD FREDERICK OSWALD
(Printed Name)	(Printed Name)	(Printed Name)
1.	2.	3.
President and CEO	Special Deputy Rehabilitator	Interim Chief Financial Officer
(Title)	(Title)	(Title)

Subscribed and sworn to before me this ______ day of ______, 2012

a. Is this an original filing? Yes[X] No[ ]
b. If no, 1. State the amendment number ______
2. Date filed ______
3. Number of pages attached ______

(Notary Public Signature)

ASSETS

		Current Statement Date			4
		1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
1.	Bonds	15,628,805		15,628,805	15,025,957
2.	Stocks:				
	2.1 Preferred stocks				
	2.2 Common stocks				
3.	Mortgage loans on real estate:				
	3.1 First liens				
	3.2 Other than first liens				
4.	Real estate:				
	4.1 Properties occupied by the company (less $..............0 encumbrances)				
	4.2 Properties held for the production of income (less $..............0 encumbrances)				
	4.3 Properties held for sale (less $..............0 encumbrances)				
5.	Cash ($.....(1,270,002)), cash equivalents ($......11,263,015) and short-term investments ($..............0)	9,993,014		9,993,014	16,975,318
6.	Contract loans (including $..............0 premium notes)				
7.	Derivatives				
8.	Other invested assets				
9.	Receivables for securities				
10.	Securities lending reinvested collateral assets				
11.	Aggregate write-ins for invested assets				
12.	Subtotals, cash and invested assets (Lines 1 to 11)	25,621,819		25,621,819	32,001,275
13.	Title plants less $..............0 charged off (for Title insurers only)				
14.	Investment income due and accrued	175,707		175,707	122,683
15.	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	4,982,344		4,982,344	5,299,409
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $..............0 earned but unbilled premiums)				
	15.3 Accrued retrospective premiums	32,000,000		32,000,000	20,000,000
16.	Reinsurance:				
	16.1 Amounts recoverable from reinsurers	18,855		18,855	246,430
	16.2 Funds held by or deposited with reinsured companies				
	16.3 Other amounts receivable under reinsurance contracts				31,273
17.	Amounts receivable relating to uninsured plans				
18.1	Current federal and foreign income tax recoverable and interest thereon				
18.2	Net deferred tax asset				
19.	Guaranty funds receivable or on deposit				
20.	Electronic data processing equipment and software	311,334	158,799	152,535	
21.	Furniture and equipment, including health care delivery assets ($..............0)	360,551	360,551		
22.	Net adjustments in assets and liabilities due to foreign exchange rates				
23.	Receivables from parent, subsidiaries and affiliates				
24.	Health care ($..............0) and other amounts receivable	1,675,000	1,675,000		143,721
25.	Aggregate write-ins for other than invested assets	1,253,791	1,253,791		
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	66,399,401	3,448,141	62,951,261	57,844,791
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28.	Total (Lines 26 and 27)	66,399,401	3,448,141	62,951,261	57,844,791
DETAILS OF WRITE-INS					
1101.					
1102.					
1103.					
1198.	Summary of remaining write-ins for Line 11 from overflow page				
1199.	TOTALS (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501.	PREPAIDS	1,070,303	1,070,303		
2502.	DEPOSITS	162,205	162,205		
2503.	ADVANCES - EMPLOYEE	21,283	21,283		
2598.	Summary of remaining write-ins for Line 25 from overflow page				
2599.	TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above)	1,253,791	1,253,791		

LIABILITIES, CAPITAL AND SURPLUS

		Current Period			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less $...............0 reinsurance ceded)	45,807,749		45,807,749	43,000,000
2.	Accrued medical incentive pool and bonus amounts				
3.	Unpaid claims adjustment expenses	1,275,722		1,275,722	1,275,722
4.	Aggregate health policy reserves, including the liability of $...............0 for medical loss ratio rebate per the Public Health Service Act				
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserve				
7.	Aggregate health claim reserves				
8.	Premiums received in advance				
9.	General expenses due or accrued	6,300,658		6,300,658	7,313,520
10.1	Current federal and foreign income tax payable and interest thereon (including $...............0 on realized gains (losses))	254,878		254,878	
10.2	Net deferred tax liability				
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others	95,638		95,638	122,176
13.	Remittances and items not allocated				
14.	Borrowed money (including $...............0 current) and interest thereon $...............0 (including $...............0 current)				
15.	Amounts due to parent, subsidiaries and affiliates				
16.	Derivatives				
17.	Payable for securities				
18.	Payable for securities lending				
19.	Funds held under reinsurance treaties with ($...............0 authorized reinsurers and $...............0 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 uninsured plans				
23.	Aggregate write-ins for other liabilities (including $...............0 current)	179,395		179,395	183,928
24.	Total liabilities (Lines 1 to 23)	53,914,041		53,914,041	51,895,347
25.	Aggregate write-ins for special surplus funds	XXX	XXX		
26.	Common capital stock	XXX	XXX	100	100
27.	Preferred capital stock	XXX	XXX		
28.	Gross paid in and contributed surplus	XXX	XXX	4,690,419	4,690,419
29.	Surplus notes	XXX	XXX		
30.	Aggregate write-ins for other than special surplus funds	XXX	XXX		
31.	Unassigned funds (surplus)	XXX	XXX	4,346,700	1,258,926
32.	Less treasury stock, at cost:				
	32.1 ....0 shares common (value included in Line 26 $...............0)	XXX	XXX		
	32.2 ....0 shares preferred (value included in Line 27 $...............0)	XXX	XXX		
33.	Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	9,037,219	5,949,445
34.	Total Liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	62,951,260	57,844,791
DETAILS OF WRITE-INS					
2301.	UNCLAIMED CHECKS	179,395		179,395	183,928
2302.					
2303.					
2398.	Summary of remaining write-ins for Line 23 from overflow page				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	179,395		179,395	183,928
2501.		XXX	XXX		
2502.		XXX	XXX		
2503.		XXX	XXX		
2598.	Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX		
2599.	TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above)	XXX	XXX		
3001.		XXX	XXX		
3002.		XXX	XXX		
3003.		XXX	XXX		
3098.	Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX		
3099.	TOTALS (Lines 3001 through 3003 plus 3098) (Line 30 above)	XXX	XXX		

STATEMENT OF REVENUE AND EXPENSES

		Current Year To Date 1 Uncovered	2 Total	Prior Year To Date 3 Total	Prior Year Ended December 31 4 Total
1.	Member Months	XXX	987,152	992,601	1,325,230
2.	Net premium income (including $..............0 non-health premium income)	XXX	300,950,889	268,346,534	383,743,178
3.	Change in unearned premium reserves and reserves for rate credits	XXX			
4.	Fee-for-service (net of $..............0 medical expenses)	XXX			
5.	Risk revenue	XXX			
6.	Aggregate write-ins for other health care related revenues	XXX			
7.	Aggregate write-ins for other non-health revenues	XXX			
8.	Total revenues (Lines 2 to 7)	XXX	300,950,889	268,346,534	383,743,178
Hospital and Medical:					
9.	Hospital/medical benefits		117,070,127	77,963,906	155,021,186
10.	Other professional services		57,536,995	90,668,798	78,259,757
11.	Outside referrals				
12.	Emergency room and out-of-area		45,199,329	47,763,274	66,604,970
13.	Prescription drugs		40,768,282	32,080,110	45,297,314
14.	Aggregate write-ins for other hospital and medical		1,662,645	1,359,033	2,115,329
15.	Incentive pool, withhold adjustments and bonus amounts				
16.	Subtotal (Lines 9 to 15)		262,237,378	249,835,121	347,298,556
Less:					
17.	Net reinsurance recoveries		215,574	178,459	702,156
18.	Total hospital and medical (Lines 16 minus 17)		262,021,804	249,656,662	346,596,400
19.	Non-health claims (net)				
20.	Claims adjustment expenses, including $.......4,249,486 cost containment expenses		7,981,318	6,480,546	12,344,021
21.	General administrative expenses		23,937,896	19,343,721	26,915,784
22.	Increase in reserves for life and accident and health contracts (including $..............0 increase in reserves for life only)				
23.	Total underwriting deductions (Lines 18 through 22)		293,941,018	275,480,929	385,856,205
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	7,009,871	(7,134,395)	(2,113,027)
25.	Net investment income earned		210,605	808,148	271,136
26.	Net realized capital gains (losses) less capital gains tax of $..............0				
27.	Net investment gains or (losses) (Lines 25 plus 26)		210,605	808,148	271,136
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered $..............0) (amount charged off $.......6,000,000)]		(6,000,000)		(10,000,000)
29.	Aggregate write-ins for other income or expenses		(492,254)	7,500,000	2,487,676
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	728,222	1,173,753	(9,354,215)
31.	Federal and foreign income taxes incurred	XXX	254,878	410,813	
32.	Net income (loss) (Lines 30 minus 31)	XXX	473,343	762,940	(9,354,215)
DETAILS OF WRITE-INS					
0601.		XXX			
0602.		XXX			
0603.		XXX			
0698.	Summary of remaining write-ins for Line 6 from overflow page	XXX			
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	XXX			
0701.		XXX			
0702.		XXX			
0703.		XXX			
0798.	Summary of remaining write-ins for Line 7 from overflow page	XXX			
0799.	TOTALS (Lines 0701 through 0703 plus 0798) (Line 7 above)	XXX			
1401.	OTHER MEDICAL CLAIMS - DME		1,662,645	1,359,033	2,115,329
1402.					
1403.					
1498.	Summary of remaining write-ins for Line 14 from overflow page				
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		1,662,645	1,359,033	2,115,329
2901.	Dental Settlement with DCHF			7,500,000	7,500,000
2902.	Write-off balances - Notes Receivable and AR - Other		(428,694)		
2903.	Write-off balances Due To/From Parent		(66,251)		(3,855,522)
2998.	Summary of remaining write-ins for Line 29 from overflow page		2,691		(1,156,802)
2999.	TOTALS (Lines 2901 through 2903 plus 2998) (Line 29 above)		(492,254)	7,500,000	2,487,676

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
	CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	5,949,445	17,444,647	17,444,647
34.	Net income or (loss) from Line 32	473,343	762,940	(9,354,215)
35.	Change in valuation basis of aggregate policy and claim reserves			
36.	Change in net unrealized capital gains (losses) less capital gains tax of $..............0			
37.	Change in net unrealized foreign exchange capital gain or (loss)			
38.	Change in net deferred income tax			(3,319,807)
39.	Change in nonadmitted assets	2,614,428	(667,452)	1,611,527
40.	Change in unauthorized reinsurance			
41.	Change in treasury stock			
42.	Change in surplus notes			
43.	Cumulative effect of changes in accounting principles			
44.	Capital Changes:			
	44.1 Paid in			
	44.2 Transferred from surplus (Stock Dividend)			
	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		363,211	(432,707)
48.	Net change in capital and surplus (Lines 34 to 47)	3,087,772	458,699	(11,495,202)
49.	Capital and surplus end of reporting period (Line 33 plus 48)	9,037,216	17,903,346	5,949,445
	DETAILS OF WRITE-INS			
4701.	CORRECTION OF PRIOR PERIOD ACCOUNTING ERROR		(102,734)	(432,707)
4702.	CHANGE IN CAPITAL ASSETS & FIXED ASSET DEPRECIATION		35	
4703.	ADJUSTMENT FOR DTA		465,910	
4798.	Summary of remaining write-ins for Line 47 from overflow page			
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)		363,211	(432,707)

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	289,299,226	263,981,738	366,272,113
2.		Net investment income	157,581	603,643	303,881
3.		Miscellaneous income			
4.		Total (Lines 1 to 3)	289,456,807	264,585,381	366,575,994
5.		Benefit and loss related payments	257,456,561	248,346,493	333,628,360
6.		Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7.		Commissions, expenses paid and aggregate write-ins for deductions	39,424,330	18,205,987	45,030,386
8.		Dividends paid to policyholders			
9.		Federal and foreign income taxes paid (recovered) net of $..............0 tax on capital gains (losses)		(238,109)	(3,368,587)
10.		Total (Lines 5 through 9)	296,880,891	266,314,371	375,290,159
11.		Net cash from operations (Line 4 minus Line 10)	(7,424,084)	(1,728,990)	(8,714,165)
		Cash from Investments			
12.		Proceeds from investments sold, matured or repaid:			
	12.1	Bonds	2,313,819	2,190,900	4,167,752
	12.2	Stocks			
	12.3	Mortgage loans			
	12.4	Real estate			
	12.5	Other invested assets	13,283		33,991
	12.6	Net gains or (losses) on cash, cash equivalents and short-term investments			
	12.7	Miscellaneous proceeds	188,599		
	12.8	Total investment proceeds (Lines 12.1 to 12.7)	2,515,700	2,190,900	4,201,743
13.		Cost of investments acquired (long-term only):			
	13.1	Bonds	2,916,667	4,390,000	7,049,630
	13.2	Stocks			
	13.3	Mortgage loans			
	13.4	Real estate			
	13.5	Other invested assets			
	13.6	Miscellaneous applications			
	13.7	Total investments acquired (Lines 13.1 to 13.6)	2,916,667	4,390,000	7,049,630
14.		Net increase (or decrease) in contract loans and premium notes			
15.		Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(400,966)	(2,199,100)	(2,847,887)
		Cash from Financing and Miscellaneous Sources			
16.		Cash provided (applied):			
	16.1	Surplus notes, capital notes		117,989	
	16.2	Capital and paid in surplus, less treasury stock	0		0
	16.3	Borrowed funds			
	16.4	Net deposits on deposit-type contracts and other insurance liabilities		(2,847,921)	
	16.5	Dividends to stockholders			
	16.6	Other cash provided (applied)	842,747	(545,661)	(267,912)
17.		Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6)	842,747	(3,275,593)	(267,912)
		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)	(6,982,303)	(7,203,683)	(11,829,964)
19.		Cash, cash equivalents and short-term investments:			
	19.1	Beginning of year	16,975,318	28,805,282	28,805,282
	19.2	End of period (Line 18 plus Line 19.1)	9,993,014	21,601,599	16,975,318

Note: Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

20.0001	Long-term CDARs were reported as cash in the 12/31/11 annual statement - this was corrected in the 1Q 2012 filing and they are properly reported as Schedule D assets			
20.0002	Notes Receiveable were reported as aggregate write-ins at 12/31/11 - at 3/31/12 a reclassification was made as these assets should be reported as Other invested Assets			

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10
	Total	2 Individual	3 Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
Total Members at end of:										
1. Prior Year	110,550		12,442						98,108	
2. First Quarter	112,049		11,383						100,666	
3. Second Quarter	108,713		8,869						99,844	
4. Third Quarter	108,617		8,889						99,728	
5. Current Year										
6. Current Year Member Months	987,152		90,056						897,096	
Total Member Ambulatory Encounters for Period:										
7. Physician	399,891		47,595						352,296	
8. Non-Physician	169,763		20,849						148,914	
9. Total	569,654		68,444						501,210	
10. Hospital Patient Days Incurred	24,433		1,457						22,976	
11. Number of Inpatient Admissions	6,884		340						6,544	
12. Health Premiums Written (a)	301,872,583		14,313,844						287,558,739	
13. Life Premiums Direct										
14. Property/Casualty Premiums Written										
15. Health Premiums Earned	301,872,583		14,313,844						287,558,739	
16. Property/Casualty Premiums Earned										
17. Amount Paid for Provision of Health Care Services	258,125,047		13,795,555						244,329,492	
18. Amount Incurred for Provision of Health Care Services	262,237,377		13,193,080						249,044,297	

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees $..............0.

CLAIMS UNPAID AND INCENTIVE POOL, WITHHOLD AND BONUS (Reported and Unreported)

Aging Analysis of Unpaid Claims

1 Account	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 91 - 120 days	6 Over 120 Days	7 Total
Individually Listed Claims Unpaid						
Chirldren's National Medical Center	4,564,149	203,086				4,767,235
Washington Hospital Center	8,645,711	2,823,155				11,468,866
0199999 Individually Listed Claims Unpaid	13,209,860	3,026,241				16,236,101
0299999 Aggregate Accounts Not Individually Listed - Uncovered						
0399999 Aggregate Accounts Not Individually Listed - Covered	14,392,553	636,505				15,029,058
0499999 Subtotals	27,602,413	3,662,746				31,265,159
0599999 Unreported claims and other claim reserves						14,542,590
0699999 Total Amounts Withheld						
0799999 Total Claims Unpaid						45,807,749
0899999 Accrued Medical Incentive Pool And Bonus Amounts						

UNDERWRITING AND INVESTMENT EXHIBIT

ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

	Line of Business	Claims Paid Year to Date		Liability End of Current Quarter		5	6
		1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid Dec 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1+3)	Estimated Claim Reserve and Claim Liability Dec 31 of Prior Year
1.	Comprehensive (hospital & medical)	3,092,019	10,703,537		2,306,470	3,092,019	2,908,945
2.	Medicare Supplement						
3.	Dental only						
4.	Vision only						
5.	Federal Employees Health Benefits Plan						
6.	Title XVIII - Medicare						
7.	Title XIX - Medicaid	37,308,523	206,580,057		43,501,280	37,308,523	40,091,055
8.	Other health						
9.	Health subtotal (Lines 1 to 8)	40,400,542	217,283,594		45,807,750	40,400,542	43,000,000
10.	Healthcare receivables (a)		1,675,000				3,204,919
11.	Other non-health						
12.	Medical incentive pools and bonus amounts						
13.	Totals (Lines 9 - 10 + 11 + 12)	40,400,542	215,608,594		45,807,750	40,400,542	39,795,081

(a) Excludes $..............0 loans or advances to providers not yet expensed.

Notes to Financial Statement

1. Summary of Significant Accounting Policies

a. Accounting Practices

The financial statements of DC Chartered Health Plan ("Chartered") are presented on the basis of accounting practices prescribed or permitted by the District of Columbia Department of Insurance, Securities and Banking (DISB). The DISB recognized only statutory accounting practices prescribed or permitted by the District of Columbia (District) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the District of Columbia Insurance Code. The DISB has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* as a component of prescribed or permitted practices for the District. The DISB has the right to permit specific practices that deviate from prescribed practices. There is no deviation from the NAIC *Accounting Practices and Procedures Manual.*

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the District of Columbia Department of Insurance, Securities and Banking is shown below:

		State of Domicile	2012	2011
(1)	Net Income Maryland state basis	DC	$473,343	$(9,354,215)
(2)	State Prescribed Practices (Income):	DC	-	-
(3)	State Permitted Practices (Income):	DC	-	-
(4)	Net Income, NAIC SAP	DC	$473,343	$(9,354,215)
(5)	Statutory Surplus Maryland basis	DC	$9,037,219	$5,949,445
(6)	State Prescribed Practices (Surplus):	DC	-	-
(7)	State Permitted Practices (Surplus):	DC	-	-
(8)	Statutory Surplus, NAIC SAP	DC	$9,037,219	$5,949,445

b. Use of Estimates in the Preparation of the Financial Statements

No Material Changes

c. Accounting Policy

No Material Changes

2. Accounting Changes and Corrections of Errors

No Material Changes

3. Business Combinations and Goodwill

No Material Changes

4. Discontinued Operations

No Material Changes

5. Investments

A. Mortgage Loans - None
B. Debt Restructuring - None
C. Reverse Mortgages - None
D. Loan-Backed Securities - None
E. Repurchase Agreements - None
F. Real Estate - None
G. Low Income Housing Tax Credits - None

6. Joint Ventures, Partnerships and Limited Liability Companies

No Material Changes

Notes to Financial Statement

7. Investment Income

No Material Changes

8. Derivative Instruments

No Material Changes

9. Income Taxes

No Material Changes

10. Information Concerning Parent, Subsidiaries and Affiliates

No Material Changes

11. Debt

No Material Changes

12. Retirement Plans, Deferred Compensation, Post-Employment Benefits, Compensated Absences and other Postretirement Benefit Plans

No Material Changes

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

No Material Changes

14. Contingencies

No Material Changes

15. Leases

No Material Changes

16. Information about Financial Instruments with off-balance sheet risk and financial instruments with concentrations of credit risk

No Material Changes

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

a. Transfers of Receivables reported as Sales – No Material Changes

b. Transfer and Servicing of Financial Assets – No Material Changes

c. Wash Sales – None

18. Gain or Loss to the Reporting Entity from Uninsured A & H Plans and the Uninsured Portion of Partially Insured Plans

No Material Changes

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

No Material Changes

20. Fair Value Measurements

A. Fair Value at Reporting Date

(1) Fair Value at Reporting Date - None

(2) Fair Value Measurements in (Level 3) of the Fair Value - None

Notes to Financial Statement

(3) The Company's policy for determining when transfers between levels are recognized is the end of the reporting period - None

(4) a & b & c - There are no fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy - None

(5) Derivative assets and liabilities - None

B. Fair Value information under SSAP No. 100 combined with Fair Value information Under Other Accounting Pronouncements - None.

C. Aggregate Fair Value of All Financial Instruments

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	$15,628,805	$15,628,805		$15,628,805		

D. Not Practicable to Estimate Fair Value - None

21. Other Items

No Material Changes

22. Events Subsequent

Type I – Recognized Subsequent Events – None

Type II – Nonrecognized Subsequent Events

The following subsequent events have occurred:

- On October 19, 2012 the Department of Insurance, Securities and Banking placed Chartered into court receivership as a result of the voluntary receivership action approved by Chartered's Board of Directors and authorized by its owner.
- Chartered elected not to submit a response on December 3, 2012 to the office of OCP's request for proposal for a new 5-year contract. Chartered's contract will end on April 30, 2013 and no further premiums will be received after that date.
- Chartered entered into a non-binding Letter of Intent on December 1, 2012, for the sale of certain assets with a third-party.
- On December 4, 2012, MedStar Health provided notice of contract terminations on behalf of Washington Hospital Center Corporation (WHC) and MedStar-Georgetown Medical Center, Inc. (GUH) effective January 4, 2013. Subsequently, MedStar filed a motion in the Superior Court for the District of Columbia seeking to prevent Chartered from recouping amounts on patient claims which Chartered asserts under the contracts. Chartered has not calculated the financial impact of the contract terminations or litigation as of the date of this report.

23. Reinsurance

No Material Changes

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

During 2012, the Company recorded an additional Accrued Retrospective Premium Receivable net amount of $12M for the period of January – April 2012 related to the Medicaid contract. The gross receivable was $18M; however, the Company wrote-off $6M which is reflected as balances charged-off in the Company's current year income statement.

The gross retrospective premium represents 5.98% of premiums earned through September 2012.

The total net amount recorded in the Company's books and records is $32M.

Notes to Financial Statement

25. Change in Incurred Claims and Claims Adjustment Expenses

Reserves as of December 31, 2011 were $44,275,722. As of September 30, 2012, $41,676,264 has been paid for incurred claims and claims adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now $0 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Medicare line of business. Therefore, there has been a $2,599,458 favorable prior-year development since December 31, 2011 to September 30, 2012. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

26. Intercompany Pooling Arrangements

No Material Changes

27. Structured Settlements

No Material Changes

28. Health Care Receivables

No Material Changes

29. Participating Policies

No Material Changes

30. Premium Deficiency Reserves

No Material Changes

31. Anticipated Salvage and Subrogation

No Material Changes

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes[ ] No[X]

1.2 If yes, has the report been filed with the domiciliary state? Yes[ ] No[ ] N/A[X]

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes[ ] No[X]

2.2 If yes, date of change:

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes[X] No[ ]
If yes, complete the Schedule Y - Part 1 - organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes[ ] No[X]

4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes[ ] No[X] N/A[ ]
If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2007

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2007

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 12/31/2008

6.4 By what department or departments?
DISTRICT OF COLUMBIA DEPARTMENT OF INSURANCE AND SECURITIES REGULATION

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes[X] No[ ] N/A[ ]

6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes[X] No[ ] N/A[ ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes[ ] No[X]

7.2 If yes, give full information

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes[ ] No[X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes[ ] No[X]

8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 FDIC	6 SEC
		Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes[X] No[ ]
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:

9.2 Has the code of ethics for senior managers been amended? Yes[ ] No[X]

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes[ ] No[X]

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes[ ] No[X]

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes[ ] No[X]

11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: $ 0

13. Amount of real estate and mortgages held in short-term investments: $ 0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes[ ] No[X]

14.2 If yes, please complete the following:

GENERAL INTERROGATORIES (Continued)

		1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21	Bonds		
14.22	Preferred Stock		
14.23	Common Stock		
14.24	Short-Term Investments		
14.25	Mortgages Loans on Real Estate		
14.26	All Other		
14.27	Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)		
14.28	Total Investment in Parent included in Lines 14.21 to 14.26 above		

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes[ ] No[X]
15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes[ ] No[ ] N/A[X]
If no, attach a description with this statement.

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes[X] No[ ]
16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
CARDINAL BANK	8270 GREENSBORO DR. STE 500, MCLEAN, VA 22102
URBAN TRUST BANK	1350 I St. NW , WASHINGTON, DC 20005

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes[ ] No[X]
16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes[X] No[ ]
17.2 If no, list exceptions:

GENERAL INTERROGATORIES

PART 2 - HEALTH

1. Operating Percentages:	
1.1 A&H loss percent	88.477%
1.2 A&H cost containment percent	1.412%
1.3 A&H expense percent excluding cost containment expenses	9.194%
2.1 Do you act as a custodian for health savings accounts?	Yes[ ] No[X]
2.2 If yes, please provide the amount of custodial funds held as of the reporting date.	$ 0
2.3 Do you act as an administrator for health savings accounts?	Yes[ ] No[X]
2.4 If yes, please provide the balance of the funds administered as of the reporting date.	$ 0

SCHEDULE S - CEDED REINSURANCE

Showing All New Reinsurance Treaties - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Reinsurer	5 Domiciliary Jurisdiction	6 Type of Reinsurance Ceded	7 Is Insurer Authorized? (Yes or No)
Accident and Health - Non-affiliates						
27855	36-2781080	09/01/2012	ZURICH AMER INS CO OF IL	IL	SSL/L/G	Yes[X] No[ ]

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Current Year to Date - Allocated by States and Territories

	State, Etc.	1 Active Status	Direct Business Only 2 Accident and Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefits Program Premiums	6 Life and Annuity Premiums and Other Considerations	7 Property/ Casualty Premiums	8 Total Columns 2 Through 7	9 Deposit-Type Contracts
1.	Alabama (AL)	N								
2.	Alaska (AK)	N								
3.	Arizona (AZ)	N								
4.	Arkansas (AR)	N								
5.	California (CA)	N								
6.	Colorado (CO)	N								
7.	Connecticut (CT)	N								
8.	Delaware (DE)	N								
9.	District of Columbia (DC)	L	14,313,844		287,558,739				301,872,583	
10.	Florida (FL)	N								
11.	Georgia (GA)	N								
12.	Hawaii (HI)	N								
13.	Idaho (ID)	N								
14.	Illinois (IL)	N								
15.	Indiana (IN)	N								
16.	Iowa (IA)	N								
17.	Kansas (KS)	N								
18.	Kentucky (KY)	N								
19.	Louisiana (LA)	N								
20.	Maine (ME)	N								
21.	Maryland (MD)	N								
22.	Massachusetts (MA)	N								
23.	Michigan (MI)	N								
24.	Minnesota (MN)	N								
25.	Mississippi (MS)	N								
26.	Missouri (MO)	N								
27.	Montana (MT)	N								
28.	Nebraska (NE)	N								
29.	Nevada (NV)	N								
30.	New Hampshire (NH)	N								
31.	New Jersey (NJ)	N								
32.	New Mexico (NM)	N								
33.	New York (NY)	N								
34.	North Carolina (NC)	N								
35.	North Dakota (ND)	N								
36.	Ohio (OH)	N								
37.	Oklahoma (OK)	N								
38.	Oregon (OR)	N								
39.	Pennsylvania (PA)	N								
40.	Rhode Island (RI)	N								
41.	South Carolina (SC)	N								
42.	South Dakota (SD)	N								
43.	Tennessee (TN)	N								
44.	Texas (TX)	N								
45.	Utah (UT)	N								
46.	Vermont (VT)	N								
47.	Virginia (VA)	N								
48.	Washington (WA)	N								
49.	West Virginia (WV)	N								
50.	Wisconsin (WI)	N								
51.	Wyoming (WY)	N								
52.	American Samoa (AS)	N								
53.	Guam (GU)	N								
54.	Puerto Rico (PR)	N								
55.	U.S. Virgin Islands (VI)	N								
56.	Northern Mariana Islands (MP)	N								
57.	Canada (CN)	N								
58.	Aggregate other alien (OT)	XXX								
59.	Subtotal	XXX	14,313,844		287,558,739				301,872,583	
60.	Reporting entity contributions for Employee Benefit Plans	XXX								
61.	Total (Direct Business)	(a) 1	14,313,844		287,558,739				301,872,583	
	DETAILS OF WRITE-INS									
5801.		XXX								
5802.		XXX								
5803.		XXX								
5898.	Summary of remaining write-ins for Line 58 from overflow page	XXX								
5899.	TOTALS (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX								

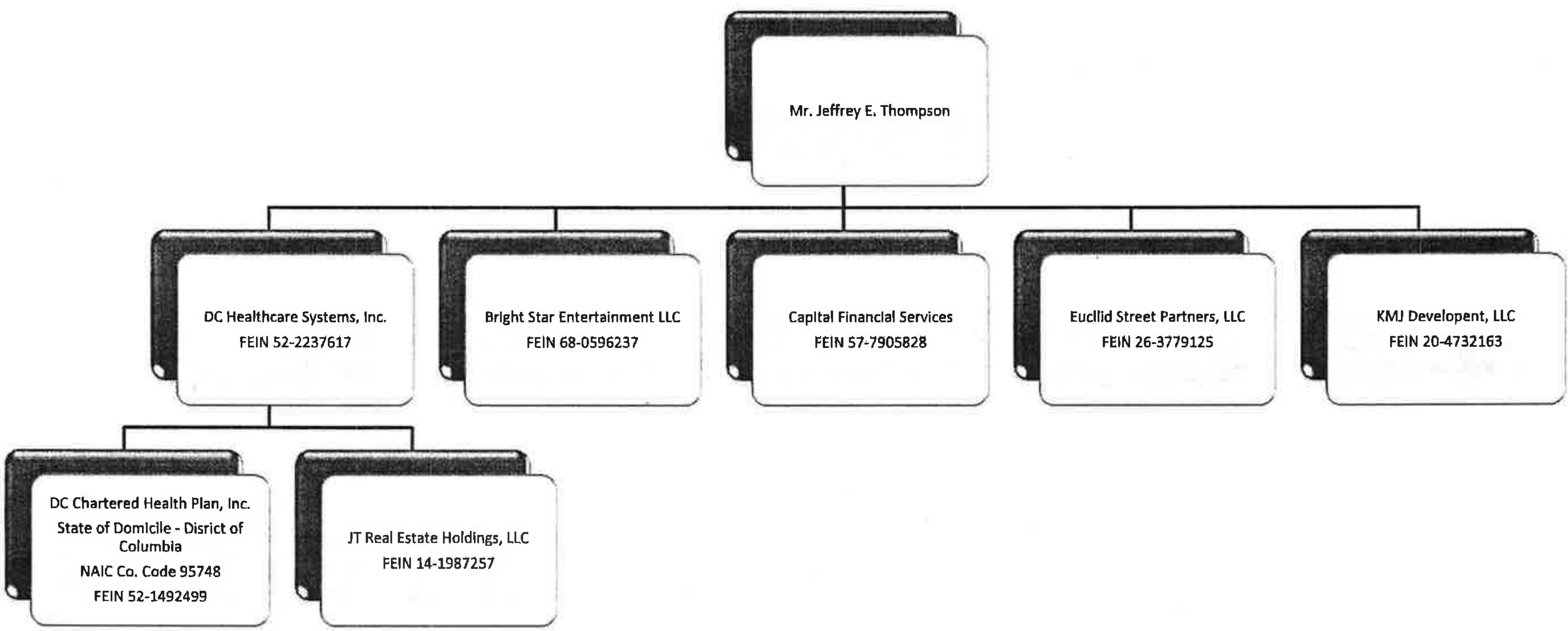
(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER

MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



SCHEDULE Y

PART 1A - DETAIL OF INSURANCE HOLDING COMPANY SYSTEM

1 Group Code	2 Group Name	3 NAIC Company Code	4 Federal ID Number	5 FEDERAL RSSD	6 CIK	7 Name of Securities Exchange if Publicly Traded (U.S. or International)	8 Name of Parent Subsidiaries or Affiliates	9 Domiciliary Location	10 Relationship to Reporting Entity	11 Directly Controlled by (Name of Entity / Person)	12 Type of Control (Ownership, Board, Management, Attorney-in-Fact, Influence, Other)	13 If Control is Ownership Provide Percentage	14 Ultimate Controlling Entity(ies) / Person(s)	15 *
0		0					MR. JEFFREY EARL THOMPSON	DC	UIP	MR. JEFFREY EARL THOMPSON		100.0	MR. JEFFREY EARL THOMPSON	
0		95748	52-1492499				DC CHARTERED HEALTH PLAN INC	DC		DC HEALTHCARE SYSTEMS	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	14-1987257				JT Real Estate Holdings, LLC	DC	NIA	DC HEALTHCARE SYSTEMS	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	52-2237617				DC HEALTHCARE SYSTEMS	DC	UDP	JEFFREY EARL THOMPSON	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	68-0596237				Bright Star Entertainment LLC	DC	NIA	JEFFREY EARL THOMPSON	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	57-7905828				Capital Financial Services	DC	NIA	JEFFREY EARL THOMPSON	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	26-3779125				EUCLID STREET PARTNERS, LLC	DC	NIA	JEFFREY EARL THOMPSON	Ownership	100.0	MR. JEFFREY EARL THOMPSON	
0		0	20-4732163				KMJ Development, LLC	DC	NIA	JEFFREY EARL THOMPSON	Ownership	100.0	MR. JEFFREY EARL THOMPSON	

Asterisk	Explanation
0000001	Footnote

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	RESPONSE
1. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	No

Explanations:

Bar Codes:

Medicare Part D Coverage Supplement

95748201236500003 2012 Document Code: 365

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date 1 Uncovered	2 Total	Prior Year To Date 3 Total	Prior Year Ended December 31 4 Total
2904. Goodwill impairment				(1,460,583)
2905. Other miscellaneous income		2,691		101,949
2906. Claims Adjudication Services				201,832
2997. Summary of remaining write-ins for Line 29 (Lines 2904 through 2996)		2,691		(1,156,802)

SCHEDULE A - VERIFICATION

Real Estate

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year		
2.	Cost of acquired		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Current year change in encumbrances		
4.	Total gain (loss) on disposals		
5.	Deduct amounts received on disposals		
6.	Total foreign exchange change in book/adjusted carrying value		
7.	Deduct current year's other than temporary impairment recognized		
8.	Deduct current year's depreciation		
9.	Book/adjusted carrying value at the end of current period (Lines 1 + 2 + 3 + 4 - 5 + 6 - 7 - 8)		
10.	Deduct total nonadmitted amounts		
11.	Statement value at end of current period (Line 9 minus Line 10)		

NONE

SCHEDULE B - VERIFICATION

Mortgage Loans

		1 Year To Date	2 Prior Year Ended December 31
1.	Book value/recorded investment excluding accrued interest, December 31 of prior year		
2.	Cost of acquired:		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Capitalized deferred interest and other		
4.	Accrual of discount		
5.	Unrealized valuation increase (decrease)		
6.	Total gain (loss) on disposals		
7.	Deduct amounts received on disposals		
8.	Deduct amortization of premium and mortgage interest points and commitment fees		
9.	Total foreign exchange change in book value/recorded investment excluding accrued interest		
10.	Deduct current year's other than temporary impairment recognized		
11.	Book value/recorded investment excluding accrued interest at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12.	Total valuation allowance		
13.	Subtotal (Line 11 plus Line 12)		
14.	Deduct total nonadmitted amounts		
15.	Statement value at end of current period (Line 13 minus Line 14)		

NONE

SCHEDULE BA - VERIFICATION

Other Long-Term Invested Assets

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year	201,882	235,873
2.	Cost of acquired:		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Capitalized deferred interest and other		
4.	Accrual of discount		
5.	Unrealized valuation increase (decrease)		
6.	Total gain (loss) on disposals		
7.	Deduct amounts received on disposals	13,283	33,991
8.	Deduct amortization of premium and depreciation		
9.	Total foreign exchange change in book/adjusted carrying value		
10.	Deduct current year's other than temporary impairment recognized	188,599	
11.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		201,882
12.	Deduct total nonadmitted amounts		201,882
13.	Statement value at end of current period (Line 11 minus Line 12)		

SCHEDULE D - VERIFICATION

Bonds and Stocks

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value of bonds and stocks, December 31 of prior year	15,025,957	14,053,709
2.	Cost of bonds and stocks acquired	2,916,667	5,140,000
3.	Accrual of discount		
4.	Unrealized valuation increase (decrease)		
5.	Total gain (loss) on disposals		
6.	Deduct consideration for bonds and stocks disposed of	2,313,819	4,167,752
7.	Deduct amortization of premium		
8.	Total foreign exchange change in book/adjusted carrying value		
9.	Deduct current year's other than temporary impairment recognized		
10.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	15,628,805	15,025,957
11.	Deduct total nonadmitted amounts		
12.	Statement value at end of current period (Line 10 minus Line 11)	15,628,805	15,025,957

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	15,266,139	495,666	450,000	317,000	15,518,957	15,266,139	15,628,805	15,025,957
2. Class 2 (a)								
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)	317,000			(317,000)	317,000	317,000		
7. Total Bonds	15,583,139	495,666	450,000		15,835,957	15,583,139	15,628,805	15,025,957
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	15,583,139	495,666	450,000		15,835,957	15,583,139	15,628,805	15,025,957

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 $..............0; NAIC 2 $..............0; NAIC 3 $..............0; NAIC 4 $..............0; NAIC 5 $..............0; NAIC 6 $..............0

SI03 Schedule DA Part 1 .... NONE

SI03 Schedule DA Verification .... NONE

SI04 Schedule DB - Part A Verification .... NONE

SI04 Schedule DB - Part B Verification .... NONE

SI05 Schedule DB Part C Section 1 .... NONE

SI06 Schedule DB Part C Section 2 .... NONE

SI07 Schedule DB - Verification .... NONE

SCHEDULE E - Verification
(Cash Equivalents)

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year	20,791,972	12,784,346
2.	Cost of cash equivalents acquired	3,878,828,185	1,470,489,701
3.	Accrual of discount		
4.	Unrealized valuation increase (decrease)		
5.	Total gain (loss) on disposals		
6.	Deduct consideration received on disposals	3,888,357,142	1,462,482,075
7.	Deduct amortization of premium		
8.	Total foreign exchange change in book/adjusted carrying value		
9.	Deduct current year's other than temporary impairment recognized		
10.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	11,263,015	20,791,972
11.	Deduct total nonadmitted amounts		
12.	Statement value at end of current period (Line 10 minus Line 11)	11,263,015	20,791,972

E01 Schedule A Part 2 .... NONE

E01 Schedule A Part 3 .... NONE

E02 Schedule B Part 2 .... NONE

E02 Schedule B Part 3 .... NONE

SCHEDULE BA - PART 2

Showing Other Long-Term Invested Assets ACQUIRED AND ADDITIONS MADE During the Current Quarter

1	2	Location		5	6	7	8	9	10	11	12	13
		3	4									
CUSIP Identification	Name or Description	City	State	Name of Vendor or General Partner	NAIC Designation	Date Originally Acquired	Type and Strategy	Actual Cost at Time of Acquisition	Additional Investment Made After Acquisition	Amount of Encumbrances	Commitment for Additional Investment	Percentage of Ownership
				NONE								
4199999 TOTALS												XXX

SCHEDULE BA - PART 3

Showing Other Long-Term Invested Assets DISPOSED, Transferred or Repaid During the Current Quarter

1	2	Location		5	6	7	8	Change in Book/Adjusted Carrying Value						15	16	17	18	19	20
		3	4					9	10	11	12	13	14						
CUSIP Identification	Name or Description	City	State	Name of Purchaser or Nature of Disposal	Date Originally Acquired	Disposal Date	Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Unrealized Valuation Increase (Decrease)	Current Year's (Depreciation) or (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Capitalized Deferred Interest and Other	Total Change in B./A.C.V. (9 + 10 - 11 + 12)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value Less Encumbrances on Disposal	Consideration	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Investment Income
Collateral Loans - Unaffiliated																			
	UNION TEMPLE COMMUNITY DEVELOPMENT CORP	WASHINGTON	DC	PAYMENTS/ WRITE-OFF	07/15/2008	09/30/2012	52,022			47,817		(47,817)			4,205		47,817	47,817	532
	UNION TEMPLE COMMUNITY DEVELOPMENT CORP	WASHINGTON	DC	PAYMENTS/WRITE-OFF	04/09/2009	09/30/2012	149,860			140,782		(140,782)			9,078		140,782	140,782	775
2399999 Subtotal - Collateral Loans - Unaffiliated							201,882			188,599		(188,599)			13,283		188,599	188,599	1,307
3999999 Total - Unaffiliated							201,882			188,599		(188,599)			13,283		188,599	188,599	1,307
4099999 Total - Affiliated																			
4199999 TOTALS							201,882			188,599		(188,599)			13,283		188,599	188,599	1,307

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
			NONE						
9999999 Total - Bonds, Preferred and Common Stocks					XXX		XXX		XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues ....0.

STATEMENT AS OF **September 30, 2012** OF THE **DC CHARTERED HEALTH PLAN, INC.**

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stocks Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value 11	12	13	14	15	16	17	18	19	20	21	22
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change In B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change In B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
Bonds - Industrial and Miscellaneous (Unaffiliated)																					
	CRESOM BANK CSBKSC		08/14/2012	SELL	XXX	250,000	250,000.00	250,000							250,000				1,094	01/13/2015	1FE
	PLAINS CAPITAL		08/20/2012	MATURITY	XXX	200,000	200,000.00	200,000	200,000						200,000				1,613	08/20/2012	1FE
3899999 Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated)					XXX	450,000	450,000.00	450,000	200,000						450,000				2,707	XXX	XXX
8399997 Subtotal - Bonds - Part 4					XXX	450,000	450,000.00	450,000	200,000						450,000				2,707	XXX	XXX
8399998 Summary Item from Part 5 for Bonds (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
8399999 Subtotal - Bonds					XXX	450,000	450,000.00	450,000	200,000						450,000				2,707	XXX	XXX
8999998 Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
9799998 Summary Item from Part 5 for Common Stocks (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
9899999 Subtotal - Preferred and Common Stocks					XXX		XXX													XXX	XXX
9999999 Total - Bonds, Preferred and Common Stocks					XXX	450,000	XXX	450,000	200,000						450,000				2,707	XXX	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues ....0.

E06 Schedule DB Part A Section 1 .... NONE

E07 Schedule DB Part B Section 1 .... NONE

E08 Schedule DB Part D .... NONE

E09 Schedule DL - Part 1 - Securities Lending Collateral Assets .... NONE

E10 Schedule DL - Part 2 - Securities Lending Collateral Assets .... NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1			2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
					Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6	7	8	
Depository			Code	Rate of Interest			First Month	Second Month	Third Month	*
open depositories										
Cardinal Bank - General	Washington, DC						485,667	816,342	841,008	XXX
Cardinal Bank - MEDCLMS	Washington, DC						(13,591,766)	(10,774,024)	(5,747,003)	XXX
Cardinal Bank - Alliance Claims	Washington, DC						(325,842)	(733,242)	117,201	XXX
Cardinal Bank - Mental Health Claims	Washington, DC						(122,246)	(219,148)	(144,691)	XXX
Premier Bank - Flexible Spending	Washington, DC						192			XXX
Premier Bank - Flexible Benefits	Washington, DC						1,859	1,183	986	XXX
Cardinal Bank - MM	Washington, DC			0.200	1		(1)	(1)		XXX
Bank of America - Payroll	Washington, DC						58,449	87,557	198,887	XXX
Cardinal Bank - Transportation	Washington, DC						4,235	3,435	3,035	XXX
										XXX
0199998 Deposits in ....34 depositories that do not exceed the allowable limit in any one depository - open depositories			XXX	XXX			3,459,776	3,459,776	3,459,776	XXX
0199999 Totals - Open Depositories			XXX	XXX	1		(10,029,676)	(7,358,122)	(1,270,802)	XXX
0299998 Deposits in ....0 depositories that do not exceed the allowable limit in any one depository - suspended depositories			XXX	XXX						XXX
0299999 Totals - Suspended Depositories			XXX	XXX						XXX
0399999 Total Cash On Deposit			XXX	XXX	1		(10,029,676)	(7,358,122)	(1,270,802)	XXX
0499999 Cash in Company's Office			XXX	XXX	XXX	XXX	800	800	800	XXX
0599999 Total Cash			XXX	XXX	1		(10,028,876)	(7,357,322)	(1,270,002)	XXX

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
8399999 Subtotals - Bonds							
Sweep Accounts							
CARDINAL TRUST & INVESTMENT A/C		09/30/2012	0.084	10/01/2012	19,229		26
CASH - CARDINAL BANK REPO		09/30/2012	0.002	10/01/2012	10,764,408		33,511
CASH-CARDINAL BANK Pledged	C	09/30/2012	0.100	10/01/2012	479,378		20
CASH - CARDINAL BANK SWEEP			0.000				8,051
8499999 Sweep Accounts					11,263,015		41,607
8599999 Other Cash Equivalents							
8699999 Total - Cash Equivalents					11,263,015		41,607

INDEX TO HEALTH QUARTERLY STATEMENT

INDEX TO HEALTH
QUARTERLY STATEMENT

EXHIBIT 3

SUPERIOR COURT OF THE DISTRICT OF COLUMBIA
CIVIL DIVISION

DISTRICT OF COLUMBIA,
Department of Insurance, Securities and Banking,

Petitioner,

Civil Action No.: 2012-8227

v.

Judge Melvin R. Wright

DC CHARTERED HEALTH PLAN, INC.,

Respondent.

AFFIDAVIT OF STEPHEN I. GLOVER

The undersigned, STEPHEN I. GLOVER, having been duly sworn, hereby deposes and states as follows:

1. My name is Stephen I. Glover and the facts set forth below are true based upon my personal knowledge.

2. I am a partner at the law firm Gibson, Dunn & Crutcher LLP, attorneys for D.C. Healthcare Systems, Inc. ("DCHSI") and its owner on certain corporate matters, including in connection with the rehabilitation of D.C. Chartered Health Plan, Inc. ("Chartered").

3. From October 19, 2012 until recently, during the meetings and telephone conferences with the Special Deputy to the Rehabilitator and the Rehabilitator's outside counsel, including those on November 2, 2012, November 9, 2012, November 16, 2012, November 23, 2012, November 30, 2012, December 5, 2012, December 14, 2012 and January 11, 2013, on behalf of DCHSI, I repeatedly requested information from the Special Deputy to the Rehabilitator and the Rehabilitator's outside counsel with respect to the status of the proposed rehabilitation plan for Chartered, including structure, value and other key terms of a potential transaction, details regarding the status of negotiations with buyers and the District government,

and details regarding timing. I did not receive any meaningful information in respect of these requests from the Special Deputy to the Rehabilitator and the Rehabilitator's outside counsel. In particular, for example, they did not provide: (a) any information regarding the offers made by AmeriHealth District of Columbia, Inc. ("AmeriHealth") or other prospective buyers who were contacted by the Special Deputy to the Rehabilitator or its advisers; (b) a copy or description of the terms of the non-binding letter of intent entered into by AmeriHealth and Chartered; (c) the purchase price proposed to be paid by AmeriHealth; (d) a description of the other key terms of the proposed agreement between AmeriHealth and Chartered, including the structure of the transaction, the allocation of assets and liabilities between buyer and seller, conditions to completion and indemnification arrangements between buyer and seller; (e) drafts of the proposed definitive agreement between AmeriHealth and Chartered; (f) the status of any discussions among Chartered, AmeriHealth and/or the District government regarding the current Medicaid contract or the request for proposals relating to the new five-year Medicaid contract, including but not limited to any discussions regarding pricing and preparation of a response to the RFP; (g) the status of any discussions between Chartered, AmeriHealth and/or the District government regarding the settlement of Chartered's retrospective rate adjustment claim.

4. Additionally, the Special Deputy to the Rehabilitator did not give DCHSI, the sole shareholder of Chartered, the opportunity to review and comment on the terms of the asset purchase agreement reached between Chartered and AmeriHealth Mercy.

5. The Special Deputy to the Rehabilitator indicated to us that Chartered would respond in its own right to the RFP for a new five year Medicaid contract. He also discussed the possibility that Chartered would submit a bid that would be predicated on Chartered completing rehabilitation by the time of the contract award. It was not until December 3, 2012, when the

deadline for such response had expired, that I learned that Chartered had not responded to the RFP.

6. In the days leading to DCHSI's consent to rehabilitation, the Special Deputy to the Rehabilitator and his agents told us that during the rehabilitation they would provide information to and cooperate and consult with DCHSI. As stated, once DCHSI gave its consent and the rehabilitation proceeding began, the Special Deputy to the Rehabilitator and his counsel did not cooperate with DCHSI's repeated requests for information that was important to DCHSI's financial and business interests.

7. Before DCHSI consented to the commencement of rehabilitation proceedings and the filing of a Consent Petition for an Order of Rehabilitation, I asked the Special Deputy to the Rehabilitator to provide a letter confirming that he would consult with DCHSI during the rehabilitation process. The Special Deputy to the Rehabilitator said that he would provide such a letter, but that he would not be able to do so until after the Consent Petition was filed. On several occasions after DCHSI signed its consent, I asked the Special Deputy to the Rehabilitator to provide the letter, but he refused.

8. The Special Deputy to the Rehabilitator indicated on several occasions that he believed he had an obligation to protect the interests of DCHSI as owner, as well as the interests of other stakeholders.

9. During the meeting on December 14, 2012, I told the Special Deputy to the Rehabilitator and the Rehabilitator's outside counsel that DCHSI would be willing to sign a confidentiality agreement before any confidential information relating to the rehabilitation of Chartered was shared with DCHSI by the Special Deputy to the Rehabilitator. The Special

Deputy to the Rehabilitator said he would think about this proposal. I did not receive a follow-up response from the Special Deputy to the Rehabilitator on this proposal after the meeting.

10. In December 2012 and January 2013, I informed the Special Deputy to the Rehabilitator and his counsel that DCHSI's owner was considering litigation against the District due to the lack of information disclosure and on other grounds. The Special Deputy to the Rehabilitator's counsel responded that litigation would be a mistake for DCHSI and discouraged DCHSI and its owner, Mr. Thompson, from pursuing that option. The Special Deputy to the Rehabilitator's current statement that DCHSI "sat idly by" is not true; I repeatedly expressed DCHSI's views on the proposed transactions, asked questions about the Special Deputy's strategy and approach, and asked for information that would have helped DCHSI better analyze its alternatives.

11. Although I repeatedly had requested that the Special Deputy to the Rehabilitator disclose to DCHSI information about the proposed Chartered-AmeriHealth transaction, the agreement was not disclosed to DCHSI until February 22, 2013, the same day it was filed with the Court for approval.

12. Despite contrary assertions, DCHSI did not refuse to cooperate with the Rehabilitator. DCHSI did not ignore requests by the Special Rehabilitator to pay certain amounts; rather, it disputed whether these amounts were owed. On several occasions I requested financial information to back-up the Special Deputy to the Rehabilitator's requests for payment. The Special Deputy to the Rehabilitator did not provide the requested backup information. He did reduce the amount claimed, however.

I solemnly affirm that the contents of the foregoing are true to the best of my knowledge, information and belief.

3/20/13
Date

Stephen I. Glover

OLA RENEE CHATMAN NOTARY PUBLIC DISTRICT OF COLUMBIA

Sworn to before me this 20th day of MARCH, 2013

Ola Renee Chatman
Notary Public

My commission expires: 6/30/2015

EXHIBIT 4

manatt
manatt | phelps | phillips

David Killalea
Manatt, Phelps & Phillips, LLP
Direct Dial: (202) 585-6555
E-mail: DKillalea@manatt.com

January 15, 2013

Client-Matter: 29276.062

BY E-MAIL

E. Louise R. Phillips
Assistant Attorney General
Civil Enforcement Section
441 4th Street, NW
Suite 650 N
Washington, D. C. 20001

Re: Rehabilitation of DC Chartered Health Plan, Inc.

Dear Ms. Phillips:

It was a pleasure to meet you in person this morning. As you are aware, we represent DC Healthcare Systems, Inc. ("DCHSI"), the sole shareholder of DC Chartered Health Plan, Inc. ("Chartered"), and Jeffrey E. Thompson, the sole shareholder of DC Healthcare Systems, Inc., in connection with the above-referenced matter.

As you also are aware, DCHSI and Mr. Thompson consented to the filing of this rehabilitation proceeding. DCHSI and Mr. Thompson did this with the agreement and understanding that information concerning the sales process and any potential sale would be shared with them, as owners, and that they would have input into the sales process. Instead, the owners have been cut off from all information about the sale of their own company, including information as to the financial impact on them of the contemplated transaction with AmeriHealth Mercy. This failure of disclosure and refusal to communicate substantively about the potential sale of Chartered or its assets is inappropriate and violates DCHSI's rights under the Articles of Incorporation and otherwise.

Accordingly, DCHSI and Mr. Thompson hereby formally demand that the Rehabilitator provide us with (1) a copy of the Letter of Intent with AmeriHealth Mercy; (2) information about all potential bidders or acquisition partners for the sale of Chartered or its assets; (3) ongoing information concerning Chartered's finances and any potential sale of Chartered or its assets; (4) information supporting the allegation at page 7 of the Special Deputy Rehabilitator's First Status Report that DCHSI owes approximately $3.8 million to Chartered; (5) information supporting the demands made in the October 15, 2012 letter from Maynard McAlpin to Mr. Thompson (letter to be sent under separate cover); and (6) information responsive to Steven I. Glover's December 20, 2012 letter to Francis S. Smith (see attached). DCHSI and Mr. Thompson are willing to enter into a non-disclosure agreement, and to cooperate to resolve all issues in the best interests of Chartered and its owners.

We look forward to your prompt response.

Very truly yours,

David Killalea JAS

DK:jas

Attachments