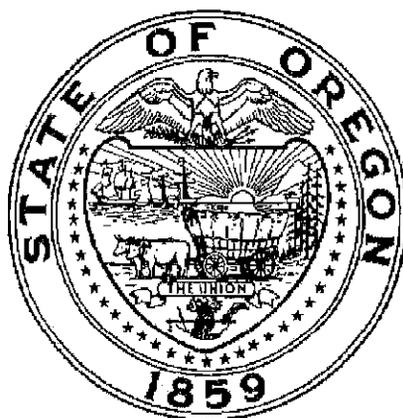


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

**ZOOMCARE HEALTH INSURANCE, INC.
HILLSBORO, OREGON**

AS OF

JULY 3, 2014

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

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SALUTATION

July 3, 2014

Honorable Laura Cali, Commissioner
Department of Consumer Business and Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**ZOOMCARE HEALTH INSURANCE, INC.
19075 NW Tanasbourne Drive, Suite 200
Hillsboro, Oregon 97224**

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our qualifying examination of ZoomCare Health Insurance, Inc. The examination was conducted to determine if the company is qualified to obtain a certificate of authority to conduct business as a health care service contractor pursuant to Chapter 750 of the Oregon Insurance Code. The primary focus was to verify capital and surplus and to confirm that minimum capital and surplus requirements have been met. ORS 750.045 requires that applicants for an initial certificate of authority to conduct business as a health care service contractor possess capital and surplus of at least \$3,000,000.

In addition to a verification of the Company's financial position, the following matters were reviewed:

Company description	Management and control
Conflict of interest	Corporate records
Fidelity bond and other insurance protection	Reinsurance
Accounts and records	

The examination was conducted in compliance with the Oregon Insurance Code as well as in accordance with procedures promulgated by the National Association of Insurance Commissioners.

COMPANY DESCRIPTION

ZoomCare Health Insurance, Inc., is an Oregon for-profit corporation incorporated in Oregon on July 18, 2013. The Company is part of a holding company system, where Dr. David G. Sanders and Dr. Albert DiPiero are the ultimate controlling entities of the holding company.

The Company was formed to become a health care service contractor under ORS Chapter 750. It will provide commercial health care insurance solutions leveraging ZoomCare clinics

located in Portland and Salem, Oregon, and in Seattle and Vancouver, Washington, operated by Zoom Management, Inc. (ZMI) and the healthcare services of Zoom Care, P.C.

Capitalization

The capitalization requirements are defined in ORS 750.045(1) which requires a health care service contractor to keep and maintain capital and surplus of not less than \$2,500,000 and to possess an additional \$500,000 upon initial licensing, as required by ORS 750.045(4).

The Articles of Incorporation, Article 4, authorizes the Company to issue 100,000 common shares with a par value of \$0.001. Dr. DiPiero and Dr. Sanders own 25,100 shares of common stock each. Pursuant to a Common Stock Purchase Agreement, the Company issued 12,396 shares of common stock to Endeavour Capital Fund VI, L.P., for a purchase price of \$159.36 per share, totaling \$1,975,426.56, and 155 shares of common stock to Endeavour Associates Fund VI, L.P., for the same purchase price, totaling \$24,700.80, for a total amount from these two affiliated funds of \$2,000,127.36.

The Company issued a \$1,000,000 subordinated surplus note to ZMI on June 27, 2014, to meet capital requirements. The note will pay interest at a rate of 6% per annum. The Company amended this surplus note to satisfy the requirements of SSAP 41. The Company provided the amended and executed note to the division on August 1, 2014.

CORPORATE RECORDS

Articles of Incorporation

The examiners reviewed the Articles of Incorporation dated July 18, 2013. The Articles conform to the provisions of ORS 732.095.

Bylaws

The examiners reviewed the corporate Bylaws, last amended on April 14, 2014. The Bylaws stipulate that all corporate powers of the corporation shall be exercised by or under the authority of the Board, and the business and affairs of the corporation shall be managed under the direction of the Board. However, if there is a conflict between the Bylaws and the Shareholders Agreement during the term of the Shareholders Agreement, the terms of the Shareholders Agreement prevail to the maximum extent permitted by Oregon Law.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Section 4, sub-section 4.2, state the number of directors of the corporation shall be at least three (3) and no more than five (5). The term of a director shall expire at the next annual meeting of shareholders after his or her election, however, the director shall continue to serve until the director's successor is elected and qualified or the number of directors is decreased. No reduction in the number of directors shall shorten the term of any incumbent director. As of July 3, 2014, the Company was managed by a three member Board of Directors, as follows:

Name and Address

Principal Affiliation

David G. Sanders
Gaston, Oregon

Co-Founder, President & CEO
ZoomCare, P.C., Zoom Management Inc.,
ZoomCare Health Insurance, Inc.

Albert DiPiero
Hillsboro, Oregon

Co-Founder, Medical Director
ZoomCare, P.C., Zoom Management Inc.,
ZoomCare Health Insurance, Inc.

J. Bart McMullan, Jr.
Portland, Oregon

Board Chair
Care Oregon

All biographical affidavits were obtained and reviewed. One-third of the Board of Directors would be considered representative of the public, and the Company is in compliance with ORS 750.015.

Officers

Pursuant to the Amended and Restated Bylaws, Section 7, the officers of the corporation shall be appointed by the Board. The president may appoint any other officers, assistant officers, and agents. Any two (2) or more offices may be held by the same person. The president shall be responsible for the general operation of the corporation and have authority to vote any shares owned by the corporation and to delegate this authority to any other officer. The term of office of each officer commences upon such officer's respective appointment and continues until his or her successor is appointed or resignation or removal becomes effective. The initial officers serving as of July 3, 2014, were as follows:

<u>Name</u>	<u>Title</u>
David G. Sanders	President, Chief Executive Officer
Albert DiPiero	Secretary & Treasurer
Martin Barrack	Assistant Secretary

Conflict of Interest

The Company has a Conflict of Interest Policy which requires all directors and officers to annually identify and disclose all potential conflicts of interest as outlined in Articles I through VI of the policy. The policy also permits the Company to assess director independence for public representative(s) serving on the Board.

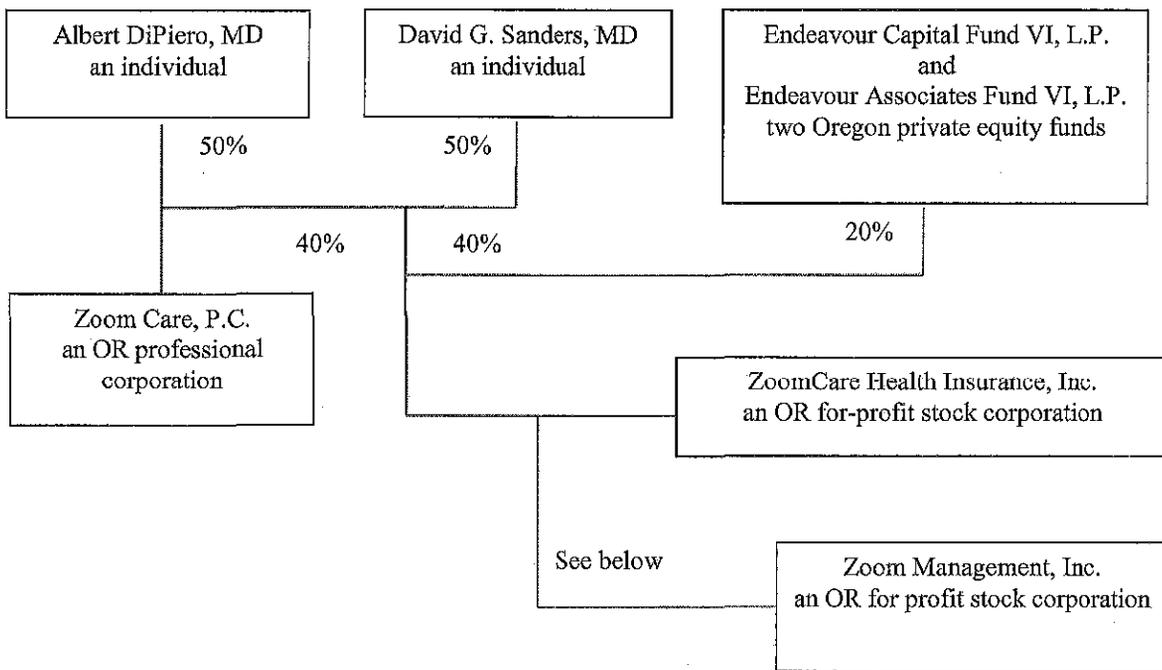
Two Board members, Dr. Sanders and Dr. DiPiero, each disclosed that they are voting directors, officers, and were shareholders of Zoom Management, Inc., and Zoom Care, P.C., both affiliates of the Company.

The examiners noted Bart McMullan currently serves as a Board Chairman of Care Oregon; however, he does not have a financial conflict of interest.

From a review of the completed questionnaires, the directors and officers performed due diligence in completing the conflict of interest statements.

Insurance Company Holding System

The Company will be included within an insurance company holding system, as follows:



Contemporaneously with the sale of common stock by the Company, ZMI sold Series A preferred stock to the two Endeavour funds that own 20% of the Company and those funds own 20.4% of the total voting equity of ZMI on an as-converted to common stock basis, leaving Dr. Sanders and Dr. DiPiero each owning 39.8% of the total voting equity of ZMI on an as-converted to common stock basis. Dr. DiPiero and Dr. Sanders each own 50% of Zoom Care P.C. ZMI and Zoom Care, P.C., will each be considered affiliates of the Company.

Administrative and Management Services Agreement

The Company entered into an Administrative Services Agreement with ZMI effective June 1, 2014. ZMI will act as the sole and exclusive provider of all business management, information management, administration, equipment and supplies as reasonably necessary for the day-to-day administration, contract negotiations with payers, operation and management. The Company will pay an administration fee equal to actual expenses directly incurred by ZMI and a portion of the shared resources used for services, including rent for office space and pro rata expense of employees. Payment is due by the 5th of each month for the amount for the prior calendar month.

FIDELITY BOND AND OTHER INSURANCE

ZMI maintains insurance coverages through insurance policies whereby the Company is a named insured. The examination of insurance policies involved a review of adequacy of limits and retentions and the authority to write in the State of Oregon. At the date of examination, the Company maintained crime coverage in the amount of \$1,000,000 with a \$50,000 deductible for each claim. This coverage met the levels recommended in the NAIC Financial Condition Examiners Handbook. Other insurance coverages in force at July 3, 2014, were as follows:

Workers' compensation	Directors and officers
Fiduciary liability	Employment practices liability
Professional liability	Umbrella excess liability

TERRITORY AND PLAN OF OPERATIONS

The Company was formed to provide innovative health care insurance solutions leveraging Zoom Care, P.C., clinics operated by Zoom Management, Inc., in the Pacific Northwest. The Company intends to market health plans to individuals, small group and large group employers in the state of Oregon. The Company's initial target market will be the large

group (50+) segment. It plans to use direct sales and a broker model to acquire new customers.

REINSURANCE

Ceded

The Company received a proposal of reinsurance from Physicians Insurance A Mutual Company (NAIC #40738, authorized in Oregon on December 23, 1993). The proposal has three retention levels; \$150,000, \$175,000 and \$200,000. The Company has not made a decision on the retention level. Coverage is quoted as “No Limits Coverage” and priced on premium per member per month basis. If the Company were to choose the maximum retention level, it would not exceed 10% of its surplus, in compliance with ORS 732.504. The proposal requires a minimum premium of \$150,000 per annum.

Insolvency Clause

The Company has provided assurance that any reinsurance agreement into which it enters will include an acceptable insolvency clause which agrees to make payment to a statutory successor without diminution in accordance with the provisions of ORS 731.508.

ACCOUNTS AND RECORDS

In general, the Company’s records and source documentation supported the amounts presented in its financial statement as of July 3, 2014, and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

FINANCIAL STATEMENTS

The following unaudited financial statements show the financial condition of ZoomCare Health Insurance, Inc., as of July 3, 2014.

ZOOMCARE HEALTH INSURANCE, INC.
BALANCE SHEET
As of July 3, 2014

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Cash	\$ 3,000,082	\$ -	\$ 3,000,082	1
Due from Shareholders	<u>-</u>	<u>50</u>	<u>50</u>	2
Total Assets	<u>\$ 3,000,082</u>	<u>\$ 50</u>	<u>\$ 3,000,132</u>	
 Liabilities				
Current Liabilities	\$ <u>0</u>	\$ <u>-</u>	\$ <u>0</u>	
Total Liabilities	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ 0</u>	
 Capital and Surplus				
Common Stock	\$ 12	\$ 50	\$ 62	2
Surplus Note	1,000,000		1,000,000	
Paid in and Contributed Surplus	2,000,115		2,000,115	2
Unassigned surplus	<u>(45)</u>	<u>-</u>	<u>(45)</u>	
Total Capital and Surplus	<u>3,000,082</u>	<u>50</u>	<u>3,000,132</u>	
Total Liabilities, Capital and Surplus	<u>\$ 3,000,082</u>	<u>\$ 50</u>	<u>\$ 3,000,132</u>	

ZOOMCARE HEALTH INSURANCE, INC.
INCOME STATEMENT
As of July 3, 2013

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$ 0	\$ -	\$ 0	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	<u>0</u>	<u>-</u>	<u>0</u>	
Hospital and Medical:				
Hospital/medical benefits	-	-	-	
Other professional services	-	-	-	
Outside referrals	-	-	-	
Emergency room and out-of- area	-	-	-	
Prescription drugs	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	-	-	-	
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	
Less:				
Net reinsurance recoveries	<u>-</u>	<u>-</u>	<u>-</u>	
Total medical and hospital	-	-	-	
Non-health claims	-	-	-	
Claim adjustment expenses	-	-	-	
General administrative expenses	-	-	-	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment income earned	(45)	-	(45)	
Net realized capital gains (losses)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment gains (losses)	(45)	-	(45)	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	-	-	-	
Federal income taxes incurred	-	-	-	
Net income	<u>\$ (45)</u>	<u>\$ -</u>	<u>\$ (45)</u>	

Note 1 – Cash & Cash Equivalents

The examiner verified the balances in the cash accounts were held in the name of the Company and confirmed the balances held with Premier Community Bank and in a custodial account at US Bank, NA. No procedures were performed by the examiner to determine the accuracy of reporting, pricing, or valuation. Procedures were limited to determination of ownership and existence of cash.

Cash and short-term deposits consisted of eleven separate Certificates of Deposit held in a CDARS account at Premier Community Bank, cash on deposit in a custodial account at US Bank, and one checking account.

The Company provided an executed custodial agreement with Premier Community Bank, which met all the safeguards in OAR 836-027-0200(4)(a)-(l). The examiner determined the Company possessed sufficient investments meeting required capitalization in accordance with ORS 733.580.

Note 2 - Funding

The Company obtained financing from two sources; an investment from Endeavour Capital Fund VI, L.P., and Endeavour Associates Fund VI, L.P. (collectively, Endeavour), and from Zoom Management, Inc. On June 27, 2014, ZMI contributed \$1,000,000 in exchange for a subordinated surplus note described earlier in this report. On the same date, Endeavour collectively purchased 12,551 shares for \$159.36 per share. The examiners allocated \$12 in common capital stock based on the par value, and the remaining balance was allocated to paid-in contributions in the amount of \$2,000,115.

The examiners noted in the Board minutes that Dr. DiPiero and Dr. Sanders each obtained 25,100 shares for a consideration of \$251. These contributions were not recorded so the examiners created a receivable for \$50 to pay for the par value of the issued common shares.

CONCLUSION

The Company has submitted an application for a Certificate of Authority in accordance with the provisions of Chapter 750 of the Oregon Revised Statutes. At July 2, 2014, the Company reported net assets of \$3,000,132, liabilities of \$0, and total equity of \$3,000,132, as determined by this qualifying financial examination. The Company has met the requirements of ORS 750.045 of the Oregon Insurance Code to possess a Certificate of Authority.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of ZoomCare Health Insurance, Inc., during the examination process are gratefully acknowledged.

In addition to the undersigned, Keilei N. Yambaw, financial examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated on this examination.

Respectfully submitted,



Timothy R. Hurley, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy Hurley, CFE, being duly sworn, states as follows:

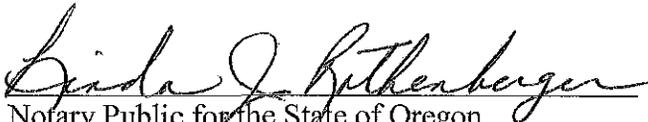
1. I have authority to represent the state of Oregon in the examination of ZoomCare Health Insurance, Inc., Hillsboro, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of ZoomCare Health Insurance, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

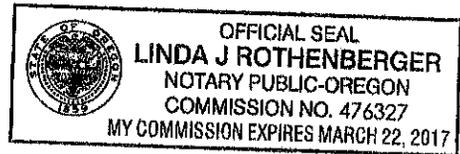


 Timothy R. Hurley, CFE
 Financial Examiner
 Department of Consumer and Business Services
 State of Oregon

Subscribed and sworn to me this 21 day of August, 2014.



 Notary Public for the State of Oregon



My Commission Expires: 3/22/2017