

**ORGANIZATIONAL EXAMINATION**

**of the**

**SECURITYCARE OF TENNESSEE, INC.**

**1 CAMERON HILL CIRCLE  
CHATTANOOGA, TENNESSEE 37402**

**as of**

**February 8, 2013**

**DEPARTMENT OF COMMERCE AND INSURANCE**

**STATE OF TENNESSEE**



# NASHVILLE, TENNESSEE

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Nashville, Tennessee  
February 8, 2013

Honorable Julie Mix McPeak  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-2-103, a financial examination was made of the condition and affairs of the

**SECURITYCARE OF TENNESSEE, INC.**  
1 Cameron Hill Circle  
Chattanooga, Tennessee 37402

hereinafter and generally referred to as the ("Company"), and a report thereon is submitted as follows:

#### INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on January 30, 2013. The examination was the "Organizational Examination" and was conducted by a duly authorized representative of the Department of Commerce and Insurance, State of Tennessee.

#### SCOPE OF EXAMINATION

Upon payment by the Company of the application fee of \$1,300 prescribed in Tenn. Code Ann. § 56-4-101, this examination was conducted as of February 8, 2013 to determine if the Company has complied with the statutory and regulatory requirements to be issued a Certificate of Authority to establish and operate a Health Maintenance Organization insurance company according to the provisions of Tenn. § Code Ann. 56-32-104. This process followed procedures implemented by the Examination Section in their examination of insurance companies which include the verification of assets, review of organizational documents and plan of operation. This examination was in addition to the review performed by the Analysis Section and the Admissions Committee makes a final recommendation concerning the licensure of the Company to the Commissioner of Commerce and Insurance, State of Tennessee.

## COMPANY HISTORY AND ORGANIZATION

The Company was incorporated on December 12, 2012 as a for-profit Health Maintenance Organization authorized to transact business in the State of Tennessee and elsewhere.

On December 12, 2012, the Board of Directors acted to approve the following actions:

- the parent of the Enterprise, BCBST, has determined Southern Diversified Business Services, Inc. ("SDBS") shall be the sole shareholder of SecurityCare of Tennessee, Inc.; and
- approved regulatory actions have been taken to legally form the Company;
- enabled SecurityCare of Tennessee, Inc. to engage in business;
- filed the Charter of SecurityCare of Tennessee, Inc. with the office of the Secretary of State of Tennessee on December 12, 2012;
- adopted the Company bylaws governing the regulation and management of its affairs;
- elected officers pursuant to the Bylaws of the Corporation:

George Henry Smith	President and CEO
Shelia Clemons	Secretary
Brian Stana	Treasurer
Alaine Zachary	Assistant Treasurer
Katharine Laurance	Assistant Secretary
Toliver Ralph Woodard	Chief Financial Officer
- incorporated a stock certificate to represent the shares of common stock of the Corporation;
- accepted the Subscription Agreement of SDBS for 100 shares of common stock of the Corporation;
- determined the Subscription Agreement of SDBS was adequate payment for the number of shares;

- authorized the officers of the Corporation to commence the business of the Corporation;

- authorized the Chief Executive Officer and/or the Secretary, or their designee, to take all steps necessary to qualify the Corporation to do business in such other states as the CEO shall deem necessary, including, but not limited to, the appointment of statutory agents in such states upon whom all legal processes shall be served;

- authorized and directed the officers of the Corporation to pay all fees and expenses incident to or required in the organization of the Corporation.

Funding of the Company was completed on December 18, 2012.

### CHARTER AND BYLAWS

#### Charter:

The Charter of the Company was filed and recorded with the Tennessee Secretary of State on December 12, 2012. Said Charter established and sets forth the following guidelines:

1. The name of the corporation is SecurityCare of Tennessee, Inc.
2. The corporation is for-profit.
3. The duration of the corporation is perpetual.
4. (a) The street address of the corporation's initial registered office is

1 Cameron Hill Circle, 1.5  
Chattanooga, Tennessee 37402  
County of Hamilton

- (b) The name of the corporation's initial registered agent is

William A. Hullender

5. The purpose or purposes for which the corporation is organized are:

To offer a Medicare Advantage HMO in the individual market for January 1, 2014 effective dates.

**Bylaws:**

The Bylaws of the Company in effect at February 8, 2013 were adopted by the Board on December 12, 2012 and have not been amended or changed during the period covered by this examination. Said bylaws were such as those generally found in corporations of this type and contain no unusual provisions.

An annual meeting of the Shareholders shall be held each year prior to the last day of April, at a time and place to be determined by the Board, for electing members of the Board. The Board may call special meetings of the shareholders. Special meetings may also be called by the President, or at the written request of shareholders owning 10% or more of the issued and outstanding capital stock of the Corporation, who are entitled to vote at that special meeting.

There shall be a quorum if the holders of a majority of the shareholders of record are represented at any annual or special meeting, either in person or by proxy.

The Corporation exists as part of the BCBST Enterprise. As part of the BCBST Enterprise, the BCBST Board and its standing Committees (see Article VIII, Section 2 of the BCBST Bylaws) shall have oversight of all wholly owned subsidiaries and affiliates, including the Corporation.

All corporate powers not expressly reserved by the shareholders shall be exercised by or under the authority of the Board (subject to BCBST oversight, as stated above). The business and affairs of the Corporation shall be conducted subject to the general direction and oversight of the Board, except as may be otherwise provided by applicable laws, the Charter or these Bylaws. Individuals do not need to be Tennessee residents or shareholders of the Corporation to serve as Directors.

The Board shall not have the power or authority to: a) elect, appoint or remove Directors, or set the compensation of Directors; or b) approve a plan of merger, consolidation, conversion or dissolution; or c) approve a sale, pledge, or assignment of all or substantially all of the Corporation's assets; or d) take actions which would not be permitted by applicable laws. Such powers are reserved for action by the shareholders.

The number of Directors which shall constitute the whole Board shall be some number not less than 3 and not more than 11 members.

A Chairperson shall be appointed by the Board at the annual Board meeting and shall hold office for one (1) year or until his or her earlier death, removal, resignation, or retirement. Vacancies may be filled at any time by the Board.

The officers of the Corporation shall be a President, a Secretary and a Treasurer, and such other officers as are elected by the Board. A Managing Director may be appointed. The Managing Director and President may not be held by one person, and the President and Secretary may not be one person. The Secretary and Treasurer may be one (1) person. The Board may appoint one or more assistant officers.

The Corporation's officers shall be elected by the Board at the Annual Meeting and shall hold office for one (1) year or until their earlier death, removal, resignation, or retirement. Vacancies may be filled at any time by the Board.

### MANAGEMENT AND CONTROL

#### Management:

As of February 8, 2013, the Board of Directors of the Company was composed of the following:

William M. Gracey	Chairman
J.D. (Jason David) Hickey	Director
John Giblin	Director

#### Control:

The Company was created as a wholly owned subsidiary of Southern Diversified Business Services, Inc., which is a wholly owned subsidiary of BlueCross BlueShield of Tennessee, Inc.

### PROPOSED PLAN OF OPERATION

The Company will be applying with the Centers for Medicare and Medicaid Services ("CMS") to offer a Medicare Advantage HMO in the individual market for an effective date of January 1, 2014. Marketing of the product will be performed within the CMS guidelines for Medicare Advantage products.

Geographic areas of coverage: The Company's initial target for marketing the product will be the Memphis and Chattanooga metropolitan statistical areas.

Network Contracts and Adequacy: Adequacy standards required by CMS for Medicare Advantage will be met, and contracting with the providers for this network will take place.

The Evidence of Coverage which each member will receive for this Medicare Advantage

HMO plan will be the model document required by CMS for Medicare Advantage HMO products. This model document for 2014 will not be available from CMS until mid-year 2013.

Financial Plan - Since this product will not go live until 2014, pending CMS approval, a full financial plan including operating expenses is not available at this time.

Reinsurance - The Company will be applying with a reinsurance carrier to advise the Company on this requirement.

### STATUTORY DEPOSIT

In compliance with statutory requirements, the Company maintained the following deposits at February 8, 2013:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
JP Morgan Chase (CUSIP 46625HJG6; 1.8%; due 1/25/18)	\$900,000	\$903,690	\$903,690
Total general deposits held for the benefit of all policyholders and creditors of the Company	\$900,000	\$903,690	\$903,690
Total	\$900,000	\$903,690	\$903,690

The above deposits were delivered to the Commissioner of Commerce and Insurance, State of Tennessee on February 8, 2013. The securities are held pursuant to a Depository Agreement with U.S. Bank, National Association. U.S. Bank, National Association signed the agreement on January 31, 2013. The Company signed on January 28, 2013.

### SUBSEQUENT EVENTS

None

**COMMENTS**

None.

**RECOMMENDATIONS**

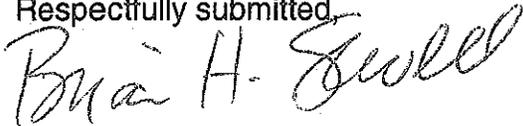
None.

## CONCLUSION

I have verified the foregoing financial statement as included in this examination report. In conjunction, I have inspected the following documents and records of the Company: Charter of Incorporation, Bylaws, minutes of the Board of Directors' meetings, and biographical sketches of all directors and officers and the plan of operation.

Based upon review of the documents provided by the company, the Company has fulfilled all necessary financial examination requirements to receive a Certificate of Authority pursuant to Title 56, Chapter 32 of the Tennessee Code Annotated to establish and operate a health maintenance organization in the State of Tennessee.

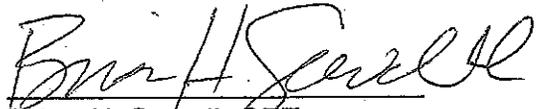
Respectfully submitted,



Brian H. Sewell, CFE  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

**AFFIDAVIT**

The undersigned deposes and says that he has duly executed the attached Organizational Examination Report of SecurityCare of Tennessee dated February 7, 2013 and made as of February 8, 2013, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Brian H. Sewell, CFE  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 8<sup>th</sup> day of

February, 2013

Notary Kira Burnett

County Davidson

State Tennessee

Commission Expires January 6, 2014

