MAXICARE HEALTH PLANS INC
Form 10-K
April 13, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-120249

MAXICARE HEALTH PLANS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-3615709**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

14241 East Firestone Boulevard, La Mirada, California 90638
(Address of principal executive offices)
(562) 293-4064
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

None	**None**
Title of class	**Name of each exchange on which registered**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). þ Yes o No

The aggregate market value of Common Stock held by non-affiliates of the Registrant as of June 30, 2005, the last business day of our most recently completed second fiscal quarter, was approximately $1,081,590 (based upon the closing price for shares of the Registrant s Common Stock as reported by the OTC Bulletin Board on such date).

As of April 12, approximately 9,988,926 shares of the Registrant s Common Stock, $0.001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Item 1. *Business*

General

Since March 15, 2002 we have not been engaged in any active business and we have no reasonable prospects of obtaining or generating any ongoing business. At December 31, 2005 we had a substantial capital deficiency.

As noted above, we have no continuing business activities. We are in the process of exploring possible strategies to realize any possible value remaining in the Company. It is likely, however, that it will be necessary for us to liquidate. We cannot give assurance that any liquidation would provide any value to our shareholders.

We are a Delaware Corporation, organized on January 5, 1981. Our executive offices are located at 14241 East Firestone Boulevard, La Mirada, California 90638 and our telephone number is (562) 293-4064.

Disposition of Subsidiaries

Through our wholly-owned subsidiaries, we formerly operated health maintenance organizations (HMOs) in California (through May 25, 2001) and Indiana (through May 3, 2001). Maxicare Life and Health Insurance Company, Inc., our licensed insurance company, operated preferred provider organizations (PPOs) in California (through December 31, 2001) and Indiana (through May 3, 2001) in conjunction with the HMO products of Maxicare (our California HMO) and Maxicare Indiana, Inc. (our Indiana HMO). As of January 1, 2002 our operations were substantially terminated.

On March 14, 2003 the California HMO s Liquidating Plan of Reorganization was confirmed in the United States Bankruptcy Court. We will not receive any distribution of assets from the California HMO.

The Indiana HMO was formally placed into liquidation on July 3, 2001. On that date the Indiana Commissioner of Insurance was appointed as Liquidator. It is very unlikely that we will receive any distribution of assets from the Indiana HMO.

On January 28, 2002 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. into rehabilitation. On March 4, 2003 the Board of Directors of Maxicare Life and Health Insurance Company, Inc. agreed to its liquidation. We cannot say at this time whether we will receive any distribution of assets from Maxicare Life and Health Insurance Company.

We also own and operate Health Care Assurance Company, Ltd., a captive insurer that provided certain insurance coverage to us and our subsidiaries. Effective January 31, 2002, Health Care Assurance Company, Ltd. ceased providing all such insurance.

Forward Looking Statements

Statements in this Form 10-K annual report may be forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-K annual report, including the risks described under Risks Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to our financial condition, as well as general market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

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Employees

As of March 31, 2006 we had no full-time employees. Two clerical employees of the California HMO work for us on a part time basis. We reimburse the California HMO for the cost of their time under an established agreement.

Item 1A. *Risk Factors*

Because we have no ongoing operations and no prospects of generating funds, we may not be able to continue in existence.

At December 31, 2005:

We had a consolidated working capital deficiency of approximately $4.6 million.

We had a deficiency in shareholders equity of approximately $5.4 million.

Of our total cash and cash equivalents of $2.1 million at December 31, 2005, $0.2 million was held at Health Care Assurance Company, Ltd. The transfer of cash to MHP from Health Care Assurance Company, Ltd. requires the approval of regulatory authorities.

We had no means of generating cash or working capital.

The Commissioner of the Indiana Department of Insurance has made claims against us that may exceed $48.0 million and are far in excess of liabilities accrued by us in connection with the claims. Additionally, substantial claims may be made against us in connection with a pharmacy services agreement.

As a result, we cannot give any assurance that it will not be necessary for us to seek protection under the Bankruptcy Code or liquidate without paying any consideration to our shareholders.

Because our shares are not listed on a stock exchange, our shares are subject to the penny stock rules, which make it difficult to purchase or sell our shares.

Our common stock is subject to the SEC s penny-stock rules, which impose additional sales practice requirements on broker-dealers who sell our stock to persons other than established customers and institutional accredited investors. These rules may affect the ability of broker-dealers to sell our common stock and may affect the ability of our shareholders to sell any common stock they may own.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our executive offices are located at 14241 East Firestone Boulevard, Suite 400, La Mirada, California 90638, pursuant to a month-to-month lease with a sixty day termination notice requirement. Under the terms of this lease, we pay a monthly rental of approximately $2,000.

Item 3. ***Legal Proceedings***

On or about June 25, 2001, the Commissioner of the Indiana Department of Insurance (the Commissioner), as the rehabilitator of Maxicare Indiana, Inc., our Indiana HMO, filed a complaint (the Complaint) in the Marion County Circuit Court of Indiana against us and the five directors of the Indiana HMO, one of whom was a director of the Company. The Commissioner amended the Complaint on February 1, 2002. The Complaint, as amended, alleges, in substance, that: (1) the directors of the Indiana HMO breached their fiduciary duty by failing to maintain a plan providing for continuation of care benefits in the event that the Indiana HMO was placed in receivership, and that the Company is also liable for such failure; (2) the Company fraudulently concealed the financial condition of the Indiana HMO; (3) the Company manipulated the finances of the Indiana HMO for the Company s own benefit; and (4) the Company received preferential and/or fraudulent transfers of money from the Indiana HMO. While the amended

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Complaint requests money damages in largely unspecified amounts, we understand the Commissioner s claims against us to be in excess of $48.0 million. All defendants answered the amended Complaint on April 5, 2002. Pre-trial discovery has not been completed. We believe that the claims against us are without merit and intend to vigorously defend the suit.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of security holders during the three months ended December 31, 2005.

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PART II

Item 5. ***Market for the Registrant s Common Stock and Related Shareholder Matters***

(a) *Market Information*

Our Common Stock trades on the OTC Bulletin Board under the trading symbol MAXI.

The following table sets forth the high and low sale prices per share of our common stock on the OTC Bulletin Board. The quotations are interdealer prices without retail mark-ups, markdowns, or commissions, and may not represent actual transactions.

Common Stock

	Sale Price	
	High	**Low**
2005		
First Quarter	$0.44	$0.13
Second Quarter	$0.19	$0.11
Third Quarter	$0.19	$0.09
Fourth Quarter	$0.21	$0.12
2004		
First Quarter	$0.44	$0.18
Second Quarter	$0.25	$0.11
Third Quarter	$0.45	$0.16
Fourth Quarter	$0.23	$0.13

Our common stock is subject to the SEC s penny-stock rules, which impose additional sales practice requirements on broker-dealers who sell our stock to persons other than established customers and institutional accredited investors. These rules may affect the ability of broker-dealers to sell our common stock and may affect the ability of our shareholders to sell any common stock they may own.

(b) *Holders*

There were 14,801 holders of record of our Common Stock as of December 31, 2005.

(c) *Dividends*

We have not paid any cash dividends on our Common Stock and have no intention of doing so in the near future.

(d) *Sales of Unregistered Equity Security*

During 2005 we had no sales of unregistered equity securities.

(e) *Securities Authorized for Issuance Under Equity Compensation Plans*

No securities were authorized for issuance during 2005 pursuant to equity compensation plans.

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Securities Authorized for Issuance Under Equity Compensation Plans (as of December 31, 2005)

The following table sets forth information concerning shares available for issuance pursuant to equity compensation plans.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	143,060(1)	$ 8.84	1,033,860(2)

(1) Options to purchase shares of our common stock issued under the 1995 Stock Option Plan, the 1999 Stock Option Plan, the 2000 Stock Option Plan and the Outside Directors 1996 Formula Stock Option Plan. All options were vested as of December 31, 2005.

(2) Includes shares issuable under the 1999 Stock Option Plan, the 2000 Stock Option Plan, the Outside Directors 1996 Formula Stock

Option Plan and
Senior
Executive 1996
Stock Option
Plan.

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Item 6. ***Selected Financial Data***

	For the Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Amounts in thousands except per share data)				
Continuing operations(1):					
Revenues					
Premiums	$	$	$	$	$ 1,819
Investment income(2)	74	39	33	569	239
Other income		9	3,471	268	971
Total revenues	74	48	3,504	837	3,029
Expenses					
Health care expenses (credits)			(1,146)	(312)	582
Salary, general and administrative expenses	1,115	1,279	1,833	1,062	4,998
Depreciation and amortization				120	704
Impairment of leased assets				1,036	
(Benefit) charge for litigation and management settlements(3)	(365)		75	209	
Total expenses	750	1,279	762	2,115	6,284
Income (loss) from continuing operations before income taxes	(676)	(1,231)	2,742	(1,278)	(3,255)
Income tax provision					
Income (loss) from continuing operations	(676)	(1,231)	2,742	(1,278)	(3,255)
Discontinued operations:					
Loss from discontinued operations					(28,095)
Write-off of excess of rehabilitated and bankrupt subsidiaries liabilities over assets (4)					16,423
Loss from discontinued operations	0	0	0	0	(11,672)
Net income (loss)	$ (676)	$ (1,231)	$ 2,742	$ (1,278)	$ (14,927)
Net income (loss) per common share:					
Basic:(5)					
Basic income (loss) per common share from continuing operations	$ (0.07)	$ (0.12)	$ 0.28	$ (0.13)	$ (0.33)
Basic loss per common share from discontinued operations	$	$	$	$	$ (1.20)

Weighted average number of common shares outstanding	9,989	9,989	9,867	9,742	9,742
Diluted:(5)					
Diluted income (loss) per common share from continuing operations	$ (0.07)	$ (0.12)	$ 0.28	$ (0.13)	$ (0.33)
Diluted loss per common share from discontinued operations	$	$	$	$	$ (1.20)
Weighted average number of common and common dilutive potential shares outstanding	9,989	9,989	9,867	9,742	9,742

	At December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Balance Sheet Data:					
Assets of continuing operations	$ 2,137	$ 3,367	$ 5,386	$ 2,643	$ 5,136
Liabilities of continuing operations(6)	$ 7,501	$ 8,055	$ 8,843	$12,250	$12,942
Shareholders deficit	$(5,364)	$(4,688)	$(3,457)	$ (9,607)	$ (7,806)

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NOTES TO SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

(1) The placement of our Indiana HMO into rehabilitation on May 4, 2001 and the bankruptcy filing of our California HMO on May 25, 2001 have effectively ended our involvement in the managed care industry. As a result, we have treated our HMO subsidiaries as discontinued operations in the preparation of these financial statements. Although our remaining operations (parent and Health Care Assurance Company, Ltd.) are insignificant and financially dependent upon our HMOs, they represent services not intrinsically linked to the managed care industry and have been treated as continuing operations.

(2) In 2002 we recorded investment income of $521,000 in connection with the March, 2003 collection of a note that had been issued by a former executive officer of the Company.

(3) During the second quarter of 2005 we recognized expense of $237,000 in connection with the settlement of certain severance claims made against us by three former employees of our Indiana HMO. During the fourth quarter of 2005 we recognized a benefit of $602,000 resulting from the settlement of a former employee s claim under our Supplemental Executive Retirement Plan (SERP). In 2003 we recognized a gain of $580,000 in connection with the settlement of a dispute regarding a Services Agreement for Back Office Administration that we had previously entered into for the benefit of our subsidiaries; we recognized expense of $250,000 in connection with the settlement of a dispute involving an information services contract that we had previously entered into; and we recognized expense of $405,000 in connection with the settlement of an action brought by a former executive. In 2002 we recognized a gain of $671,000 in connection with the settlement of a former executive s benefits under our SERP. In 2002 we also accrued litigation-related expense of $880,000 in connection with the previously noted Services Agreement for Back Office Administration. (See Item 8. Financial Statements and Supplementary Data Note 2 to our Consolidated Financial Statements .)

(4) The results of discontinued operations for the year ended December 31, 2001 include a gain of $16.4 million realized by MHP in the second quarter of 2001 upon the placement of the Indiana HMO into rehabilitation, the subsequent disposition of Maxicare Life and Health Insurance Company, Inc., and the placement of the California HMO into Chapter 11 bankruptcy. This gain represents the extent to which consolidated losses of those entities through May 3, 2001 (the Indiana HMO and Maxicare Life and Health Insurance Company, Inc.) and May 24, 2001 (the California HMO) exceeded MHP s investment in those subsidiaries.

(5) All share and per share amounts have been retroactively restated to reflect the one for five reverse stock split completed on March 27, 2001.

(6) Includes long-term liabilities of $0.7 million, $1.8 million, $1.9 million, $2.1 million and $3.8 million, in 2005, 2004, 2003, 2002 and 2001, respectively.

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Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Current Status

We have had no active business since March 15, 2002 and have no reasonable prospects of obtaining or generating any active business. We have no means of generating additional cash.

Management is exploring possible strategies to realize any possible value remaining in the Company; however, given our financial condition, our stock price and the claims against us, it is very possible that management will not be successful in these efforts, and we may seek protection under the Bankruptcy Code.

Liquidity/ Working Capital Deficiency

As noted above, we have terminated all operations. At December 31, 2005, we had a consolidated working capital deficiency of approximately $4.6 million and a deficiency in shareholders equity of approximately $5.4 million. Furthermore, of our total cash and cash equivalents of $2.1 million at December 31, 2005, $0.2 million was held at Health Care Assurance Company, Ltd. The transfer of cash to MHP from Health Care Assurance Company, Ltd. requires the approval of regulatory authorities.

MHP has certain contractual undertakings for which it may be liable and there are various alleged claims that may be asserted against it, including, among others, undertakings to and/or purported claims against it by vendors and former employees of its subsidiaries who have provided goods or services to those subsidiaries.

We are involved in various legal actions brought against us in the normal course of business, some of which seek damages in amounts that exceed those accrued in our consolidated balance sheets. The ultimate liability for these legal actions cannot be determined and could materially affect our consolidated financial position, results of operations or cash flows, if resolved unfavorably. See Item 8, Note 3 Commitments and Contingencies to our Consolidated Financial Statements.

Disposition of Subsidiaries

The California and Indiana HMOs and Maxicare Life and Health Insurance Company, Inc. are currently in liquidation. We will receive no distribution of assets from the California HMO, are very unlikely to receive any distribution from the Indiana HMO, and may or may not receive a distribution from Maxicare Life and Health Insurance Company, Inc.. Any distribution from Maxicare Life and Health Insurance Company, Inc. if assets ultimately are available for distribution, will require regulatory approval.

Results of Operations

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

We had no operations in either 2005 or 2004. We reported a net loss of approximately $0.7 million ($0.07 per share basic and diluted) for the year ended December 31, 2005 compared to a net loss of approximately $1.2 million ($0.12 per share basic and diluted) for the year ended December 31, 2004. We had no revenue other than insignificant amounts of interest and miscellaneous income during either 2005 or 2004.

During the fourth quarter of 2005 we recorded a benefit of $0.6 million resulting from the settlement of a former employee s claim under our Supplemental Executive Retirement Plan. In accordance with the terms of that settlement, we paid the former employee $0.375 million in January 2006. Also during 2005, we recognized expense of approximately $0.2 million in connection with the settlement of claims made against us by certain former employees. All other expenses incurred during 2005 and all expenses incurred during 2004 were salary, general and administrative expenses. See Item 8, Note 2 (Benefit) Charge for Litigation and Management Settlements , and Note 6 Employee Benefit Plan to our Consolidated Financial Statements for a further discussion of these matters.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

We had no operations in either 2004 or 2003. We reported a net loss of approximately $1.2 million ($0.12 per share basic and diluted) for the year ended December 31, 2004 compared to net income of approximately $2.7 million ($0.28 per share basic and diluted) for the year ended December 31, 2003. We had no revenue other than insignificant amounts of interest and miscellaneous income during 2004. As we have no operations, all expenses during 2004 were salary, general and administrative expenses. Net income in 2003 reflects the following events that occurred in that year:

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The recognition of other income of approximately $3.4 million in connection with a settlement recovering the underpayment of amounts due to us for health care coverage provided to employees of the United States Office of Personnel Management;

The recognition of $1.146 million of income, reflected as negative health care expense, in connection with the expiration of certain notice periods for certain insurance provided by our Health Care Assurance Company, Ltd. subsidiary;

The recognition of $250,000 of expense in regards to the settlement of litigation with a provider of information services;

The recognition of $405,000 of expense in connection with the settlement of an action brought by a former executive for consulting fees he was due; and

The recognition of a gain of $580,000 in connection with the settlement of a dispute involving a Services Agreement for Back Office Administration that we had previously entered into for the benefit of our subsidiaries.

See Item 8, Note 2 (Benefit) Charge for Litigation and Management Settlements and Item 8, Note 2 Health Care Expense Recognition to our Consolidated Financial Statements for a further discussion of these matters.

Contractual Obligations

In the table below, we set forth our contractual obligations as of December 31, 2005. Some of the figures we include in this table are based on management s estimates and assumptions about these obligations, including their duration, anticipated actions by third parties, and other factors. Because these estimates and assumptions are necessarily subjective, the contractual obligations we will actually pay in future periods may vary from those reflected in the table. Amounts are in thousands.

	2006	2007 and beyond
Operating lease obligations	$ 8	$
Capital lease obligations (1)	1,038	
Supplemental executive retirement plan obligations (2)	486	749
Total contractual obligations	$ 1,532	$ 749

(1) We have made no payments to the lessor in connection with the leased assets since the first quarter of 2002. This amount represents our entire potential liability under the lease. This liability remains

on our consolidated balance sheets.

(2) Amount of benefits owed and payment periods are dependent upon a number of factors, among them the life expectancies of the participants. In December of 2005 we reached an agreement with one participant to settle his entire claim for $375,000. In January of 2006 we paid the entire amount of $375,000 which is included in the 2006 executive retirement plan obligation above. In connection with this settlement we recognized a gain of $602,000 which is reflected as a reduction to general and administrative expense in our consolidated statements of operations for the year ended December 31, 2005.

Forward Looking Information

Statements in this Form 10-K annual report may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-K annual report, including the risks described under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to our financial condition, as well as general market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K.

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Item 7a. ***Quantitative and Qualitative Disclosures About Market Risk***

As of December 31, 2005, we had approximately $2.1 million in cash and cash equivalents, no marketable securities and no restricted investments. Our investment policies emphasize return of principal and liquidity and are focused on fixed returns that limit volatility and risk of principal. Because of our investment policies, the primary market risk associated with our portfolio is interest rate risk.

As of December 31, 2005, we did not have any outstanding bank borrowings.

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Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Maxicare Health Plans, Inc.

We have audited the accompanying consolidated balance sheet of Maxicare Health Plans, Inc. and Subsidiaries (the Company) as of December 31, 2005 and the related consolidated statements of operations, shareholders deficiency and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maxicare Health Plans, Inc and Subsidiaries as of December 31, 2005 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Maxicare Health Plans, Inc. and Subsidiaries will continue as a going concern. As more fully described in Note 1, the Company no longer has operations, has incurred recurring net losses and deficiencies in working capital and shareholders equity. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

/s/ MARCUM & KLIEGMAN LLP

New York, New York
April 4, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Maxicare Health Plans, Inc.

We have audited the accompanying consolidated balance sheets of Maxicare Health Plans, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders deficiency and cash flows for each of the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maxicare Health Plans, Inc and subsidiaries at December 31, 2004, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Maxicare Health Plans, Inc. will continue as a going concern. As more fully described in Note 1, the Company no longer has operations, has incurred recurring net losses and deficiencies in working capital and shareholders equity. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

/s/ ERNST & YOUNG LLP

Los Angeles, California
April 1, 2005

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
	(Amounts in thousands except par value)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,135	$ 3,345
Other current assets	2	22
Total Assets	$ 2,137	$ 3,367
LIABILITIES AND SHAREHOLDERS DEFICIENCY		
Current Liabilities		
Capital lease obligation	$ 1,038	$ 1,038
Notes payable	2,318	2,319
Current portion of executive retirement benefits payable	486	
Accrual for provider and litigation settlements	2,000	2,000
Other current liabilities	910	861
Total Current Liabilities	6,752	6,218
Long-Term Portion of Executive Retirement Benefits Payable	749	1,837
Total Liabilities	7,501	8,055
Commitments and Contingencies		
Shareholders Deficiency		
Common stock, $.01 par value 80,000 shares authorized, 9,992 shares issued; 9,989 shares outstanding	100	100
Additional paid-in capital	283,464	283,464
Accumulated deficit	(288,928)	(288,252)
Total Shareholders Deficiency	(5,364)	(4,688)
Total Liabilities and Shareholders Deficiency	$ 2,137	$ 3,367

The accompanying notes are an integral part of these consolidated financial statements.

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2005	2004	2003
	(Amounts in thousands except per share data)		
Revenues			
Investment income	$ 74	$ 39	$ 33
Other income		9	3,471
Total Revenues	74	48	3,504