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
Expenses			
Health care expenses (credits)			(1,146)
Salary, general and administrative expenses	1,115	1,279	1,833
(Benefit) charge for litigation and management settlements	(365)		75
Total Expenses	750	1,279	762
Income (loss) before income taxes	(676)	(1,231)	2,742
Income tax provision			
Net income (loss)	$ (676)	$ (1,231)	$ 2,742
Basic income (loss) per common share	$ (0.07)	$ (0.12)	$ 0.28
Weighted average number of common shares outstanding	9,989	9,989	9,867
Diluted income (loss) per common share	$ (0.07)	$ (0.12)	$ 0.28
Weighted average number of common and common dilutive potential shares outstanding	9,989	9,989	9,867

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 CHANGES IN SHAREHOLDERS DEFICIENCY
(Amounts in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Notes Receivable from Shareholders	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2002	9,742	$ 98	$ 283,466	$ (3,408)	$ (289,763)	$ 0	$ (9,607)
Net income					2,742		2,742
Common shares issued to settle litigation	250	2	(2)				
Surrender of shares	(3)						
Collection of note from shareholder				3,408			3,408
Balances at December 31, 2003	9,989	100	283,464	0	(287,021)	0	(3,457)
Net loss					(1,231)		(1,231)
Balances at December 31, 2004	9,989	100	283,464	0	(288,252)	0	(4,688)
Net loss					(676)		(676)
Balances at December 31, 2005	9,989	$ 100	$ 283,464	$ 0	$ (288,928)	$ 0	$ (5,364)

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 CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	$ (676)	$ (1,231)	$ 2,742
Adjustments to reconcile net income (loss) to net cash used for operating activities:			
(Benefit) charges for litigation and management settlements	(602)		75
Changes in operating assets and liabilities:			
Decrease in estimated claims and other health care costs payable			(736)
Changes in other miscellaneous assets and liabilities	68	(785)	(2,764)
Net cash used for operating activities	(1,210)	(2,016)	(683)
Cash Flows from Investing Activities:			
Loan from shareholder			3,408
Net cash provided by investing activities			3,408
Cash Flows from Financing Activities:			
Net increase (decrease) in cash and cash equivalents	(1,210)	(2,016)	2,725
Cash and cash equivalents at beginning of year	3,345	5,361	2,636
Cash and cash equivalents at end of year	$ 2,135	$ 3,345	$ 5,361

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

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MAXICARE HEALTH PLANS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

Note 1 Business Description

Maxicare Health Plans, Inc., a Delaware corporation (we , us , MHP , or the Company), is a holding company that formerly operated health maintenance organizations and other subsidiaries, primarily in the field of managed care. As of March 15, 2002 all our operations and those of our subsidiaries were terminated. We and our subsidiaries have not engaged in any business activities since that date. At December 31, 2005 we had negative net worth of $5.4 million and a working capital deficiency of $4.6 million. See Liquidity and Going Concern below.

All significant subsidiaries formally operated by MHP (the California and Indiana HMOs and Maxicare Life and Health Insurance Company, Inc.) were placed into bankruptcy, rehabilitation and administrative supervision, respectively, in May of 2001 and are currently in liquidation. As a result, the operations and accounts of these former subsidiaries have been excluded from the consolidated financial statements since May 2001. We will receive no distribution of assets from the California HMO, are very unlikely to receive any distribution of assets from the Indiana HMO, and cannot determine whether or not we will receive a distribution of assets 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.

We own Health Care Assurance Company, Ltd. (HCAC), a captive insurer that provided certain insurance coverage to MHP and its subsidiaries. Effective January 31, 2002, all policies underwritten by Health Care Assurance Company, Ltd., have terminated or expired. We also served as administrator of the California Access for Infants and Mothers (AIM) program through another of our subsidiaries. Administration of the AIM program was transferred to another health care provider effective March 15, 2002.

Liquidity and Going Concern

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.

As noted above, we have had no continuing business activities after March 15, 2002. We have no access to cash that is held at Health Care Assurance Company, Ltd. except to the extent regulatory authorities approve the transfer of cash to MHP. As set forth below in Note 3 Commitments and Contingencies , substantial claims have been or may be asserted against us. Such claims, when resolved, may be far in excess of liabilities reported in the Consolidated Balance Sheets.

These conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

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.

Note 2 Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

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Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the Unites States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

We consider all highly liquid investments that are both readily convertible into known amounts of cash and mature within 90 days from their date of purchase to be cash equivalents.

Cash and cash equivalents consist of the following at December 31:

	2005	2004
	(Amounts in thousands)	
Cash	$ 572	$ 72
Money market funds	1,563	3,273
	$ 2,135	$ 3,345

Stock Based Compensation

At December 31, 2005, we had several stock-based employee compensation plans as described in Note 4. We account for the plans under the recognition and measurement principles (the intrinsic-value method) prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation cost for stock options is reflected in net income and is measured as the excess of the market price of our stock at the date of grant over the amount an employee must pay to acquire the stock. We have adopted the disclosure provisions required by Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*.

We currently utilize the Black-Scholes standard option pricing model to measure the fair value of the stock options granted to employees. Since all outstanding options have vested in prior years and no options have been granted since 2000, the net income (loss) as reported equals the net income (loss) if we had applied the fair value disclosure provisions under SFAS No. 148.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Net Income(Loss) Per Common Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding, after giving effect to stock options with an exercise price less than the average market price for the period. The following is a reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings per share for each period presented in the financial statements:

	Years Ended December 31,		
	2005	2004	2003
	(Amounts in thousands except per share values)		
Basic income (loss) per share of common stock:			

Numerator net income (loss)	$ (676)	$ (1,231)	$ 2,742
Denominator Weighted average number of common shares outstanding	9,989	9,989	9,867
Basic income (loss) per common share	$ (0.07)	$ (0.12)	$ 0.28
Diluted income (loss) per share of common stock:			
Numerator net income (loss)	$ (676)	$ (1,231)	$ 2,742
Denominator Weighted average number of common and common dilutive shares outstanding	9,989	9,989	9,867
Diluted income (loss) per common share	$ (0.07)	$ (0.12)	$ 0.28

Stock options are excluded from the calculation of the weighted average number of dilutive shares outstanding for 2005, 2004 and 2003 because the inclusion of stock options would have an anti-dilutive effect.

Restrictions on Fund Transfers

Health Care Assurance Company, Ltd., our wholly-owned subsidiary, holds $0.2 million of our cash. The transfer of cash to MHP from Health Care Assurance Company, Ltd. requires the approval of regulatory authorities.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents. Our funds are managed within the guidelines established by the board of directors, which, as a matter of policy, limit the amounts that may be invested in any one issuer. As of December 31, 2005, we believe that we had no significant concentrations of credit risk in our cash equivalents.

As of December 31, 2005, we had a cash balance in a financial institution in excess of the maximum amount insured by the Federal Deposit Insurance Corporation.

Health Care Expense Recognition

From February 1, 1997 through May 4, 2001, HCAC provided certain reinsurance coverage to Transamerica Occidental Life Insurance Company (Transamerica), a nonaffiliated company, in connection with excess of loss health care claims and continuation of care / insolvency coverage for Medicaid HMO claims arising under coverage provided by Transamerica to Maxicare Indiana, Inc. (the Indiana HMO). This coverage terminated on May 4, 2001, when the Indiana Department of Insurance placed Maxicare Indiana, Inc. into rehabilitation. As a result of the termination of the claim notice period in April 2003 in regards to its contract with Maxicare Indiana, Inc., Transamerica informed HCAC in July, 2003 that it would be returning to HCAC approximately $410,000 held for the payment of claims under that agreement. Transamerica forwarded the payment to HCAC in August 2003.

As a result of these events, we reduced our claims reserves of $736,000 under this coverage to zero, and recorded a receivable from Transamerica in the amount of $410,000 at June 30, 2003. The Consolidated Statements of Operations accordingly reflect a credit in health care expenses of $1,146,000 for the year ended December 31, 2003.

(Benefit) Charge for Litigation and Management Settlements

We previously adopted the Maxicare Health Plans, Inc. Supplemental Executive Retirement Plan (the SERP) covering five key executives, all of whom are no longer employed by us (see Note 6 Employee Benefit Plans). 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. In connection with this settlement we recognized a gain of $602,000 which is reflected as a benefit for litigation and management settlements in our Consolidated Statements of Operations for the year ended December 31, 2005. At December 31, 2005 our liability in connection with this settlement ($375,000) was included in the current portion of executive retirement benefits payable on our Consolidated Balance Sheets.

In or about December 2004, three former employees of our Indiana HMO commenced an action against us in which they claimed that we breached a severance agreement with each of them. During the second quarter of 2005, this action was settled and discontinued with prejudice. We recognized expense of $237,000 in connection with the settlement. This amount was paid later in 2005.

In 2003 we recognized a benefit 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 $405,000 in connection with the settlement of an action brought by a former executive; and we recognized expense of $250,000 for a cash payment made in connection with the settlement of a dispute involving an information services contract that we had previously entered into. In connection with this last settlement, we issued 250,000 shares of our common stock to another party. No cost was recorded in the Consolidated Statements of Operations for the shares issued since the fair value of the shares was immaterial. In connection with these settlements we recognized expense of $75,000 which is reflected as a charge for litigation and management settlements in our Consolidated Statements of Operations for the year ended December 31, 2003.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB 25. Among other items, SFAS No. 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS No. 123R is the first reporting period beginning after December 31, 2005, which is first quarter 2006 for calendar year companies, although early adoption is allowed. SFAS No. 123R permits companies to adopt its requirements using either a modified prospective method, or a modified retrospective method. Under the modified prospective method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the modified retrospective method, the requirements are the same as under the modified prospective method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. While SFAS No. 123R permits us to continue to use the Black-Scholes model, the standard also permits the use of a lattice model. We have not yet determined which model we will use to measure the fair value of employee stock options upon the adoption of SFAS No. 123R effective January 1, 2006.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this pronouncement is not expected to have a material impact on the Company s financial statements.

Note 3 Commitments and Contingencies

Notes Payable

In connection with our Chapter 11 bankruptcy, in December 1990 we issued certain notes to members of various creditor classes pursuant to the Plan of Reorganization. Certain of those notes, amounting to $2.318 million, have yet to be presented for payment. Accordingly, the liability for these notes remains on our Consolidated Balance Sheets at December 31, 2005 and 2004. The Company, based upon the recent investigation and advice of counsel, believes that a number of issues surrounding the closing of the bankruptcy raise substantial legal defenses to payment to these note holders.

Accrual For Provider and Litigation Settlements

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

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. At December 31, 2005 and 2004 we have accrued a liability of $1.0 million on our Consolidated Balance Sheets for this matter.

Effective January 1, 2001, we entered into a Pharmacy Benefits Management Agreement (the PBM Agreement) with Medimpact Healthcare Systems, Inc. (Medimpact). The PBM Agreement called for Medimpact to process and fill within its network of contracting pharmacies prescriptions for members of Maxicare Life and Health Insurance Company, Inc., the California HMO and the Indiana HMO. The PBM agreement called for the Company to reimburse Medimpact for the cost of drugs dispensed and to pay per transaction administrative fees on a bi-weekly basis. As a result of the Indiana HMO being placed in rehabilitation and the California HMO s bankruptcy, Medimpact allegedly has not received reimbursement for certain prescriptions filled on behalf of the members of those subsidiaries. Although it has yet to do so, Medimpact may seek reimbursement from us for such costs in an amount not presently known. We, in turn, believe that we have claims against Medimpact for rebates due to us. At December 31, 2005 and 2004 we have accrued a liability of $1.0 million on our Consolidated Balance Sheets for this matter.

The ultimate resolution of either matter discussed above could differ materially from our expectations and affect our consolidated financial position, results of operations and cash flows.

By order dated March 9, 2001, the Missouri Department of Insurance approved the transfer of all of the outstanding shares of Maxicare Life and Health Insurance Company, Inc. (MLH) from the Company to Maxicare Indiana, Inc., on the condition that control of MLH remain with the Company. We believe that this condition has not been complied with and that, accordingly, the transfer of the MLH shares by us to Maxicare Indiana, Inc. is null and void. We intend to present our position to the Missouri Department of Insurance at the appropriate time.

Other than those noted elsewhere in this report, no claims have been filed against us by the creditors of Maxicare Life and Health Insurance Company, Inc., the California HMO or the Indiana HMO. However, such creditors may file claims against us in the future.

Other Income

In or about November 1999, MHP, on its own behalf and also on behalf of various closed and then operating subsidiaries, commenced an action in the United States Court of Federal Claims against the United States, seeking recovery in connection with the underpayment of amounts due for health care coverage provided to employees of the United States Office of Personnel Management.

On or about June 9, 2003 a settlement with the Office of Personnel Management was approved by the Court. The net settlement amount, after payment of attorneys fees and expenses, was approximately $5.3 million. Of this amount, MHP received approximately $3.4 million, which included reimbursement of litigation expenses. The balance of the net settlement amount was payable directly to the liquidators / receivers / debtors in possession of certain subsidiaries. The amount received by MHP of $3.4 million was recorded as Other Income in the Consolidated Statements of Operations for the year ended December 31, 2003.

Leases

We have operating leases for certain equipment. The lease for our office space is on a month-to-month basis. Rental expense is recognized on a straight-line basis and totaled $27,000, $142,000 and $200,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

In the first quarter of 2002 we determined that the termination of our business operations eliminated our need for certain equipment held under capital lease agreements. In January 2002 we returned that equipment to the lessor. We removed the leased assets from our balance sheet via a $1.0 million impairment charge in the first quarter of 2002. We have made no payments to the lessor in connection with the leased assets since the first quarter of 2002. The capital lease obligation reported as a current liability on our Consolidated Balance Sheets represents the entire unpaid amount of scheduled payments due in accordance with the lease agreements through their termination effective June 30, 2005.

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Future minimum lease commitments for noncancelable leases at December 31, 2005 were as follows:

	Operating Leases	Capitalized Leases
	(Amounts in thousands)	
2006	$ 8	$ 1,038
2007 and beyond		
Total minimum obligations	$ 8	1,038
Amount representing interest		(145)
Less current obligations		(893)
Long-term obligations		$

Note 4 Capital Stock

We are authorized to issue 80,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share. The board of directors has the right to determine the rights, preferences and privileges of one or more series of preferred stock. The board of directors has created two series of preferred stock Series A Convertible Cumulative Preferred Stock, consisting of 2,500,000 shares, and Series B Preferred Stock, consisting of 500,000 shares. As of December 31, 2005, there were no shares of either series of preferred stock outstanding.

At December 31, 2005, 9,991,926 shares of common stock were issued and outstanding; 143,000 shares were reserved for stock options (all of which had vested); and 87,000 shares were reserved for the exercise of warrants. Warrants having an exercise price of $7.50 per share for 81,000 shares expire on November 3, 2007. Warrants having an exercise price of $6.25 per share for 6,000 shares expire on January 3, 2006.

Restrictions on Transfers of Common Stock

On September 14, 2000 our shareholders approved an amendment to our certificate of incorporation that would prohibit transfer of our stock, unless approved by the Board of Directors (the Board), to the extent the transfer would (i) cause the ownership interest of the transferee or any other person to equal 5% or more of the our fair market value; or (ii) increase the ownership interest of the transferee or any other person where such transferee s or other person s ownership interest equaled 5% or more of our fair market value before the transfer.

Shareholder Rights Plan

On February 24, 1998, our Board adopted a Shareholder Rights Plan (the Rights Plan) designed to assure that in the event of an unsolicited or hostile attempt to acquire the Company, the Board would have the opportunity to consider and implement a course of action which would best maximize shareholder value. Additionally, on February 24, 1998, the Board declared a dividend distribution of one preferred share purchase right (a Right) for each outstanding share of Common Stock.

The dividend was paid to the shareholders of record on March 16, 1998, and with respect to Common Stock issued thereafter, until the Distribution Date (as defined below) and, in certain circumstances, with respect to Common Stock issued after the Distribution Date.

Each Right entitled the holder thereof to purchase 1/500 of a share of our Series B Preferred Stock (the Series B Preferred) for $45.00 (the Exercise Price). Each 1/500 Series B Preferred (the Preferred Fraction) share shall be entitled to one vote in all matters being voted on by the holders of Common Stock and shall also be entitled to a liquidation preference of $0.20.

The Rights initially attached to our Common Stock and will not be exercisable until a shareholder, or group of shareholders acting together, without the approval of the Board, announce their intent to become a 15% or more owner in our Common Stock. At that time, certificates evidencing the Rights shall be distributed to shareholders (the

Distribution Date) and the Rights shall detach from the Common Stock and shall become exercisable. When such buyer acquires 15% or more of our Common Stock, all Rights holders, except the non-approved buyer, will be entitled to acquire an amount of the Preferred Fraction at a rate equal to twice the Exercise Price divided by the then market price of the Common Stock. In addition, if we are acquired in a non-approved merger, after such an acquisition, all Rights holders, except the aforementioned 15% or more buyer, will be entitled to acquire stock in the surviving corporation at a 50% discount in accordance with the Rights Plan. The Rights were attached to all common shares held by our shareholders of record as of the close of business on March 16, 1998. Shares of Common Stock newly-issued after that date will also carry Rights until the Rights become detached from the Common Stock. The Rights will expire on February 23, 2008. We may redeem the Rights for $.01 each at any time before a non-approved buyer acquires 15% or more of the Company s Common Stock. Any current holder that had previously advised us of owning an amount in excess of 15% of our Common Stock as of the date hereof has been grandfathered with respect to their current position, including allowance for certain small incremental additions thereto.

In order to further protect our tax loss carry forward, from the impact of an ownership change, the Board on June 6, 2000 voted to amend the Rights Plan to provide that the exercisability of the Share Purchase Rights is triggered in the event any party acquires 5% or more of our Common Stock or any party which currently holds 5% or more of the Common Stock acquires additional shares, without the approval of the Board.

Stock Option Plans

In July 1995, our shareholders approved the 1995 Stock Option Plan (the 1995 Plan). Under the 1995 Plan, we may issue up to 200,000 nonqualified or incentive stock options to directors, officers and other employees. In June 1999, our shareholders approved the 1999 Stock Option Plan (the 1999 Plan). Under the 1999 Plan, we may issue up to 150,000 nonqualified or incentive stock options to directors, officers and other employees. In September 2000, our shareholders approved the 2000 Stock Option Plan (the 2000 Plan). Under 2000 Plan, we may issue up to 800,000 nonqualified or incentive stock options to directors, officers and other employees. Under the 1995 Plan, the 1999 Plan and the 2000 Plan, stock options granted to date have been nonqualified stock options which expire no later than 10 years from the date of grant. Stock options granted to date under the 1995 Plan, the 1999 Plan and the 2000 Plan have been at an exercise price equal to or greater than the fair market value of the stock at the date of grant.

In July 1996, our shareholders approved the Outside Directors 1996 Formula Stock Option Plan (the Formula Plan). Under the Formula Plan, we may issue up to 25,000 nonqualified stock options to directors who are not employees or officers of the Company (the Outside Directors). On the date the Formula Plan was adopted, each Outside Director received a grant of stock options to purchase 1,000 shares of Common Stock. Commencing January 2, 1997 and each January 2nd thereafter, each Outside Director then serving on the Board shall receive a grant of stock options to purchase 1,000 shares of Common Stock. Options granted under the Formula Plan are at an exercise price equal to the fair market value of the stock at the date of grant, vest six months from the date of grant and expire 10 years from the date of grant. No options have been granted under the Formula Plan subsequent to January 1999.

In July 1996, our shareholders approved the Senior Executives 1996 Stock Option Plan (the Senior Executives Plan). Under the Senior Executives Plan, we were authorized to issue up to 140,000 nonqualified stock options to Peter J. Ratican and Eugene L. Froelich, former Chief Executive Officer and Chief Financial Officer of the Company, respectively (the Senior Executives and individually the Senior Executive). On the date the Senior Executives Plan was adopted, each Senior Executive received a grant of stock options to purchase 14,000 shares of Common Stock. Commencing January 1, 1997, and each January 1st thereafter through and including January 1, 2000, each Senior Executive then employed by us was to receive a grant of stock options to purchase 14,000 shares of Common Stock. Mr. Froelich s continuing participation in the Senior Executives Plan ceased when his employment with us was terminated in December 1997. Mr. Ratican s continuing participation in the Senior Executives Plan ceased when his employment with us terminated effective June 30, 1999. Options granted under the Senior Executives Plan are at an exercise price equal to the fair market value of the stock at the date of grant, vest immediately and expire 10 years from the date of grant. No options have been granted under the Senior Executives Plan subsequent to January 1999.

A summary of our stock option activity and related information for the years ended December 31 follows:

	2005		2004		2003	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price

Outstanding beginning of year	202	$ 16.69	207	$ 16.86	209	$ 16.91
Granted	0		0		0	
Exercised	0		0		0	
Forfeited	(3)	22.39	(5)	23.29	(2)	22.28
Expired	(56)	36.44				
Outstanding end of year	143	8.84	202	16.69	207	16.86
Exercisable end of year	143	8.84	202	16.69	207	16.86

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The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/05 (000)	Weighted-Average Remaining Contractual Life (# of Months)	Weighted-Average Exercise Price	Number Exercisable at 12/31/05 (000)	Weighted-Average Exercise Price
$5.00 - $5.94	112	58	$ 5.00	112	$ 5.00
$22.50 - $30.00	31	45	22.72	31	22.72
$5.00 - $30.00	143	55	8.84	143	8.84

Note 5 Income Taxes

The provision (benefit) for income taxes at December 31 consisted of the following:

	2005	2004	2003
	(Amounts in thousands)		
Current:			
Federal	$	$	$
State			
	0	0	0
Deferred:			
Federal			
State			
	0	0	0
Provision for income taxes	$ 0	$ 0	$ 0

The federal and state deferred tax liabilities (assets) are comprised of the following at December 31:

	2005	2004
	(Amounts in thousands)	
Noncurrent deferred tax assets:		
Net operating loss carryforwards (NOLs)	$ (66,032)	$ (67,718)
Other	(1,033)	(1,033)
Gross deferred tax assets	(67,065)	(68,751)
Deferred tax assets valuation allowance	67,065	68,751
Deferred tax assets	$ 0	$ 0

The differences between the benefit for income taxes at the federal statutory rate of 34% and that shown in the Consolidated Statements of Operations are summarized as follows for the years ended December 31:

	2005	2004	2003
	(Amounts in thousands)		
Tax provision (benefit) at statutory rate	$ (230)	$ (419)	$ 934
State income taxes	1	4	4
Utilization of NOLs			(938)
Limitation on current-year tax benefit due to unrealized NOLs	229	415	
Income tax provision	$ 0	$ 0	$ 0

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At December 31, 2005, we had NOLs for federal tax purposes expiring as follows (amounts are in millions):

Year of Expiration	NOL
2006	$ 2.1
2007	1.1
2012	25.7
2018	73.8
2019	3.8
2020	19.5
2021	3.3
2022	2.7
2023	56.8
2024	2.1
2025	0.7
Total NOL carryforwards	$ 191.6

The NOLs presented above exclude certain additional benefits that may be realized upon the ultimate disposition of the Indiana HMO and Maxicare Life and Health Insurance Company, Inc.

On December 5, 1990 (the Effective Date) the Company emerged from protection under Chapter 11 pursuant to our joint plan of reorganization, as modified (the Reorganization Plan). Upon the Effective Date of the Reorganization Plan, we experienced a change of ownership pursuant to applicable provisions of the Internal Revenue Code (the IRC). As a result of the ownership change, our pre-change NOLs of approximately $7.2 million are subject to limitation under provisions of Section 382 of the IRC. We are unable to quantify to what extent, if any, we may be able to fully utilize our remaining pre-change NOLs prior to their expiration. Should we experience a second change of ownership, the limitation under Section 382 of the IRC on NOLs would be recalculated.

We use the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*. Deferred taxes are determined on the difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are recognized and measured based on the likelihood of the related tax benefit in the future.

Accordingly, we have reserved the full amount of the deferred tax assets at December 31, 2005. Deferred taxes will be recorded when realized in income tax returns. Any future benefits from a reduction of the valuation allowance will reduce our income tax expense.

Note 6 Employee Benefit Plan

We previously adopted the Maxicare Health Plans, Inc. Supplemental Executive Retirement Plan (the SERP) covering five key executives selected by the Board, all of whom are no longer employed by us. Benefits are based on years of service and average compensation in the last three years of employment. No executives who joined us subsequent to January 1, 1997 are participants in the SERP. No expense was recognized for the years ended December 31, 2005, 2004 and 2003. In 2003, we settled the SERP liability due to our former chief financial officer. In December of 2005 we reached an agreement with our former chief executive officer to settle his entire claim for $375,000. In January of 2006 we paid the entire amount of $375,000. 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. The total liability (current and long-term) recorded in connection with the SERP at December 31, 2005 is $1,235,000. In December 2004, the Compensation Committee of our Board of Directors, as allowed by certain provisions of the supplemental executive retirement plan, suspended payments under the plan through December 2005. In February 2006, the Compensation Committee of the Board of Directors Payments further suspended payments under the plan through December 2006.

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Note 7 Quarterly Results of Operations (Unaudited)

The following is a tabulation of the quarterly results of operations for the years ended December 31, 2005 and 2004.

	Three Months Ended,			
	March 31	June 30	September 30	December 31
	(Amounts in thousands, except per share data)			
2005				
Revenues	$ 17	$ 19	$ 18	$ 20
Net income (loss)	(267)	(506)	(260)	357
Net income (loss) per common share:				
Basic	$(0.03)	$(0.05)	$ (0.03)	$ 0.04
Diluted	$(0.03)	$(0.05)	$ (0.03)	$ 0.04
2004				
Revenues	$ 8	$ 7	$ 18	$ 15
Income (loss)	(321)	(256)	(537)	(117)
Net income (loss) per common share:				
Basic	$(0.03)	$(0.03)	$ (0.05)	$ (0.01)
Diluted	$(0.03)	$(0.03)	$ (0.05)	$ (0.01)

Note 8 Condensed Financial Information of Registrant

The net assets of Health Care Assurance Company, Ltd. are restricted and exceeded 25% of the consolidated net assets of the Company at December 31, 2004. The following are the condensed balance sheets, statements of operations and cash flows of the Registrant and accompanying notes.

CONDENSED BALANCE SHEETS

	December 31,	
	2005	2004
	(Amounts In thousands)	
Current Assets		
Cash and cash equivalents	$ 1,959	$ 2,181
Other current assets	2	22
Total Current Assets	1,961	2,203
Investment in Subsidiaries	215	1,177
Total Assets	$ 2,176	$ 3,380
Current Liabilities		
Amounts due to subsidiaries	$ 39	$ 38
Other current liabilities	6,752	6,193
Total Current Liabilities	6,791	6,231
Other Long-Term Liabilities	749	1,837
Total Liabilities	7,540	8,068
Commitments and Contingencies		
Total Shareholders Equity	(5,364)	(4,688)

Total Liabilities and Shareholders Equity	$ 2,176	$ 3,380

See notes to condensed financial information of registrant.

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CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2005	2004	2003
	(Amounts in thousands)		
Revenues			
Equity in earnings (losses) of subsidiaries	$ 38	$ (30)	$ 1,099
Investment income	44	23	16
Other income		9	3,471
Total revenues	82	2	4,586
Expenses			
Salary, general and administrative expenses	1,123	1,233	1,769
Impairment of capital assets			
Charges for litigation and management settlements	(365)		75
Depreciation and amortization			
Total Expenses	758	1,233	1,844
Income (loss) from operations	(676)	(1,231)	2,742
Income tax provision			
Net income (loss)	$ (676)	$ (1,231)	$ 2,742

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2004	2003
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	$ (676)	$ (1,231)	$ 2,742
Adjustments to reconcile net income (loss) to net cash used for operating activities:			
Non-cash (benefit) charges for litigation and management settlements	(602)		75
Equity in (earnings) losses of subsidiaries	(38)	30	(1,099)
Changes in other assets and liabilities	94	(785)	(2,521)
Net cash used for operating activities	(1,222)	(1,986)	(803)
Cash Flows from Investing Activities:			
Loans to shareholders			3,408
Capital contributions to subsidiaries, net			(233)
Dividends received from subsidiaries	1,000	1,300	312
Net cash provided by investing activities	1,000	1,300	3,487
Net increase (decrease) in cash and cash equivalents	(222)	(686)	2,684
Cash and cash equivalents at beginning of year	2,181	2,867	183

Cash and cash equivalents at end of year	$ 1,959	$ 2,181	$ 2,867

See notes to condensed financial information of registrant.

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NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Note A General

The condensed financial information of the registrant (MHP) should be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements.

Note B Disposition of Subsidiaries

On May 25, 2001, the California HMO filed for Chapter 11 bankruptcy protection. On March 14, 2003 the Bankruptcy Court issued an order confirming the liquidating Plan of the California HMO. Effective March 24, 2003 the effective control of this entity passed to a Board of Directors outside the control of the registrant. We will not receive any distribution of assets from the California HMO.

The Indiana HMO is incorporated under the laws of the state of Indiana and is primarily regulated by the Indiana Department of Insurance. On May 4, 2001, the Indiana Department of Insurance placed the Indiana HMO into rehabilitation. The Indiana HMO was formally placed into liquidation on July 3, 2001. We are very unlikely to receive any distribution of assets from the Indiana HMO.

Maxicare Life and Health Insurance Company, Inc. is incorporated under the laws of the state of Missouri and is primarily regulated by the Missouri Department of Insurance. On March 9, 2001 we contributed the capital stock of Maxicare Life and Health Insurance Company, Inc. to the Indiana HMO. On May 24, 2001 the Missouri Department of Insurance placed Maxicare Life and Health Insurance Company, Inc. under administrative supervision. 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 may or may not receive any distribution of assets from Maxicare Life and Health Insurance Company, Inc.

As a result of these events, equity in earnings (losses) of these subsidiaries have been excluded from the Condensed Statements of Operations of the Registrant in each of the three years ended December 31, 2005.

Note C Dividends

During 2005, 2004 and 2003, the Registrant received $1,000,000 and $1,300,000 and $312,000 in dividends from Health Care Assurance Company Limited, which have been approved by the regulatory authorities.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

Ernst & Young LLP (E&Y), resigned as our independent registered public accounting firm effective upon the filing by the Company of our Form 10-Q quarterly report for the quarter ended September 30, 2005.

There were no disagreements with E&Y on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the matter in their report.

Effective January 18, 2006, we engaged Marcum & Kliegman LLP (M&K) as our independent registered public accounting firm for the year ended December 31, 2005. The engagement had been unanimously approved by the Audit Committee of our Board of Directors.

Since January 1, 2003 through the date of such engagement, we have not consulted with M&K regarding (i) the application of accounting principles to any transaction, either completed or proposed, or the type of audit opinion that might be rendered on the our financial statements, and neither a written report was provided to us nor oral advice was provided that was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issues, or (ii) any matter that was either the subject of a disagreement, as defined in Item 304(a)(1)(iv) of Regulation S-B, or a reportable event as described in Item 304(a)(1)(v) of Regulation S-B.

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Item 9A. ***Controls and Procedures***

Our chief executive officer and chief financial officer have supervised and participated in an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluations, they believe that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. As a result of the evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Management is aware that there is a lack of segregation of duties at the Company which constitutes a significant deficiency in the internal controls. The Company s chief financial officer works closely with the Company s chief executive officer to gather the required information and to prepare the periodic financial statement and public filings. Reliance on these limited resources impairs our ability to provide for segregation of duties and the ability to ensure consistently complete and accurate financial reporting, as well as disclosure controls and procedures. In the past, management had decided that considering the control procedures in place and the outsourcing of certain financial functions, the risks associated with such lack of segregation were low and the potential benefits of adding additional employees to clearly segregate duties did not justify the expenses associated with such increases. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table sets forth certain information concerning our directors and executive officers as of March 17, 2006:

NAME	AGE	POSITION
Paul R. Dupee, Jr.	62	Chief Executive Officer and Chairman of the Board of Directors
George H. Bigelow	63	Director
John H. Gutfreund	76	Director
Simon J. Whitmey	59	Director
Patricia A. Fitzpatrick	54	Treasurer and Secretary
Joseph W. White	47	Vice President, Chief Financial Officer and Director

Paul R. Dupee, Jr. was appointed Chairman of our Board of Directors in June 1999 and our Chief Executive Officer in August 1999. For more than five years prior hereto, Mr. Dupee has been a private investor. From 1996 through 2000, he served as a Director of the Lynton Group, Inc. serving as Chairman from 1998 to 2000. From 1986 through 1996, Mr. Dupee was Director and Vice Chairman of the Boston Celtics Limited Partnership, which owns the National Basketball Association team, the Boston Celtics. Mr. Dupee has been one of our directors since May 1998.

Joseph W. White has served as our Chief Financial Officer since November 2001. Prior to November 2001 Mr. White served as our Controller and Interim Chief Financial Officer since February 2001. Mr. White was named one of our Directors in March 2002 and has served in various financial positions with us since March 1987. Mr. White has served as Vice President, Accounting of Molina Healthcare, Inc. since June 2003. Mr. White is a certified public accountant.

Patricia A. Fitzpatrick has served as our Treasurer since July 1998. Ms. Fitzpatrick was also named our Secretary in October 2004. Previously, Ms. Fitzpatrick served as our Assistant Treasurer from July 1988 to July 1998.

John H. Gutfreund has been our Director since 2000. Mr. Gutfreund is a Managing Director of C.E. Unterberg, Towbin and has been the President of Gutfreund & Company, Inc., an investment banking and consulting firm, for more than five years. In addition, Mr. Gutfreund serves as a Director of Accuweather, Inc.; Evercel, Inc.; LCA-Vision, Inc.; Nutrition 21, Inc. (formerly AMBI, Inc.); and the Universal Bond Fund.

George H. Bigelow has been our Director since 1999. Mr. Bigelow was a managing member of Americana Group, LLC, a real estate investment advisor from January 1998 to September 2002 Since 2002 he has been a managing member of Americana Investment Group LLC, a private investor.

Simon J. Whitmey has been our Director since 1999. Since October 2003, Mr. Whitmey has served as a Project Director with Shea Homes, the homebuilding division of the J F Shea Companies, a major privately held California heavy engineering and real estate development company. Prior to that, Mr. Whitmey was President and Chief Executive Officer of Acralight, Inc., a privately owned California corporation (and a California licensed contractor) that manufactures and installs glazing systems from 1995.

Compliance With Section 16(A) of The Securities Exchange Act of 1934

Based solely upon our review of the Forms 3, 4 and 5 and amendments thereto furnished to us, we believe that there were no instances where our executive officers or directors failed to file all required reports on a timely basis.

Meetings and Committees of the Board of Directors

Our board of directors has two committees the audit committee and the compensation committee.

The Audit Committee consists of three independent directors: Mr. Bigelow, Mr. Gutfreund and Mr. Whitmey. Mr. Whitmey is chairman of the Audit Committee. The audit committee met with our independent auditors and chief financial officer prior to the filing of our Form 10-K annual report to review the 2005 audited financial statements. We have designated Mr. Bigelow as our Audit Committee financial expert.

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The Compensation Committee, which is composed of Mr. Bigelow, Mr. Whitmey and Mr. Dupee, serves as the stock option committee for our stock option plans and approves any employment agreements with management and changes in compensation for our executive officers. The Compensation Committee did not grant any options or rights during 2005. Mr. Dupee is our Chief Executive Officer.

During 2005, the Board of Directors and the Audit Committee each held four meetings. Our Compensation Committee did not meet in 2005.

During 2005, all of our directors attended at least 75% of the meetings of the board and any committee of which they are members.

Code of Ethics

We have adopted a code of ethics. A copy of our code of ethics can be obtained without charge by writing to Maxicare Health Plans, Inc., Code of Ethics, Attn: Patricia Fitzpatrick, 14241 East Firestone Boulevard, La Mirada, California, 90638.

Item 11. Executive Compensation

Shown below is information concerning the annual and long-term compensation for services in all capacities for the years ended December 31, 2005, 2004 and 2003, of (i) our chief executive officer and (ii) the other two executive officers for 2005:

SUMMARY COMPENSATION TABLE

				LONG-TERM COMPENSATION	
		ANNUAL COMPENSATION			
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK OPTIONS AWARDS(#)	ALL OTHER COMPENSATION
Paul R. Dupee	2005	$			$ 33,000
Chief Executive Officer	2004	$			$ 34,500
	2003	$			$ 32,250
Patricia A. Fitzpatrick, Treasurer	2005	$ 194,273	$ 46,580		$ 5,400
	2004	$ 201,462	$ 25,000		$ 13,699
	2003	$ 165,000			$ 18,025
Joseph W. White	2005	$			$ 69,925
Vice President and	2004	$			$ 73,938
Chief Financial Officer	2003	$			$ 74,750

Annual salary for 2005, 2004 and 2003 for Ms. Fitzpatrick includes amounts paid to her by Maxicare, the Company s California HMO, and Maxicare Life and Health Insurance Company, Inc. (in 2003 only) pursuant to formal agreements with each of those entities. Substantially all compensation for Ms. Fitzpatrick in 2003 (approximately 90%) was paid by the California HMO and Maxicare Life and Health Insurance Company, Inc. Approximately 70% of Ms. Fitzpatrick s salary was paid by the California HMO in 2004. Approximately 48% of Ms. Fitzpatrick s salary was paid by the California HMO in 2005. All Other Compensation earned by Ms. Fitzpatrick in 2004 and 2003 consisted of a creditor claim paid to her by the California HMO. Effective August 28, 2005 Ms. Fitzpatrick resigned as an employee of the Company. On that date, she entered into a consulting agreement with the Company that calls for her to be compensated for her services at the rate of $100 per hour. All Other Compensation earned by Ms. Fitzpatrick in 2005 consisted of fees earned pursuant to her consulting agreement. Bonus earned by Ms. Fitzpatrick earned in 2005 was paid by Maxicare. Bonus earned by Ms. Fitzpatrick in 2004 was paid by the Company.

Mr. Dupee earned no salary or bonus in 2005, 2004 or 2003. All Other Compensation earned by Mr. Dupee in 2005, 2004 and 2003 is comprised of director fees.

Effective August 9, 2002, Mr. White resigned as a full-time employee of the Company. On that date, he entered into a consulting agreement with the Company that calls for him to be compensated for his services at the rate of $125 per hour, with a minimum weekly payment of $500. Commencing August 1, 2002 Mr. White also became eligible for compensation as a director of the Company. All Other Compensation earned by Mr. White in 2005 is comprised of consulting fees of approximately $36,925 and Director fees of $33,000. All Other Compensation earned by Mr. White in 2004 is comprised of consulting fees of approximately $40,188 and Director fees of $33,750. All Other Compensation earned by Mr. White in 2003 is comprised of consulting fees of approximately $42,500 and Director fees of $32,250.

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Option Grants

There were no stock option grants in 2005.

Option Exercises and Fiscal Year-end Values

Officers listed in the Summary Compensation Table exercised no options in 2005. Shown below is information with respect to unexercised options to purchase common stock held by those officers at December 31, 2005.

NAME	NUMBER OF UNEXERCISED OPTIONS HELD AT DECEMBER 31, 2004		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2004(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Paul R. Dupee, Jr.	131,000	0	$ 0	$ 0
Joseph W. White	20	0	$ 0	$ 0

(1) Based on the closing price on the Over the Counter Bulletin Board on December 31, 2005 of $0.20 per share, none of the options were in-the-money.

Compensation of Directors

During 2005, outside directors received compensation for their services as directors. These directors were George H. Bigelow, John H. Gutfreund and Simon J. Whitmey. During 2005, Mr. Bigelow received $36,000; Mr. Whitmey received $36,000; and Mr. Gutfreund received $36,000. During 2006, the Company s directors will receive cash compensation for their services in the amount of $30,000 per year, plus $750 per meeting attended. In addition, directors are entitled to reimbursement for all reasonable out-of-pocket expenses incurred in connection with their service as directors of the Company.

There were no grants of stock options in 2005, 2004 or 2003. Previously, the outside directors have received options to purchase shares of common stock at an exercise price equal to the market price at the date of grant. Set forth below is a schedule of the options that have been granted to our present non-employee directors:

DIRECTOR	# OF OPTIONS	DATE OF GRANT	EXERCISE PRICE PER SHARE
George H. Bigelow	4,000	November 3, 2000	$ 5.00
John H. Gutfreund	4,000	November 3, 2000	$ 5.00
Simon J. Whitmey	4,000	November 3, 2000	$ 5.00

The options vest six months from the date of grant and expire ten years from the date of grant provided the director continues to serve as a director of the Company. In the event of termination of the directorship, such options expire one year from the date of such termination.

Compensation Committee Interlocks and Insider Participation

Paul R. Dupee, Jr., our chief executive officer, served as an ex-officio member of the compensation committee for 2005. Mr. Dupee did not participate in any decisions regarding his own compensation as an executive officer, which was determined by our board of directors, with Mr. Dupee not participating.

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Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table and discussion provides information as to the shares of common stock beneficially owned on March 17, 2006 by:

each director;

our chief executive officer and our other executive officers;

each person owning of record or known by us, based on information provided to us by the persons named below, to own beneficially at least 5% of our common stock; and

all officers and directors as a group.

No person is known to us to beneficially own 5% or more of our Common Stock.

NAME	SHARES	PERCENT
Paul R. Dupee, Jr.	281,020	2.8%
John H. Gutfreund	4,000	*
George H. Bigelow	11,150	*
Simon J. Whitmey	7,000	*
Joseph W. White	20	*
All Directors and Executive Officers as a group (6 individuals)	303,190	3.0%

* less than one percent

The number of shares owned by our directors and officers shown in the table include shares of common stock which are issuable upon the exercise of options and warrants that are exercisable on March 17, 2006 or will become exercisable within 60 days after that date. Set forth below is the number of shares issuable upon exercise of those options for those of our directors and officers named in the foregoing table and for all officers and directors as group.

Paul Dupee	131,000
George Bigelow	4,000
John Gutfreund	4,000
Simon Whitmey	4,000
Joseph W. White	20
All officers and directors as a group (5 individuals holding stock options)	143,020

Item 13. Certain Relationships and Related Transactions

None.

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Item 14. Principal Accounting Services and Fees

Ernst & Young, LLP served as our Independent Registered Public Accountant during 2004 and through the filing by the Company of our Form 10-Q quarterly report for the quarter ended September 30, 2005. Effective January 18, 2006, we engaged Marcum & Kliegman LLP (M&K) as our independent registered public accounting firm for the year ended December 31, 2005. Fees earned by Ernst & Young LLP for the years ended December 31, 2005 and 2004 were as follows:

	December 31	
	2005	**2004**
Audit Fees including our annual audit and review of our quarterly reports on Form 10-Q	$32,583	$68,490
Audit Related Fees including employee benefit plan audit and accounting consultations	$29,158	$21,200
Tax Fees		
All Other Fees		

Audit fees earned by Marcum and Kliegman LLP through March 17, 2006 for services related to the year ended December 31, 2005 were $50,000.

The Audit Committee has considered the nature of the services underlying these fees and does not consider them to be incompatible with the independent accountants independence.

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PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) The consolidated financial statements and exhibits listed below are filed as part of this report.

(1) The company s consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm are on pages 14 through 32 of this Annual Report on Form 10-K and are incorporated by reference.

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets At December 31, 2005 and 2004
Consolidated Statements of Operations Years ended December 31, 2005, 2004, and 2003
Consolidated Statements of Changes in Shareholders Equity (Deficit) Years ended December 31, 2005, 2004, and 2003
Consolidated Statements of Cash Flows Years ended December 31, 2005, 2004, and 2003
Notes to Consolidated Financial Statements

(2) Exhibits

2.1	Bankruptcy Court Stipulation. Incorporated by reference from the Company s Report on Form 8-K dated June 8, 2001.
3.1	Charter of Maxicare Health Plans, Inc., a Delaware corporation as amended through December 31, 2000. Incorporated by reference from the Company s Registration Statement on Form 10, declared effective March 18, 1991.
3.2	Bylaws of Maxicare Health Plans, Inc. in effect at December 31, 2000. Incorporated by reference from the Company s Annual Report on Form 10-K for the year ended December 31, 2000.
4.1	Rights Agreement, dated as of February 24, 1998, between Maxicare Health Plans, Inc. and American Stock Transfer & Trust Company, as Rights Agent, which includes, as Exhibit A thereto, the Certificate of Designation of Series B Preferred Stock of Maxicare Health Plans, Inc., as Exhibit B thereto, the Form of Right Certificate, Form of Assignment, and Form of Election to Purchase, and as Exhibit C thereto, the Summary of Rights Agreement. Incorporated by reference from the Company s Report on Form 8-K dated February 24, 1998.
4.2	First Amendment to Rights Agreement of Maxicare Health Plans, Inc., entered into and between Maxicare Health Plans, Inc. and American Stock Transfer & Trust Company as of October 9, 1998. Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
4.3	Second Amendment to Rights Agreement of Maxicare Health Plans, Inc., entered into by and between Maxicare Health Plans, Inc. and American Stock Transfer & Trust Company as of June 6, 2000. Incorporated by reference from the Company s Registration Statement on Form S-2 (No. 333-4150) as filed with the Securities and Exchange Commission on July 14, 2000.
14.1	Code of Ethics of Maxicare Health Plans, Inc. Incorporated by reference from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm Marcum and Kliegman LLP
23.2	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ PAUL R. DUPEE, JR.

Paul R. Dupee, Jr.
Chief Executive Officer

Date: April 12, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ PAUL R. DUPEE, JR. Paul R. Dupee, Jr.	Chairman and Director Principal Executive Officer	April 12, 2006
/s/ Joseph W. White Joseph W. White	Chief Financial Officer and Director Accounting Officer	April 12, 2006
/s/ George H. Bigelow George H. Bigelow	Director	April 12, 2006
/s/ John H. Gutfreund John H. Gutfreund	Director	April 12, 2006
/s/ Simon J. Whitmey Simon J. Whitmey	Director	April 12, 2006