



STATUTORY-BASIS FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Coventry Health Care of Louisiana, Inc.
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Coventry Health Care of Louisiana, Inc.

Statutory-Basis Financial Statements
and Other Financial Information

Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

Board of Directors
Coventry Health Care of Louisiana, Inc.

We have audited the accompanying statutory-basis balance sheets of Coventry Health Care of Louisiana, Inc. (the Company) as of December 31, 2009 and 2008, and the related statutory-basis statements of operations, changes in capital and surplus, and cash flow for the years then ended. These 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 auditing standards generally accepted in the 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company presents its statutory-basis financial statements in conformity with accounting practices prescribed by the Louisiana Department of Insurance, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles are described in Note 2. The effects on the financial statements of these variances are not reasonably determinable but presumed to be material.

In our opinion, because of the effects of the matter described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Coventry Health Care of Louisiana, Inc., at December 31, 2009 or 2008, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coventry Health Care of Louisiana, Inc., as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed by the Louisiana Department of Insurance.

Ernst + Young LLP

June 1, 2010

Coventry Health Care of Louisiana, Inc.

Balance Sheets – Statutory-Basis

	December 31	
	2009	2008
Admitted Assets		
Cash, cash equivalents, and short-term investments	\$ 12,278,312	\$ 22,969,532
Restricted cash	600,000	600,000
Restricted deposits	500,000	500,000
Bonds	27,554,617	29,105,227
Total cash and invested assets	<u>40,932,929</u>	53,174,759
Premiums due and unpaid	1,539,466	2,084,140
Other receivables	518,502	353,937
Due from affiliates	–	9,432
Deferred tax assets, net	442,757	283,626
Property and equipment, net	14,424	19,524
Total admitted assets	<u>\$ 43,448,078</u>	<u>\$ 55,925,418</u>
Liabilities and capital and surplus		
Liabilities:		
Liability for unpaid claims and claim adjustment expenses	\$ 12,466,967	\$ 8,132,348
Accounts payable and accrued expenses	4,191,078	5,937,293
Due to affiliates, net	507,674	15,991,232
Unearned premiums	2,095,890	1,997,061
Total liabilities	<u>19,261,609</u>	<u>32,057,934</u>
Capital and surplus:		
Paid-in surplus	55,784,720	55,784,720
Accumulated deficit	(31,598,251)	(31,917,236)
Total capital and surplus	<u>24,186,469</u>	<u>23,867,484</u>
Total liabilities and capital and surplus	<u>\$ 43,448,078</u>	<u>\$ 55,925,418</u>

See accompanying notes.

Coventry Health Care of Louisiana, Inc.

Statements of Operations – Statutory-Basis

	Year Ended December 31	
	2009	2008
Premiums, net	\$ 108,970,223	\$ 98,122,980
Expenses:		
Health benefits	84,849,935	73,398,606
Administration	16,936,671	10,929,327
Total expenses	101,786,606	84,327,933
Gain from operations	7,183,617	13,795,047
Net investment income	1,089,683	1,672,891
Net gain from operations before federal income taxes	8,273,300	15,467,938
Federal income tax provision	2,689,889	5,039,667
Net income	\$ 5,583,411	\$ 10,428,271

See accompanying notes.

Coventry Health Care of Louisiana, Inc.

Statements of Changes in Capital and Surplus – Statutory-Basis

	Paid-in surplus	Accumulated deficit	Total
Balance at December 31, 2007	\$ 55,784,720	\$ (17,597,296)	\$ 38,187,424
Net income	–	10,428,271	10,428,271
Decrease in non-admitted assets	–	276,107	276,107
Change in net deferred taxes	–	(24,318)	(24,318)
Dividend to parent	–	(25,000,000)	(25,000,000)
Balance at December 31, 2008	55,784,720	(31,917,236)	23,867,484
Correction of error	–	687,517	687,517
Net income	–	5,583,411	5,583,411
Increase in non-admitted assets	–	(91,768)	(91,768)
Change in net deferred taxes	–	139,825	139,825
Dividend to parent	–	(6,000,000)	(6,000,000)
Balance at December 31, 2009	\$ 55,784,720	\$ (31,598,251)	\$ 24,186,469

See accompanying notes.

Coventry Health Care of Louisiana, Inc.

Statements of Cash Flow – Statutory-Basis

	Year Ended December 31	
	2009	2008
Operating activities		
Premiums collected, net of reinsurance paid	\$ 109,613,726	\$ 100,146,337
Claims and claims adjustment expenses paid, net of reinsurance recoveries	(80,592,183)	(73,270,067)
Administration expenses paid	(16,890,789)	(14,642,014)
Net investment income received	1,170,877	1,840,245
Federal income taxes paid	(4,171,605)	(3,689,255)
Net cash provided by operations	9,130,026	10,385,246
Investing activities		
Proceeds from sales and maturities of bonds	5,448,932	19,436,470
Purchases of bonds	(4,164,029)	(6,064,891)
Miscellaneous	190	–
Net cash provided by investment activities	1,285,093	13,371,579
Financing and miscellaneous activities		
Dividend to parent	(6,000,000)	(25,000,000)
Net transfers from affiliates	(15,106,339)	9,640,075
Net cash used in financing activities	(21,106,339)	(15,359,925)
Change in cash, cash equivalents, and short-term investments	(10,691,220)	8,396,900
Cash, cash equivalents, and short-term investments at beginning of year	22,969,532	14,572,632
Cash, cash equivalents, and short-term investments at end of year	\$ 12,278,312	\$ 22,969,532

See accompanying notes.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements

December 31, 2009

1. Organization

Coventry Health Care of Louisiana, Inc. (the Company), is a managed-care organization that was granted a certificate of authority to operate as a health maintenance organization (HMO) in the state of Louisiana on November 4, 1985. The Company was formed to manage and insure the health care benefits of subscribers under employee benefit plans in the private and public sectors in southeast Louisiana. Services are typically provided under one-year contracts with employers and individuals under which the Company will insure the health benefits of the employees and individuals that select HMO coverage. The HMO members also receive services under the standard contract that include utilization management, network management, and claims services. The Company also offers Administrative Services Only (ASO) arrangements to self-insured employee benefit plans to provide a full range of health care options without assuming insurance risk.

The Company is a wholly owned subsidiary of Coventry Health Care, Inc. (Coventry). Coventry, headquartered in Bethesda, Maryland, is a national managed health care company that provides a full range of risk and fee-based managed care products and services, including HMO, preferred provider organizations (PPO), point of service products (POS), Medicare Advantage, Medicare Compensation, and Network Rental to a broad cross section of individuals, employer and government-funded groups, government agencies, and other insurance carriers and administrators in all 50 states.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company prepares its statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance. The Louisiana Department of Insurance requires that insurance companies domiciled in the state of Louisiana prepare their statutory-basis financial statements in accordance with the Codified National Association of Insurance Commissioners' *Statements of Statutory Accounting Principles* (NAIC SAP), subject to any deviations prescribed or permitted by the State of Louisiana insurance commissioner.

Statutory practices differ from accounting practices generally accepted in the United States (GAAP). The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material. Significant variances between GAAP and statutory financial statements are as follows:

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

- Investments in bonds are reported at amortized cost or fair value based on their National Association of Insurance Commissioners (NAIC) rating; for GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost, and the remaining fixed-maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of capital and surplus for those designated as available-for-sale, except for the impact of other-than-temporary impairments.

Impairment

- As discussed later in Note 2, the impairment of loan-backed and structured securities is evaluated based on the company's intent to sell. If the company intends to sell a loan-backed or structured security that is in an unrealized loss position, the difference between fair value and amortized cost is recognized as a realized loss. If the company has the intent and ability to hold a loan-backed or structured security for which fair value is less than amortized cost, an evaluation of the non-interest-related impairment is performed based on a discounted cash flow analysis, which determines the amount of the impairment charge that is recognized as a realized loss. Any interest-related portion of the unrealized loss is recognized through capital and surplus. Under GAAP, the evaluation of credit-related and non-credit-related impairment charges is not limited to loan-backed and structured securities.

Non-admitted Assets

- Certain assets designated as "non-admitted," consisting of certain receivables aged greater than 90 days, furniture and equipment, prepaid expenses and other assets not specifically identified as an admitted asset by NAIC SAP, are excluded from the accompanying balance sheets – statutory-basis and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheets.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Income Taxes

- Gross deferred tax assets are first assessed to determine if a statutory valuation allowance is required to reduce gross deferred tax assets to the amount that is more likely than not to be realized. Adjusted gross deferred tax assets are then limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; plus 2) the lesser of the remaining adjusted gross deferred tax assets expected to be realized within one year of the balance sheet date or 10% of capital and surplus of the most recently filed statement with the domiciliary state commissioner adjusted to exclude any net deferred tax assets, electronic data processing (EDP) equipment and operating software, and any net positive goodwill; plus 3) the amount of remaining adjusted gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are non-admitted. Deferred taxes do not include amounts for state taxes. Under GAAP, state taxes are included in the computation of deferred taxes and a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years.

Negative Cash

- Bank overdrafts and certain short-term borrowings are classified as a reduction of cash, cash equivalents, and short-term investments. Under GAAP, these amounts would have been classified as liabilities.

Statements of Cash Flow – Statutory-Basis

- Cash, cash equivalents, and short-term investments in the statements of cash flow – statutory-basis represent cash balances and investments with initial maturities of one year or less at the time of acquisition. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

Reinsurance Recoverables

- Reinsurance recoverable on unpaid losses are reported as a reduction of liability for claims unpaid, while under GAAP, they are reported as an asset.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In addition, the Louisiana Insurance Commissioner has the right to permit other specific practices that may deviate from NAIC statutory accounting practices.

Changes in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC statutory accounting practices are reported as changes in accounting principles. The cumulative effect of any changes is reported as an adjustment to capital and surplus in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the period adopted and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

In September 2009, the NAIC issued SSAP No. 43R, *Loan-backed and Structured Securities a replacement to SSAP No. 43 Loan-backed and Structured Securities and SSAP No. 98 Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 Loan-backed and Structured Securities* (SSAP No. 43R). SSAP No. 43R provides that for loan-backed and structured securities for which (i) fair value is less than cost, (ii) the company does not intend to sell the securities, and (iii) the company has the intent and ability to retain the securities until recovery, the company should determine if there is a non-interest related impairment by comparing the present value of the cash flows expected to be collected to the amortized cost basis. If the cash flows expected to be collected is less than amortized cost, the security is impaired, and the difference is recorded as a realized loss in net income. The new cost basis of the security is the previous amortized cost basis, less the non-interest impairment recognized in net income.

If the fair value is less than amortized cost, and the company (i) has the intent to sell the security, or (ii) does not have the intent and ability to retain the security until recovery of its carrying value, the security is written down to fair value with the associated realized loss reported in net income. The amount of the other-than-temporary impairment (OTTI) recognized is the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. The fair value at the time of the impairment becomes the security's new cost basis.

The Company adopted SSAP No. 43R effective July 1, 2009. There was no material impact to the financial statements as a result of the adoption of SSAP No. 43R.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In December 2009, the NAIC issued SSAP No. 10R *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10* (SSAP 10R). SSAP 10R requires a valuation allowance against gross deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. Upon adoption of SSAP 10R, the Company determined that there were no deferred tax assets that required valuation allowance. Additionally, SSAP 10R allows for an election available to companies that meet certain Risk-Based-Capital (RBC) levels to admit an increased amount of deferred tax assets in accordance with paragraph 10e. The Company has not made this election.

Use of Estimates

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, premiums and expenses in the statutory-basis financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from those amounts provided in the accompanying statutory-basis financial statements.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents – The carrying amount reported in the balance sheets – statutory - basis approximates fair value.

Investment securities – Fair values are presented in Note 4 and the process to determine fair value is disclosed in Note 5.

Risk Concentrations

Assets that potentially subject the Company to credit risk consist primarily of investments in bonds and premiums due and unpaid. The Company's investments are comprised of investment-grade securities as rated by the NAIC. The Company receives advice through or assigns direct management of investments to professional investment managers selected for their expertise in various markets, within guidelines established by the Board of Directors. These guidelines include broad diversification of investments.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Concentrations of credit risk and business volume with respect to commercial premiums due and unpaid are generally limited due to the large number of employer groups comprising the Company's customer base.

As of December 31, 2009 and 2008, amounts due from one group comprised approximately 80% and 69%, respectively, of the total amount of premiums due and unpaid as shown in the accompanying balance sheets – statutory-basis. The Company performs ongoing credit evaluations of customers and generally does not require collateral. The Company maintains the right to terminate coverage for customers who fail to pay premiums due within specific time periods.

Cash, Cash Equivalents, and Short-Term Investments

Cash consists of cash on hand, deposits in bank accounts, and certificates of deposit with financial institutions with maturity dates of one year or less from the acquisition date. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and have original maturities of less than three months. Short-term investments consist of any securities with an original maturity of less than one year and generally include U.S. government obligations.

Bonds

Bonds not backed by other loans are carried at amortized cost, except in cases where NAIC designation requires them to be carried at the lower of cost or fair value. The Company's policy is to recognize any unrealized and realized gains or losses on a specific identification basis. Changes in admitted asset carrying amounts of bonds are charged directly to unassigned surplus.

Mortgage-backed securities that are included within bonds are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions are obtained from external sources and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities.

Investment income consists primarily of interest, which is recognized on an accrual basis. Accrual of income is suspended for bonds that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined on a specific identification basis.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Impairment – Non-loan backed or Structured Securities

Investments are evaluated on an individual security basis at least quarterly to determine if declines in value are other-than-temporary. In making that determination, the Company considers all available evidence relating to the realizable value of a security. This evidence includes, but is not limited to, the following:

- The Company's intent or decision to sell;
- adverse financial conditions of a specific issuer, monoline bond insurer, segment, industry, region or other variables;
- the length of the time and the extent to which the fair value has been less than cost;
- the financial condition and near-term prospects of the issuer;
- the Company's intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value;
- elimination or reduction in dividend payments, or scheduled interest and principal;
- rating agency downgrade of a debt security; and
- expected cash flows of a debt security.

Declines in fair value below cost for bonds where it is considered probable that all contractual terms of the security will be satisfied, the decline is due primarily to changes in interest rates (and not because of credit risk), and where the Company intends and has the ability to hold the investment for a period of time to allow a market recovery, are assumed to be temporary.

Impairment – Mortgaged-backed or Loan-backed Securities

The Company adopted SSAP No. 43R effective July 1, 2009. Accordingly, any non-interest related impairment related to mortgage-backed and asset-backed securities that the Company does not intend to sell and has the intent and ability to retain until recovery is recognized in net investment income with the interest related impairment recognized in capital and surplus. For the

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

years ended December 31, 2009 and 2008, the Company did not hold a material amount of loan-backed and structured securities and therefore, there was no material impact to the financial statements as a result of the adoption of SSAP No. 43R.

Impairment – General

The current economic environment and recent volatility of securities markets increase the difficulty of assessing investment impairment and the same influences tend to increase the risk of potential impairment of these assets. Declines in fair value below cost that are deemed to be other than temporary are recorded as realized losses and are included in net investment income in the accompanying statements of operations – statutory-basis and statements of changes in capital and surplus – statutory-basis.

Property and Equipment

Property and equipment consist mainly of EDP equipment and furniture and are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which vary from three to seven years. Depreciation expense for the years ended December 31, 2009 and 2008, was \$7,978 and \$16,050, respectively.

Liability for Unpaid Claims and Claim Adjustment Expenses

Unpaid claims and claims adjustment expenses represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred through December 31. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based on authorized health care services and past claims payment experience, together with current factors that in management's judgment require recognition in the calculation.

These accruals are continually monitored and reviewed. Changes in assumptions for health benefits, as well as changes in actual experience, could cause these estimates to change in the near term. Such changes are reflected in current operations.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Premium revenue is recognized in the month for which members are entitled to health care services. Premiums collected in advance are recorded as unearned premiums in the accompanying balance sheets – statutory-basis. A major customer maintains the right to retrospectively adjust its premiums based on audits that may be performed several years in arrears. The Company provides reserves, on an estimated basis, based on the age of accounts receivable and management’s review of other information related to the applicable employer groups. Management believes that the resolution of any adjustments to billed premiums will not be materially different from amounts recorded in the accompanying statutory-basis financial statements.

Under ASO contracts, the Company provides administrative and claims processing services to certain self-insured groups. The self-insured groups retain the liability risk for all claims. Accordingly, the Company does not reflect receipts for funding of claims or the payment of these claims in its statements of operations – statutory-basis.

Health Benefits

The Company negotiates contractual agreements with medical management groups to provide defined health benefits services to certain of its members in exchange for monthly capitation fees. Health benefits services that cannot be provided to the Company’s members by contracted medical management groups are provided by physicians and hospitals to whom the Company pays fees based on negotiated charges.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

3. Correction of Error

During 2009, the Company determined that accrued premium taxes were overstated and that the error occurred in a prior year. This error resulted in an overstatement of accounts payable and accrued expenses and an understatement of total capital and surplus of \$687,517. The Company recorded an increase of \$687,517 directly to surplus during the year ended December 31, 2009 to correct this error in accordance with the accounting practices prescribed by the Louisiana Department of Insurance. This increase includes the reversal of an overaccrual for premium taxes of \$1,057,718, net of an offsetting tax provision of \$370,201.

4. Liability for Unpaid Claims and Claim Adjustment Expenses

Activity in the unpaid claims account is summarized as follows:

	Year Ended December 31	
	2009	2008
Balance at January 1	\$ 8,030,508	\$ 8,081,651
Incurred related to:		
Current year	87,254,677	75,362,988
Prior year	(2,404,742)	(1,964,382)
Total incurred	<u>84,849,935</u>	<u>73,398,606</u>
Paid related to:		
Current year	(73,235,195)	(66,829,175)
Prior year	(5,625,766)	(6,117,269)
Total paid	<u>(78,860,961)</u>	<u>(72,946,444)</u>
Balance at December 31, prior to reinsurance	14,019,482	8,533,813
Less reinsurance recoverables	(1,729,683)	(503,305)
Net balance at December 31	<u>\$ 12,289,799</u>	<u>\$ 8,030,508</u>

The methodology used in calculating the liability has been consistently applied between years. As of December 31, 2009 and 2008, accrued claim adjustment expenses were \$177,168 and \$101,840, respectively. This reserve is determined as a percentage of claims reserves and fluctuates with changes in claims reserves. The unpaid claims account is net of reinsurance recoverable on unpaid claims.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

4. Liability for Unpaid Claims and Claim Adjustment Expenses (continued)

The liability for incurred claims and claim adjustment expenses attributable to insured events of prior years for the years ended December 31, 2009 and 2008, has been adjusted favorably by \$2,404,742 and \$1,964,382, respectively, as a result of actual claims payment, re-estimation of unpaid claims and claim adjustment expenses principally on group contracts. Changes in the estimates associated with medical claims payable are recorded prospectively as changes in claims payment patterns, membership, and utilization trends are identified and quantified.

5. Investments

The Company classifies investments as short-term or long-term based on the maturity date at the time of purchase. Investments are classified as bonds and restricted deposits. The amortized cost and fair value of investments, including restricted deposits and excluding any amounts classified as cash, cash equivalents, and short-term investments are as follows:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
As of December 31, 2009				
State and municipal bonds	\$ 21,930,507	\$ 807,751	\$ (39,742)	\$ 22,698,516
Mortgage-backed securities	2,027,674	127,314	-	2,154,988
Corporate and other fixed-income securities	4,096,436	22,979	(27,061)	4,092,354
Total bonds	<u>\$ 28,054,617</u>	<u>\$ 958,044</u>	<u>\$ (66,803)</u>	<u>\$ 28,945,858</u>
As of December 31, 2008				
State and municipal bonds	\$ 24,468,533	\$ 397,945	\$ (272,732)	\$ 24,593,746
Mortgage-backed securities	2,538,107	98,048	-	2,636,155
Corporate and other fixed-income securities	2,598,587	478	(177,083)	2,421,982
Total bonds	<u>\$ 29,605,227</u>	<u>\$ 496,471</u>	<u>\$ (449,815)</u>	<u>\$ 29,651,883</u>

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

5. Investments (continued)

The following table shows gross unrealized losses and fair values of bonds, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Gross</u>		<u>Gross</u>		<u>Gross</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
As of						
December 31, 2009						
State and municipal bonds	\$ 677,573	\$ 30,798	\$ 879,869	\$ 8,944	\$ 1,557,442	\$ 39,742
Mortgage-backed securities	-	-	-	-	-	-
Corporate and other fixed-income securities	2,300,473	27,061	-	-	2,300,473	27,061
Total bonds	\$ 2,978,046	\$ 57,859	\$ 879,869	\$ 8,944	\$ 3,857,915	\$ 66,803
As of						
December 31, 2008						
State and municipal bonds	\$ 6,310,158	\$ 230,044	\$ 3,028,367	\$ 42,688	\$ 9,338,525	\$ 272,732
Corporate and other fixed-income securities	998,447	91,659	673,073	85,424	1,671,520	177,083
Total debt securities	\$ 7,308,605	\$ 321,703	\$ 3,701,440	\$ 128,112	\$ 11,010,045	\$ 449,815

As of December 31, 2009 and 2008, the Company held 7 and 13 investments, respectively, that had unrealized losses. The unrealized loss in these securities was caused primarily by increases in volatility and liquidity concerns in the securities and credit markets and current economic conditions. Because the decline in market value is primarily attributable to either changes in interest rates and current market volatility and not credit quality of the individual security and because the Company does not intend to sell securities accounted for pursuant SSAP No. 43R, and has the ability and intent to hold investments not accounted for under SSAP No. 43R until a recovery of fair value occurs, which may be maturity, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2009 and 2008.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

5. Investments (continued)

A summary of the amortized cost and fair value of the Company's investments in bonds at December 31, 2009 by contractual maturity date is as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Years to maturity:		
One or less	\$ 1,229,866	\$ 1,240,104
After one through five	12,644,873	13,099,325
After five through ten	11,443,833	11,773,868
After ten	708,371	677,573
Mortgage-backed securities	2,027,674	2,154,988
Total	<u>\$ 28,054,617</u>	<u>\$ 28,945,858</u>

For mortgage-backed and asset-backed securities, a critical component of the evaluation for the OTTI is the identification of securities that have non-interest related declines, where the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The difference between the present value of projected future cash flows expected to be collected and the amortized cost basis is recognized as non-interest related OTTI in net investment income. If fair value is less than the present value of projected future cash flows expected to be collected, the interest related OTTI is recorded in capital and surplus.

When determining the collectability and the period over which the mortgage-backed and asset-backed security is expected to recover, the Company considers the same factors utilized in its overall impairment evaluation process described above. Additional considerations are made when assessing the unique features that apply to certain structured securities such as residential mortgage-backed, commercial mortgage-backed and asset-backed securities. These additional features include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; current and forecasted loss severity; consideration of payment terms of underlying assets backing a particular security; and the payment priority within the tranche structure of the security.

The Company maintains restricted deposits held by the Louisiana Department of Insurance. The purpose of these deposits is to comply with certificate of deposits held in accordance with state statutes. As of December 31, 2009 and 2008, the carrying value of the restricted deposits was \$1,100,000.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

5. Investments (continued)

Proceeds from the sales and maturities of investments in debt securities during 2009 were \$5,448,932 (including proceeds from maturities and bond repayments of \$4,484,636); gross gains of \$0 and gross losses of \$33,785 were realized on those sales. Proceeds from the sales of investments in debt securities during 2008 were \$19,436,470 (including proceeds from maturities and bond repayments of \$5,583,452); gross gains of \$113,456 and gross losses of \$119,752, were realized on those sales.

Net investment income also includes interest on bonds, restricted deposits, short-term investments, and cash and cash equivalents, net of investment fees.

6. Fair Value Measurements

Included in the financial statements are certain financial instruments carried at fair value, including cash and cash equivalents and certain bonds that are carried at the lower of amortized cost or market. The Financial Accounting Standards Board (FASB) guidance on fair value measurements establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company has adopted the guidance, which establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 – defined as observable inputs such as quoted prices in active markets; Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

6. Fair Value Measurements (continued)

The following table presents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis at December 31, 2009 and 2008:

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
As of December 31, 2009				
Cash, cash equivalents and short-term investments	\$ 15,176,574	\$ 3,011,199	\$ 12,165,375	\$ –
Restricted cash	600,000	600,000	–	–
Restricted deposits	500,000	500,000	–	–
Total	\$ 16,276,574	\$ 4,111,199	\$ 12,165,375	\$ –
As of December 31, 2008				
Cash, cash equivalents and short-term investments	\$ 24,093,987	\$ 11,000,659	\$ 13,093,328	\$ –
Restricted cash	600,000	600,000	–	–
Restricted deposits	500,000	500,000	–	–
Total	\$ 25,193,987	\$ 12,100,659	\$ 13,093,328	\$ –

The Company's Level 1 securities primarily consist of U.S. Treasury securities and cash excluding negative cash amounts of \$2,898,262 and \$1,124,455 at 2009 and 2008, respectively. The Company determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

The Company's Level 2 securities primarily consist of money market funds. The Company determines the estimated fair value for its Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves volatilities, default rates, etc.), and inputs that are derived principally from or corroborated by other observable market data.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

7. Reinsurance

The Company carries reinsurance coverage for instances in which medical costs for an individual member exceed certain limitations. This coverage is currently through Coventry Health and Life Insurance Company (CH&L), an affiliate. Total reinsurance premiums incurred under this agreement with CH&L for the years ended December 31, 2009 and 2008, of \$1,747,794 and \$1,473,095, respectively, are included as a reduction of premiums, net. Estimated reinsurance recoveries from CH&L for the years ended December 31, 2009 and 2008, of \$1,603,590 and \$183,898, respectively, are included as a reduction of health benefits expense.

The Company is contingently liable for its reinsured losses to the extent that the reinsurance company cannot meet its obligations under the reinsurance contracts.

8. Leases

The Company leases its office facilities and certain office equipment under noncancelable operating leases. As of December 31, 2009, future minimum lease payments are as follows:

2010	\$ 391,834
2011	374,002
2012	328,135
2013	334,855
2014	55,996
Total minimum payments	<u>\$ 1,484,822</u>

Rent expense for the years ended December 31, 2009 and 2008, was approximately \$330,000 and \$352,000, respectively.

9. Related-Party Transactions

Coventry provides management, consulting, and administrative services to the Company, including claims adjudication and payment, group setup and maintenance, and billing and collections. The Company also reimburses Coventry for certain expenses paid by Coventry on behalf of the Company. All intercompany balances are settled on a monthly basis. Under the terms of a management agreement, the Company incurred management fees of \$6,995,919 and \$5,182,610 for the years ended December 31, 2009 and 2008, respectively, which are included in administrative expenses on the statements of operations – statutory basis.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

9. Related-Party Transactions (continued)

The Company collects premium payments on behalf of an affiliate, and distributes those funds through inter-company settlements. As of December 31, 2009 and 2008, the Company had collected premiums of \$580,133 and \$15,290,232, respectively, which had not been distributed to the affiliate. These amounts are included in due to affiliates, net in the accompanying balance sheets – statutory-basis.

The Company paid dividends to Coventry of \$6,000,000 and \$25,000,000 during 2009 and 2008, respectively.

10. Federal Income Taxes

The Company is taxed at corporate rates based on existing tax laws. The Company's taxable income or loss is included in the consolidated federal income tax return of Coventry. The tax benefit of any current and prior operating losses that are permissible under Internal Revenue Service (IRS) guidelines has been realized as a result of the intercompany tax allocation agreement with Coventry. The method of tax allocation between the companies is subject to written agreement approved by management of the respective companies and regulatory authorities. The tax allocation agreement with Coventry is based upon separate return calculations, with the current credit for the tax benefit of net losses or current charges for taxes incurred on net income being charged to the Company. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses that it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany tax balances are settled on a monthly basis.

Under statutory accounting practices, only the current portion of the federal tax allocation is included in provision for income taxes in the accompanying statements of operations – statutory-basis. Accordingly, the Company records a provision that reflects the current taxes payable, adjusted for the impact of any changes in estimates related to the prior-year taxes payable amounts.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

10. Federal Income Taxes (continued)

The components of the net deferred tax asset (DTA) and deferred tax liability (DTL) as of December 31, 2009 and 2008, are as follows:

	December 31, 2009		
	Capital	Ordinary	Total
Gross deferred tax assets	\$ 11,840	\$ 611,641	\$ 623,481
Statutory valuation allowance	–	–	–
Adjusted gross deferred tax assets	11,840	611,641	623,481
Gross deferred tax liabilities	–	26,647	26,647
Net deferred tax asset before admissibility test	11,840	584,994	596,834
Non-admitted deferred tax asset	–	154,077	154,077
Net admitted deferred tax asset	\$ 11,840	\$ 430,917	\$ 442,757
Decrease in DTAs non-admitted			\$ (19,306)

	December 31, 2008		
	Capital	Ordinary	Total
Gross deferred tax assets	\$ 2,204	\$ 477,811	\$ 480,015
Statutory valuation allowance	–	–	–
Adjusted gross deferred tax assets	2,204	477,811	480,015
Gross deferred tax liabilities	–	23,006	23,006
Net deferred tax asset before admissibility test	2,204	454,805	457,009
Less: Deferred tax asset non-admitted	–	173,383	173,383
Net admitted deferred tax asset	\$ 2,204	\$ 281,422	\$ 283,626
Increase in DTAs non-admitted			\$ 43,278

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

10. Federal Income Taxes (continued)

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10R during 2009 and 2008 is as follows:

	December 31, 2009		
	Capital	Ordinary	Total
Federal income taxes recoverable through loss carryback	\$ —	\$ —	\$ —
Adjusted gross DTA expected to be realized in one year	11,840	430,917	442,757
10% adjusted capital and surplus limit Admitted pursuant to paragraph 10.b (lesser of i. or ii.)	—	—	2,362,682
Additional admitted pursuant to 10.c	—	26,647	26,647
Additional admitted pursuant to paragraph 10.e.i	—	—	—
Adjusted gross DTA expected to be realized in three years	—	—	—
15% adjusted statutory capital and surplus limit	—	—	—
Additional admitted pursuant to paragraph 10.e.ii (lesser of a or b)	—	—	—
Additional admitted pursuant to paragraph 10.e.iii	—	—	—
Total admitted DTA	11,840	457,564	469,404
Total DTL	—	26,647	26,647
Net admitted DTA	\$ 11,840	\$ 430,917	\$ 442,757
Non-admitted DTA	\$ —	\$ 154,077	\$ 154,077

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

10. Federal Income Taxes (continued)

	December 31, 2008		
	Capital	Ordinary	Total
Federal income taxes recoverable through loss carryback	\$ —	\$ —	\$ —
Adjusted gross DTA expected to be realized in one year	2,204	281,422	283,626
10% adjusted capital and surplus limit	—	—	1,964,074
Admitted pursuant to paragraph 10.b (lesser of i. or ii.)	2,204	281,422	283,626
Additional admitted pursuant to 10.c	—	23,006	23,006
Additional admitted pursuant to paragraph 10.e.i	—	—	—
Adjusted gross DTA expected to be realized in three years	—	—	—
15% adjusted statutory capital and surplus limit	—	—	—
Additional admitted pursuant to paragraph 10.e.ii (lesser of a or b)	—	—	—
Additional admitted pursuant to paragraph 10.e.iii	—	—	—
Total admitted DTA	2,204	304,428	306,632
Total DTL	—	23,006	23,006
Net admitted DTA	\$ 2,204	\$ 281,422	\$ 283,626
Non-admitted DTA	\$ —	\$ 173,383	\$ 173,383

The Company has elected not to admit deferred tax assets pursuant to SSAP 10R paragraph 10(e). The current-period election does not differ from the prior reporting period.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

10. Federal Income Taxes (continued)

The tax effect of temporary differences that gives rise to significant portions of deferred tax assets and deferred tax liabilities was as follows:

	December 31		Change	Character
	2009	2008		
Unpaid claims	\$ 84,118	\$ 54,871	\$ 29,247	Ordinary
Unearned premiums	146,712	139,794	6,918	Ordinary
Depreciation	17,548	35,202	(17,654)	Ordinary
Other accrued liabilities	122,665	45,142	77,523	Ordinary
Disallowed and limited capital losses	11,840	2,204	9,636	Capital
Non-admitted assets	239,758	200,884	38,874	Ordinary
Other liabilities	840	1,918	1,078	Ordinary
Total deferred tax assets	623,481	480,015	143,466	
Non-admitted deferred tax assets	154,077	173,383	(19,306)	
Admitted deferred tax assets	469,404	306,632	162,772	
Total deferred tax liabilities	26,647	23,006	3,641	Ordinary
Net admitted deferred tax assets	\$ 442,757	\$ 283,626	\$ (159,131)	

The provision for incurred taxes on earnings for the years ended December 31 are:

	2009	2008
Federal	\$ 2,675,986	\$ 5,075,484
Tax on capital gains	-	-
Foreign	-	-
Prior-year under-accrual (over-accrual)	13,903	(35,817)
Federal taxes incurred	\$ 2,689,889	\$ 5,039,667

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

10. Federal Income Taxes (continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes. These differences may be summarized as follows:

	Year Ended December 31	
	2009	2008
Provision computed at statutory rate	\$ 2,895,655	\$ 5,413,778
Tax-exempt interest, net	(269,992)	(314,666)
Unpaid premiums	29,247	(722)
Premiums due and unpaid	6,918	103,020
Stock options	(1,229)	(16,503)
Depreciation and amortization	(17,654)	1,318
Other accrued liabilities	–	(42,000)
Change in estimate	13,903	(35,817)
Other	33,041	(68,741)
Federal income tax provision per accompanying statements of operations – statutory-basis	<u>\$ 2,689,889</u>	<u>\$ 5,039,667</u>

The Company has no operating loss carryforwards.

The amount of federal income taxes incurred in the current year and each preceding year that are available for recoupment in the event of future losses are:

2009	\$ 2,689,889
2008	5,039,667

This Company does not have any deposits under Section 6603 of the Internal Revenue Code.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

11. Employee Benefit Plans

Employee Savings Plan

The Company's employees participate in the Coventry Health Care, Inc. Retirement Savings Plan (the Coventry Plan), which qualifies under the Internal Revenue Code Section 401(k). Under the terms of the Coventry Plan, subject to certain limitations, employees may contribute up to 75% of their salary, limited by the maximum compensation deferral amount permitted by applicable law, which the Company matches by making contributions equal to 100% of the employee's contribution up to the first 3% of the employee's compensation deferral and an amount equal to 50% of the employee's contribution on the second 3% of the employee's compensation deferral. The Company contributed approximately \$146,000 and \$147,000 to the Coventry Plan during 2009 and 2008, respectively.

Stock Incentive Plan

Coventry also sponsors a Stock Incentive Plan, under which shares of Coventry's common stock were authorized for issuance to key employees, consultants, and directors in the form of stock options, restricted stock, and other stock-based awards.

Under the stock incentive plan, the terms and conditions of option grants are established on an individual basis, with the exercise price of the options being equal to not less than 100% of the fair value of the underlying stock at the date of grant. Options generally become exercisable after one year in 25% increments per year and expire 10 years from the date of grant. The stock incentive plan is authorized to grant either incentive stock options or non-qualified stock options, stock appreciation rights, restricted stock, and other stock-based awards at the discretion of the Compensation and Benefits Committee of Coventry's Board of Directors. For the years ended December 31, 2009 and 2008, no compensation expenses were recorded by the Company under the stock incentive plan.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

12. Administrative Services Only Uninsured Plans

The results of the Company's ASO contracts were as follows:

	Year Ended December 31	
	2009	2008
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 811,284	\$ 1,055,344
Total net other expenses (including interest paid to or received from plans)	<u>(236,417)</u>	<u>(648,725)</u>
Net gain from operations	<u>\$ 574,867</u>	<u>\$ 406,619</u>

The total claim payment volumes for the years ended December 31, 2009 and 2008 were \$15,802,869 and \$15,700,678, respectively. ASO fees are recorded in the statement of operations – statutory-basis, as a reduction to administration expenses. As noted in Note 2, the self insurance entities retain all health care service risk.

13. Commitments and Contingencies

The healthcare and health insurance industries are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare insurers and providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Company is in compliance with fraud and abuse statutes as well as other applicable governmental laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

13. Commitments and Contingencies (continued)

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating reserves for policy and contract liabilities. The Company's management believes the resolution of those actions will not have a material effect on the Company's financial position or results of operations.

The Company carries professional liability and employment practices liability insurance coverage through Coventry Casualty Risk Retention Group (CRRG), a wholly owned subsidiary of Coventry and an affiliate to the Company. CRRG provides professional liability coverage for individual and class action claims. Additionally, CRRG provides employment practices liability coverage through a separate policy. Both professional and employment practices liability coverage are subject to policy-specific coverage limits. Each year, Coventry will reevaluate the most effective method for issuing these types of claims.

14. Regulatory Matters

The Company is subject to insurance regulations that require it to maintain at least \$1,000,000 on deposit with the state of Louisiana. The Company must also seek the permission of the applicable state insurance regulators prior to paying any dividends.

The Company is also subject to Louisiana requirements, under which the Company must maintain a minimum statutory capital and surplus of \$2,000,000. The Company and Coventry intend to comply with the NAIC risk-based capital (RBC) requirements even though the Louisiana Department of Insurance has not formally adopted RBC as a method of regulation. RBC is a method of measuring the minimum amount of capital appropriate for an insurance organization to support its overall business operations in consideration of its size and risk profile. The insurance organization's RBC is calculated by applying factors to various asset, premium, and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of an insurance organization's actual capital can then be measured by a comparison to its risk-based capital as determined by the formula.

The Company believes that its statutory net worth exceeds the Company Action Level (200% of authorized control level) calculated for its risk-based capital requirements.

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

15. Capital and Surplus

As of December 31, 2009 and 2008, the Company's capital and surplus reduced by non-admitted assets, are as follows:

	<u>2009</u>	<u>2008</u>
Non-admitted assets	\$ 839,101	\$ 747,333

16. Reconciliation between Audited Financial Statements and the Annual Statement

The following is a reconciliation of amounts previously reported to state regulatory authorities in the 2009 Annual Statement, to those reported in the accompanying statutory-basis financial statements:

	<u>December 31, 2009</u>
Balance sheet:	
Assets as reported in the Company's Annual Statement	\$ 44,004,424
Decrease other receivables	(763,107)
Increase deferred tax asset	206,761
Assets as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 43,448,078</u>
Liabilities as reported in the Company's Annual Statement	\$ 20,410,947
Decrease accounts payable and accrued expenses	(1,149,338)
Liabilities as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 19,261,609</u>
Capital and surplus as reported in the Company's Annual Statement	\$ 23,593,477
Correction of error	687,517
Decrease net income	(301,286)
Increase non-admitted assets	(154,078)
Adjust changes in net deferred taxes	360,839
Total capital and surplus as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 24,186,469</u>

Coventry Health Care of Louisiana, Inc.

Notes to Statutory-Basis Financial Statements (continued)

**16. Reconciliation between Audited Financial Statements and the Annual Statement
(continued)**

Statements of operations:	
Statutory net income as reported in the Company's annual statement	\$ 5,884,697
Decrease administration expenses	91,620
Increase tax provision	<u>(392,906)</u>
Total statutory net income per financial statements	<u>\$ 5,583,411</u>

17. Subsequent Events

The Company has evaluated subsequent events through June 1, 2010, and has determined there are no significant events to report.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Coventry Health Care of Louisiana, Inc.

Our audits were conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental schedule of investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

June 1, 2010

Coventry Health Care of Louisiana, Inc.

Supplemental Schedule of Investment Risks Interrogatories

December 31, 2009

1. The Company's total admitted assets as reported on page two of its Annual Statement was \$43,448,078 for 2009. Refer to footNote 15 for a reconciliation of admitted assets within the audited financial statements to the previously filed Annual Statement.
2. Following are the Company's 10 largest exposures to a single issuer/borrower/investment, by investment category, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt; (ii) property occupied by the Company; and (iii) policy loans:

Issuer	Amount	Percentage of Total Admitted Assets
LOUISIANA PUB FACS AUTH REV	\$ 3,123,151	7.2%
LAFAYETTE LA UTILS REV	1,609,363	3.7
EAST BATON ROUGE PARISH LA SAL	1,563,182	3.6
LOUISIANA STATE	1,516,895	3.5
LOUISIANA STATE INUV & AGRIC	1,118,210	2.6
INDIANA UNIV REVS	1,099,258	2.5
PHOENIX ARIZ	1,089,930	2.5
LIVINGSTON PARISH LA SCH DIST	1,077,445	2.5
INDIANA STATE FIN AUTH REV	1,075,267	2.5
LAFAYETTE PARISH LA SCH BRD	1,073,747	2.5

3. The Company's total admitted assets held in bonds by NAIC rating are as follows:

Bonds – NAIC Rating Category	Amount	Percentage of Total Admitted Assets
NAIC-1	\$26,163,382	60.2%
NAIC-2	1,891,235	4.3

4. Assets held in foreign investments are less than 2.5% of the Company's total admitted assets.
5. Assets held in Canadian investments are less than 2.5% of the Company's total admitted assets.

Coventry Health Care of Louisiana, Inc.

Supplemental Schedule of Investment Risks Interrogatories (continued)

6. Assets held in investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.
7. Assets held in equity interests are less than 2.5% of the Company's total admitted assets.
8. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Company's total admitted assets.
9. Assets held in general partnership interests are less than 2.5% of the Company's total admitted assets.
10. Mortgage loans reported in Schedule B are less than 2.5% of the Company's total admitted assets.
11. The five largest investments in one parcel or group of continuous parcels of real estate reported in Schedule A are less than 2.5% of the Company's total admitted assets.
12. Investments held in mezzanine real estate loans are less than 2.5% of the Company's total admitted assets.
13. The Company did not lend any securities during 2009. The Company did not hold any repurchase agreements, reverse repurchase agreements, and dollar repurchase agreements during 2009.
14. The Company did not own any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2009.
15. The Company did not have any potential exposure for collars, swaps, and forward contracts during 2009.
16. The Company did not have any potential exposure for futures contracts during 2009.
17. The Company did not own any investments included in write-ins for invested assets category included on the summary investment schedule at December 31, 2009.

Coventry Health Care of Louisiana, Inc.

Summary Investment Schedule

December 31, 2009

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
Bonds						
U.S. Treasury securities	\$	–	0.00%	\$	–	0.00%
U.S. Government agency and corporate obligations (excluding mortgage-backed securities):		–			–	
Issued by U.S. Government agencies		–			–	
Issued by U.S. Government-sponsored agencies		–			–	
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:		–			–	
U.S. states' and territories' general obligations	1,516,895	3.7		1,516,895	3.7	
Political subdivisions of U.S. states', territories', and possessions' general obligations	5,662,740	13.8		5,662,740	13.8	
Revenue and assessment obligations	14,750,872	36.0		14,750,872	36.0	
Mortgage-backed securities (includes residential and commercial MBS):		–			–	
Pass-through securities:		–			–	
Guaranteed by GNMA	–	–		–	–	
Issued by FNMA and FHLMC	2,027,674	5.0		2,027,674	5.0	
Privately issued	–	–		–	–	
Other mortgage-backed securities:	248,392	0.6		248,392	0.6	
Issued by FNMA and FHLMC, or GNMA	–	–		–	–	
All other privately issued	–	–		–	–	
Other debt and other fixed-income securities (excluding short-term):		–			–	
Unaffiliated domestic securities (including credit tenant loans rated by the SVO)	3,848,044	9.4		3,848,044	9.4	
Unaffiliated foreign securities	–	–		–	–	
Equity interests:		–			–	
Preferred stocks:		–			–	
Unaffiliated	–	–		–	–	
Cash, cash equivalents, and short-term investments (includes restricted cash)	12,878,312	31.5		12,878,312	31.5	
Total cash and invested assets	\$ 40,932,929	100.00%		\$ 40,932,929	100.00%	

See accompanying notes.

Coventry Health Care of Louisiana, Inc.

Note to Other Financial Information

December 31, 2009

Note – Basis of Presentation

The accompanying supplemental schedules and interrogatories present selected statutory-basis financial data as of December 31, 2009 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and agrees to or is included in the amounts reported in the Company's 2009 Statutory Annual Statement as filed with the Louisiana Department of Insurance.

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