



STATUTORY-BASIS FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Coventry Health Care of Louisiana, Inc.  
Years Ended December 31, 2010 and 2009  
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, 2010 and 2009

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## Report of Independent Auditors

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, 2010 and 2009, 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 audits 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 discussed in Note 2 to the financial statements, the Company presents its financial statements in conformity with accounting practices prescribed or permitted 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 are 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, 2010 and 2009, 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. at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance.

*Ernst + Young LLP*

May 31, 2011

Coventry Health Care of Louisiana, Inc.

Balance Sheets – Statutory-Basis

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Admitted assets</b>		
Cash, cash equivalents, and short-term investments	\$ 3,760,277	\$ 12,278,312
Restricted cash	600,000	600,000
Restricted deposits	500,000	500,000
Bonds	35,145,907	27,554,617
Total cash and invested assets	<u>40,006,184</u>	40,932,929
Premiums due and unpaid	1,364,669	1,539,466
Deferred tax assets, net	447,058	442,757
Amounts due from related parties	114,398	–
Other receivables	789,722	518,502
Property and equipment, net	10,350	14,424
Total admitted assets	<u>\$ 42,732,381</u>	<u>\$ 43,448,078</u>
<b>Liabilities and capital and surplus</b>		
Liabilities:		
Liability for unpaid claims and claim adjustment expenses	\$ 14,015,239	\$ 12,466,967
Premiums received in advance	2,339,143	2,095,890
Accrued expenses	3,341,617	4,191,078
Amounts due to related parties	167,763	507,674
Total liabilities	<u>19,863,762</u>	19,261,609
Capital and surplus:		
Additional paid-in surplus	55,784,720	55,784,720
Accumulated deficit	(32,916,101)	(31,598,251)
Total capital and surplus	<u>22,868,619</u>	24,186,469
Total liabilities and capital and surplus	<u>\$ 42,732,381</u>	<u>\$ 43,448,078</u>

*See accompanying notes to financial statements.*

Coventry Health Care of Louisiana, Inc.

Statements of Operations – Statutory-Basis

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Premiums, net	<b>\$ 138,937,394</b>	\$ 108,970,223
Expenses:		
Health benefits	<b>113,033,916</b>	84,849,935
General administrative	<b>21,756,759</b>	16,942,215
Total expenses	<b>134,790,675</b>	101,792,150
Gain from operations	<b>4,146,719</b>	7,178,073
Investment income, net	<b>1,177,282</b>	1,095,227
Gain from operations before income taxes	<b>5,324,001</b>	8,273,300
Federal income tax provision	<b>(1,963,269)</b>	(2,689,889)
Net income	<b>\$ 3,360,732</b>	\$ 5,583,411

*See accompanying notes to financial statements.*

Coventry Health Care of Louisiana, Inc.

Statements of Changes in Capital and Surplus – Statutory-Basis

	<b>Paid-in Surplus</b>	<b>Accumulated Deficit</b>	<b>Total</b>
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 nonadmitted assets	–	(91,768)	(91,768)
Change in net deferred tax assets	–	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
Net income	–	<b>3,360,732</b>	<b>3,360,732</b>
Decrease in nonadmitted assets	–	<b>238,297</b>	<b>238,297</b>
Change in net deferred tax assets	–	<b>(63,150)</b>	<b>(63,150)</b>
Dividend to parent	–	<b>(4,853,729)</b>	<b>(4,853,729)</b>
Balance at December 31, 2010	<b><u>\$ 55,784,720</u></b>	<b><u>\$ (32,916,101)</u></b>	<b><u>\$ 22,868,619</u></b>

*See accompanying notes to financial statements.*

Coventry Health Care of Louisiana, Inc.

Statements of Cash Flows – Statutory-Basis

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Premiums collected, net of reinsurance paid	\$ 139,355,445	\$ 109,613,726
Claims and claims adjustment expenses paid	(113,268,435)	(80,592,183)
Administrative expenses paid	(22,477,691)	(16,890,789)
Net investment income received	1,376,657	1,170,877
Federal income taxes paid	(916,397)	(4,171,605)
Net cash provided by operating activities	<u>4,069,579</u>	<u>9,130,026</u>
<b>Investing activities</b>		
Proceeds from sales and maturities of bonds	2,995,911	5,448,932
Purchases of bonds	(10,842,599)	(4,164,029)
Miscellaneous	(15)	190
Net cash (used in) provided by investing activities	<u>(7,846,703)</u>	<u>1,285,093</u>
<b>Financing and miscellaneous activities</b>		
Dividend to stockholder	(4,853,729)	(6,000,000)
Net transfers from affiliates	112,818	(15,106,339)
Net cash used in financing miscellaneous activities	<u>(4,740,911)</u>	<u>(21,106,339)</u>
Change in cash, cash equivalents, and short-term investments	(8,518,035)	(10,691,220)
Cash, cash equivalents, and short-term investments at beginning of year	<u>12,278,312</u>	<u>22,969,532</u>
Cash, cash equivalents, and short-term investments at end of year	<u>\$ 3,760,277</u>	<u>\$ 12,278,312</u>

*See accompanying notes to financial statements.*

# Coventry Health Care of Louisiana, Inc.

## Notes to Financial Statements

December 31, 2010

### **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 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 HMOs, preferred provider organizations, point of service products, Medicare Advantage, Medicare Prescription Drug Plans, Medicare Private Fee-For-Service Plans (PFFS), Medicaid, Workers' 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.

On May 1, 2009, Coventry notified the Centers of Medicare and Medicaid Services that effective January 1, 2010, Coventry will cease offering the PFFS product. Coventry is liable for claim run-out through December 31, 2011.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The Company prepares statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the State of Louisiana Department of Insurance. The State of 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Statutory accounting practices differ from accounting principles 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-basis financial statements are as follows:

##### *Nonadmitted Assets*

- Certain assets designated as “nonadmitted,” principally receivables aged greater than 90 days, furniture and equipment, prepaid expenses, certain deferred tax assets, 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 accumulated deficit. Under GAAP, such assets are included in the balance sheet.

##### *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 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 interest-related and non-interest-related impairment charges is not limited to loan-backed and structured securities.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

*Deferred Income Taxes*

- 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 fixed statement with the domiciliary state commissioner adjusted to exclude any net deferred tax assets, electronic data processing 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 nonadmitted. 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*

- 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 Flows – Statutory-Basis*

- Cash, cash equivalents, and short-term investments in the statements of cash flows – statutory-basis represents cash balances and investments with remaining 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 recoverables on unpaid losses are reported as a reduction of liability for unpaid claims and claims adjustment expenses, while under GAAP, they are reported as an asset.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### *Self-Funded Premiums and Expenses*

- The Company's statements of operations – statutory-basis reflect income and expenses related to claims, losses, premiums, and other amounts unreserved or paid on behalf of uninsured administrative service contracts, as defined by the NAIC SAP, as a net reduction of administrative expense.

In addition, the State of Louisiana Insurance Commissioner has the right to permit other specific practices that may deviate from NAIC statutory accounting practices. For the years ended December 31, 2010 and 2009, the Company had no permitted practices allowed by the State of Louisiana Insurance Commissioner.

##### **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 December 2009, the NAIC adopted SSAP No. 100, *Fair Value Measurements*, which adopted with modification the fair value guidance prescribed under GAAP and is effective for December 31, 2010 financial statements. Included in the new and amended disclosures are:

- Requirements to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and describe the reason for the transfers;
- Elimination of the requirement to differentiate and report fair value measurements on separate recurring and nonrecurring schedules; and
- Effective for 2011, a requirement to present information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

The Company adopted this guidance for the statutory-basis financial statements issued for the year ended December 31, 2010. The Company's adoption of this guidance did not have a material impact on its financial statements.

In December 2009, the NAIC adopted nonsubstantive revisions to SSAP No. 9, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur through the balance sheet date but before financial statements are issued or are available to be issued. Financial statements are considered available to be issued when they are complete in a form and format that complies with SAP and all approvals necessary for issuance have been obtained, for example, from management and/or the Board of Directors. The date though which an entity has evaluated subsequent events and the basis for that date should also be disclosed.

The Company adopted this guidance for statutory-basis financial statements issued for the year ended December 31, 2009. The Company's adoption of this guidance did not have a material impact on its financial statements.

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 noninterest 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

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.

In December 2009, the NAIC issued SSAP No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10* (SSAP No. 10R). SSAP No. 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 No. 10R, the Company determined that there were no deferred tax assets that required a valuation allowance. Additionally, SSAP No. 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. In September 2010, the NAIC adopted an extension of the sunset provision of SSAP No. 10R, making it effective through December 31, 2011. In addition, the NAIC adopted expanded disclosures on tax planning strategies; specifically, a company would be required to disclose the impact of tax planning strategies on the determination of adjusted deferred tax assets (DTAs) and net admitted DTAs by percentage and by tax character. There was no material impact to the financial statements as a result of the adoption of SSAP No. 10R.

#### **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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Risk Concentrations**

Assets that potentially subject the Company to credit risk consist primarily of investments in bonds and accident and health 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.

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. The Company performs ongoing credit evaluations of customers and generally does not require collateral. The Company maintains the right to terminate coverage for employers and individuals who fail to pay premiums due within specific time frames.

As of December 31, 2010 and 2009, the Company recorded premiums due and unpaid from the Federal Employees Health Benefits Program comprising approximately 86% and 80% respectively, of the total premiums due and unpaid.

##### **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 accumulated deficit.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

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.

#### *Impairment – Non-mortgage-backed or loan-backed 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

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 – Mortgage-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 investment income, net, with the interest-related impairment recognized in capital and surplus. 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 investment income, net in the accompanying statements of operations – statutory basis and statements of changes in capital and surplus – statutory basis.

#### **Liability for Unpaid Claims and Claim Adjustment Expenses**

Unpaid claims and claim adjustment expenses represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred through December 31, 2010 and 2009. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based upon authorized health care services and past claims payment experience, together with current factors which, in management's judgment, require recognition in the calculation.

These accruals are continually monitored and reviewed. Changes in assumptions for medical and hospital costs, 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 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. Certain of these contracts also include risk-sharing arrangements based on hospital arrangements and other claims experience. Health benefits services that cannot be provided to the Company’s members by contracted medical management groups are provided by physician and hospitals to whom the Company pays fees based on negotiated charges.

##### **Reclassifications**

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

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**3. Liability for Unpaid Claims and Claim Adjustment Expenses**

Activity in the liability for unpaid claims is summarized as follows:

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Balance at January 1	\$ 12,289,799	\$ 8,030,508
Incurred related to:		
Current year	<b>113,569,817</b>	87,254,677
Prior year	<b>(535,901)</b>	(2,404,742)
Total incurred	<b>113,033,916</b>	84,849,935
Paid related to:		
Current year	<b>(99,423,405)</b>	(73,235,195)
Prior year	<b>(11,753,898)</b>	(5,625,766)
Total paid	<b>(111,177,303)</b>	(78,860,961)
Balance at December 31, prior to reinsurance	<b>14,146,412</b>	14,019,482
Less reinsurance recoverables	<b>(394,474)</b>	(1,729,683)
Net balance at December 31	<b>\$ 13,751,938</b>	\$ 12,289,799

The methodology used in calculating the liability has been consistently applied between years. As of December 31, 2010 and 2009, accrued claim adjustment expenses, were \$263,301 and \$177,168, respectively, and were included in liability for unpaid claims and claim adjustment expenses on the balance sheets – statutory-basis. This reserve is determined as a percentage of claims reserves and fluctuates with changes in claims reserves.

The liability for incurred claims and claim adjustment expenses attributable to insured events of prior years for the years ended December 31, 2010 and 2009 has been adjusted favorably by \$535,901 and \$2,404,742, respectively, as a result of actual claims payments, re-estimation of unpaid claims and claim adjustment expenses principally on group contracts. The re-estimation of unpaid claims is recorded prospectively as changes in claims payment patterns, membership, and utilization trends are identified and quantified.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**4. Investments**

The amortized cost and fair value in bonds, including restricted deposits of \$500,000 and \$500,000 as of December 31, 2010 and 2009, respectively, are summarized as follows:

	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<b>As of December 31, 2010</b>				
U.S. treasury and agency securities	\$ 498,907	\$ 12,748	\$ –	\$ 511,655
State and municipal bonds	24,170,675	729,684	(76,104)	24,824,255
Mortgage-backed securities	2,409,098	133,255	(4,532)	2,537,821
Other corporate fixed-income securities	8,567,227	179,104	–	8,746,331
Total bonds	<u>\$ 35,645,907</u>	<u>\$ 1,054,791</u>	<u>\$ (80,636)</u>	<u>\$ 36,620,062</u>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<b>As of December 31, 2009</b>				
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
Other corporate 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>

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**4. 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.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>As of December 31, 2010</b>						
State and municipal bonds	\$ 3,947,552	\$ 76,104	\$ -	\$ -	\$ 3,947,552	\$ 76,104
Mortgage-backed securities	516,698	4,532	-	-	516,698	4,532
Total bonds	<u>\$ 4,464,250</u>	<u>\$ 80,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,464,250</u>	<u>\$ 80,636</u>

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>As of December 31, 2009</b>						
State and municipal bonds	\$ 677,573	\$ 30,798	\$ 879,869	\$ 8,944	\$ 1,557,442	\$ 39,742
Other corporate fixed-income securities	2,300,473	27,061	-	-	2,300,473	27,061
Total bonds	<u>\$ 2,978,046</u>	<u>\$ 57,859</u>	<u>\$ 879,869</u>	<u>\$ 8,944</u>	<u>\$ 3,857,915</u>	<u>\$ 66,803</u>

As of December 31, 2010 and 2009, the Company held 11 and 7 investments, respectively, which had an unrealized loss. The unrealized loss in these securities was caused primarily by increases in volatility and changes in interest rates. Because the decline in fair 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, and has the ability and intent to hold investments 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, 2010 and 2009.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**4. Investments (continued)**

A summary of the amortized cost and fair value of the Company's investments in bonds at December 31, 2010 by contractual maturity date is as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Years to maturity		
One or less	\$ 901,551	\$ 916,505
One through five	16,368,507	16,850,346
Five through ten	11,418,758	11,794,153
After ten	4,547,993	4,521,237
Mortgage-backed securities	2,409,098	2,537,821
Total	<u>\$ 35,645,907</u>	<u>\$ 36,620,062</u>

The contractual maturities in the foregoing table may differ from the expected maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

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 investment income, net. 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 collectibility 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### 4. Investments (continued)

The Company maintains restricted deposits held by the Louisiana Department of Insurance. The purpose of these deposits is to comply with Louisiana deposit statutes. As of December 31, 2010 and 2009, restricted cash was \$600,000 and \$600,000, respectively, and restricted deposits were \$500,000 and \$500,000, respectively.

Proceeds from the sales of investments in debt securities during 2010 were \$2,995,911 (including proceeds from maturities and bond repayments of \$2,403,637; gross gains of \$9,311 were realized on those sales. Proceeds from the sales of investments in debt securities during 2009 were \$5,448,932 (including proceeds from the maturities and bond repayments of \$4,484,636); gross losses of \$33,785 were realized on those sales.

Net investment income by type of investment as of December 31, 2010 and 2009 (excluding net realized gains of \$9,311 and net realized losses of \$33,785, respectively) is as follows:

	Year Ended December 31	
	2010	2009
Bonds	\$ 1,205,580	\$ 1,139,562
Cash on deposit:		
Short-term investments	15,127	51,036
Other	24,094	31,919
Investment fees	(76,830)	(93,505)
Total	<u>\$ 1,167,971</u>	<u>\$ 1,129,012</u>

#### 5. Fair Value Measurements

Included in the financial statements are certain financial instruments carried at fair value, including cash and short-term investments and certain bonds that are carried at the lower of amortized cost or market. SSAP No. 100 provides guidance on fair value measurements and 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 Financial Statements (continued)

**5. Fair Value Measurements (continued)**

The following table presents the fair value hierarchy for the Company's financial assets measured at fair value at December 31, 2010 and 2009:

	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>As of December 31, 2010</b>			
Cash, cash equivalents, and short-term investments	\$ 7,508,737	\$ 3,218,132	\$ 4,290,605
Restricted cash	600,000	600,000	-
<b>Total</b>	<b>\$ 8,108,737</b>	<b>\$ 3,818,132</b>	<b>\$ 4,290,605</b>
<b>As of December 31, 2009</b>			
Cash, cash equivalents, and short-term investments	\$ 15,176,574	\$ 3,011,199	\$ 12,165,375
Restricted cash	600,000	600,000	-
<b>Total</b>	<b>\$ 15,776,574</b>	<b>\$ 3,611,199</b>	<b>\$ 12,165,375</b>

The Company's Level 1 securities primarily consist of U.S. Treasury securities and cash excluding negative cash amounts of \$3,748,460 and \$2,898,262 at December 31, 2010 and 2009, 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 (interest rates, yield curve 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 Financial Statements (continued)

#### **6. 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 on 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 the 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 Financial Statements (continued)

**6. Income Taxes (continued)**

The components of the net deferred tax asset (DTA) and deferred tax liability (DTL) are as follows:

	<b>December 31, 2010</b>		
	<b>Capital</b>	<b>Ordinary</b>	<b>Total</b>
Gross deferred tax assets	\$ —	\$ 606,054	\$ 606,054
Statutory valuation allowance	—	—	—
Adjusted gross deferred tax assets	—	606,054	606,054
Gross deferred tax liabilities	—	(72,370)	(72,370)
Net deferred tax asset before admissibility test	—	533,684	533,684
Nonadmitted deferred tax assets	—	86,626	86,626
Net admitted deferred tax asset	\$ —	\$ 447,058	\$ 447,058
Decrease in DTAs nonadmitted			\$ (67,451)

	<b>December 31, 2009</b>		
	<b>Capital</b>	<b>Ordinary</b>	<b>Total</b>
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
Nonadmitted deferred tax assets	—	154,077	154,077
Net admitted deferred tax asset	\$ 11,840	\$ 430,917	\$ 442,757
Decrease in DTAs nonadmitted			\$ (19,306)

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**6. Income Taxes (continued)**

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 10R during 2010 and 2009 is as follows:

		<b>December 31, 2010</b>		
		<b>Capital</b>	<b>Ordinary</b>	<b>Total</b>
Federal income taxes recoverable through loss carryback	<b>10.a</b>	\$ —	\$ —	\$ —
Adjusted gross DTA expected to be realized in one year	<b>10.b.i</b>	—	<b>447,058</b>	<b>447,058</b>
10% adjusted capital and surplus limit	<b>10.b.ii</b>	—	—	<b>2,111,807</b>
Admitted pursuant to paragraph 10.b (lesser of i. or ii.)		—	—	—
Additional admitted pursuant to paragraph 10.c	<b>10.c</b>	—	<b>72,370</b>	<b>72,370</b>
Risk-based capital:				
Total adjusted capital				
Authorized control level	<b>10.d</b>	—	—	—
Additional admitted pursuant to paragraph 10.e.i	<b>10.e.i</b>	—	—	—
Adjusted gross DTA expected to be realized in three years	<b>10.e.ii.a</b>	—	—	—
15% adjusted statutory capital and surplus limit	<b>10.e.ii.b</b>	—	—	—
Additional admitted pursuant to paragraph 10.e.ii (lesser of a or b)				
Additional admitted pursuant to paragraph 10.e.iii	<b>10.e.iii</b>	—	—	—
Total admitted DTA		—	<b>519,428</b>	<b>519,428</b>
Total DTL		—	<b>(72,370)</b>	<b>(72,370)</b>
Net admitted DTA		—	<b>447,058</b>	<b>447,058</b>
Nonadmitted DTA		<b>\$ —</b>	<b>\$ 86,626</b>	<b>\$ 86,626</b>

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**6. Income Taxes (continued)**

		<b>December 31, 2009</b>		
		<b>Capital</b>	<b>Ordinary</b>	<b>Total</b>
Federal income taxes recoverable through loss carryback	10.a	\$ —	\$ —	\$ —
Adjusted gross DTA expected to be realized in one year	10.b.i	11,840	430,917	442,757
10% adjusted capital and surplus limit	10.b.ii	—	—	2,362,682
Admitted pursuant to paragraph 10.b (lesser of i. or ii.)		11,840	430,917	442,757
Additional admitted pursuant to paragraph 10.c	10.c	—	26,647	26,647
Risk-based capital:				
Total adjusted capital				
Authorized control level	10.d	—	—	—
Additional admitted pursuant to paragraph 10.e.i	10.e.i	—	—	—
Adjusted gross DTA expected to be realized in three years	10.e.ii.a	—	—	—
15% adjusted statutory capital and surplus limit	10.e.ii.b	—	—	—
Additional admitted pursuant to paragraph 10.e.ii (lesser of a or b)				
Additional admitted pursuant to paragraph 10.e.iii	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
Nonadmitted DTA		\$ —	\$ 154,077	\$ 154,077

The Company has elected not to admit additional deferred tax assets pursuant to SSAP No. 10R, paragraph 10e. The current-period election does not differ from the prior reporting period.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**6. Income Taxes (continued)**

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows (in thousands):

	<b>December 31</b>		<b>Change</b>	<b>Character</b>
	<b>2010</b>	<b>2009</b>		
Deferred tax assets:				
Unpaid claims	\$ 97,264	\$ 84,118	\$ 13,146	Ordinary
Unearned premiums	163,740	146,712	17,028	Ordinary
Allowance for doubtful accounts	810	840	(30)	Ordinary
Depreciation	30,669	17,548	13,121	Ordinary
Other accrued liabilities	93,079	122,665	(29,586)	Ordinary
Nonadmitted assets	179,962	239,758	(59,796)	Ordinary
Capital losses	-	11,840	(11,840)	Capital
Other	40,530	-	40,530	Ordinary
Total deferred tax assets	<b>606,054</b>	623,481	(17,427)	
Nonadmitted deferred tax assets	<b>(86,626)</b>	(154,077)	67,451	Ordinary
Admitted deferred tax assets	<b>519,428</b>	469,404	50,024	
Deferred tax liabilities:				
Accrued rent				Ordinary
Other	<b>(72,370)</b>	(26,647)	(45,723)	Ordinary
Total deferred tax liabilities	<b>(72,370)</b>	(26,647)	(45,723)	
Net admitted deferred tax asset	<b>\$ 447,058</b>	\$ 442,757	\$ 4,301	

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

	<b>2010</b>	<b>2009</b>
Federal	\$ 1,483,129	\$ 2,675,986
Tax on capital gains	3,259	-
Foreign	-	-
Change in estimate	476,881	13,903
Federal taxes incurred	<b>\$ 1,963,269</b>	<b>\$ 2,689,889</b>

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**6. 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. The differences may be summarized as follows:

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Provision computed at statutory rate	<b>\$ 1,863,400</b>	\$ 2,895,655
Change in estimate	<b>476,881</b>	13,903
State taxes	–	8,270
Tax-exempt interest	<b>(262,777)</b>	(261,324)
Unearned premiums	<b>17,028</b>	6,918
Allowance for doubtful accounts	<b>(29)</b>	(1,079)
Other permanent	<b>(139,402)</b>	(67,565)
Depreciation and amortization	<b>8,566</b>	(17,654)
Limitation on capital losses	–	9,636
Unpaid claims	<b>13,145</b>	29,247
Other temporary	<b>36,316</b>	(764)
Other accrued liabilities	<b>(49,859)</b>	74,646
Income tax provision per accompanying statements of operations statutory-basis	<b><u>\$ 1,963,269</u></b>	<b><u>\$ 2,689,889</u></b>

The Company has no operating loss carryovers from prior years.

The Company does not have any current or prior operating losses that have not been realized as a result of the intercompany tax allocation with Coventry.

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:

2010	\$ 1,963,269
2009	2,689,889

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

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **7. Related-Party Transactions**

The amounts due from related parties consist of receivables from Coventry Health Care, Inc. As of December 31, 2010 and 2009, Coventry owed the Company \$114,398.

The amounts due to related parties consist of payables to Coventry Health and Life Insurance Company (CH&L), an affiliate of Coventry Health Care, Inc. As of December 31, 2010 and 2009, the Company owed CH&L \$167,763 and \$507,674, respectively.

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 significant intercompany balances are settled on a monthly basis. Under the terms of the management agreement, the Company incurred management fees to Coventry of \$10,450,609 and \$6,995,919 in 2010 and 2009, respectively.

#### **8. Reinsurance**

The Company carries reinsurance coverage for instances in which medical costs for an individual member exceed certain limitations. This coverage is currently through CH&L. Total reinsurance premiums paid to CH&L for the years ended December 31, 2010 and 2009 were \$2,219,711 and \$1,747,794, respectively, and are included as reductions of premiums, net. Total reinsurance recoveries from CH&L of \$2,166,888 and \$1,603,590 are included as a reduction of health benefits expense for the years ended December 31, 2010 and 2009, respectively.

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

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### 9. Leases

The Company leases its office facilities and certain office equipment under noncancelable operating leases, with escalation clauses in the amount of 2.1% increasing minimum rent payments each year. As of December 31, 2010, future minimum lease and sublease payments are as follows:

	<b>Operating Leases</b>
2011	\$ 370,844
2012	328,135
2013	334,855
2014	55,996
Total minimum payments	<u>\$ 1,089,830</u>

Rent expense for the years ended December 31, 2010 and 2009 was approximately \$375,430 and \$330,000, respectively.

#### 10. Regulatory Matters

The Company is subject to insurance regulations that require it to maintain \$1,000,000 on deposit with the state of Louisiana. The state of Louisiana also requires the Company to maintain a minimum statutory surplus of \$2,000,000. The Company can pay dividends without regulatory approval at an amount up to the greater of 10% of the prior year's capital and surplus or the prior year net gain from operations. Dividends in excess of this amount require regulatory approval prior to payment. The Company paid dividends to Coventry of \$4,853,729 and \$600,000 in 2010 and 2009, respectively, for which the Company received regulatory approval from the Louisiana DOI.

In addition to the statutory net worth requirement, Louisiana has adopted the NAIC RBC requirements. RBC is a method 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 assets, 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 RBC 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 RBC requirements.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**10. Regulatory Matters (continued)**

The Company has no preferred stock outstanding. The portion of capital and surplus as of December 31, 2010 and 2009 reduced by non-admitted assets is as follows:

	<u>2010</u>	<u>2009</u>
Nonadmitted assets	<u>\$ 600,804</u>	<u>\$ 839,101</u>

**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 to the Coventry Plan, limited by the maximum compensation deferral amount permitted by applicable law, which the Company matches by making contributions of (1) Coventry's common stock equal to 100% of the employee's contribution up to the first 3% of the employee's compensation deferral and (2) an amount equal to 50% of the employee's contribution on the second 3% of the employee's compensation deferral. The Company contributed approximately \$166,000 and \$147,000 in stock to the Coventry Plan during 2010 and 2009, 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### 11. Employee Benefit Plans (continued)

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 market value of the underlying stock at the date of grant. Options generally become exercisable after one year in 33 1/3% increments per year and expire ten years from the date of grant. The Stock Incentive Plan is authorized to grant either incentive stock options or nonqualified stock options, stock appreciation rights, restricted stock, deferred stock units, and other stock-based awards at the discretion of the Compensation and Benefits Committee of Coventry's Board of Directors. The Company recognized no expense from this Stock Incentive Plan for the years ended December 31, 2010 and 2009.

#### 12. Administrative Services Only Uninsured Plans

The result of the Company's ASO contracts are as follows:

	Year Ended December 31	
	2010	2009
Net reimbursement for administrative expenses in excess of actual expenses	\$ 648,963	\$ 811,284
Total net other income and expenses	(177,622)	(236,417)
Net gain from operations	\$ 471,341	\$ 574,867

The total claim volume was approximately \$11.9 million and \$15.8 million for the years ended December 31, 2010 and 2009, respectively.

#### 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.

## Coventry Health Care of Louisiana, Inc.

### Notes to Financial Statements (continued)

#### **13. Commitments and Contingencies (continued)**

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 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.

The Company is named as 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 insuring these types of claims.

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**14. Reconciliation Between Audited Financial Statements and the Annual Statement**

The following is a reconciliation of amounts previously reported to state regulatory authorities in the 2010 Annual Statement, to those reported in the accompanying statutory-basis financial statements:

	<b>December 31, 2010</b>
Balance Sheet:	
Assets as reported in the Company's Annual Statement	\$ 44,358,396
Increase in amounts due from related party	114,398
Decrease in other receivables	<u>(1,740,413)</u>
Assets as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 42,732,381</u>
Liabilities as reported in the Company's Annual Statement	\$ 20,490,811
Decrease in liability for unpaid claims and claim adjustment expense	(227,093)
Liabilities as reported in the accompanying audited statutory-basis balance sheet	<u>(399,956)</u>
	<u>\$ 19,863,762</u>
Capital and surplus as reported in the Company's Annual Statement	\$ 23,867,587
Decrease in other receivables	(1,030,968)
Decrease in liability for unpaid claim and claims adjustment expense	32,000
Total capital and surplus as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 22,868,619</u>
Statement of Operations:	
Statutory net income as reported in the Company's Annual Statement	\$ 4,745,930
Increase general administrative expenses	(1,417,198)
Decrease health benefits expenses	32,000
Total statutory net income per financial statements	<u>\$ 3,360,732</u>

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**14. Reconciliation Between Audited Financial Statements and the Annual Statement  
(continued)**

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:

	<b>December 31, 2009</b>
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 nonadmitted 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>
Statement of Operations:	
Statutory net income as reported in the Company's Annual Statement	\$ 5,884,697
Decrease administration expenses	91,620
Increase tax provision	(392,906)
Total statutory net income per financial statements	<u>\$ 5,583,411</u>

Coventry Health Care of Louisiana, Inc.

Notes to Financial Statements (continued)

**15. Subsequent Events**

The Company has evaluated subsequent events through May 31, 2011, the date at which the financial statements were available to be issued, 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 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 audits 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.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

May 31, 2011

Coventry Health Care of Louisiana, Inc.

Supplemental Schedule of Investment Risks Interrogatories

December 31, 2010

1. The Company's total admitted assets as reported on page two of its Annual Statement are \$44,358,396. Refer to Note 14 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	\$ 3,098,171	7.0%
LAFAYETTE LA UTIL REV	1,590,883	3.6
EAST BATON ROUGE PARISH LA SAL	1,550,056	3.5
GENERAL ELEC CAP CORP	1,518,881	3.4
CITIBANK, NA.	1,501,062	3.4
LOUISIANA STATE UNIV & AGRIC	1,111,443	2.5
INDIANA UNIV REVS	1,088,972	2.5
PHOENIX ARIZ	1,079,290	2.4
INDIANA ST FIN AUTH REV	1,068,395	2.4
LIVINGSTON PARISH LA SCH DIST	1,068,093	2.4

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	\$ 34,095,851	76.9%
NAIC-2	1,550,056	3.5

Coventry Health Care of Louisiana, Inc.

Supplemental Schedule of Investment Risks Interrogatories (continued)

4. The Company has no admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies that are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31, *Derivative Instruments*).
5. Assets held in foreign investments are less than 2.5% of the Company's total admitted assets.
6. Assets held in Canadian investments are less than 2.5% of the Company's total admitted assets.
7. Assets held in investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.
8. Assets held in equity interests are less than 2.5% of the Company's total admitted assets.
9. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Company's total admitted assets.
10. Assets held in general partnership interests are less than 2.5% of the Company's total admitted assets.
11. Mortgage loans reported in Schedule B are less than 2.5% of the Company's total admitted assets.
12. The five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5% of the Company's total admitted assets.
13. Investments held in mezzanine real estate loans are less than 2.5% of the Company's total admitted assets.
14. The Company did not lend any securities during 2010. The Company did not hold any repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, and dollar reverse repurchase agreements during 2010.
15. The Company did not own any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2010.

Coventry Health Care of Louisiana, Inc.

Supplemental Schedule of Investment Risks Interrogatories (continued)

16. The Company did not have any potential exposure for collars, swaps, and forwards during 2010.
17. The Company did not have any potential exposure for futures contracts during 2010.
18. The Company did not own any investments included in the write-ins for invested assets category included on the summary investment schedule at December 31, 2010.

Coventry Health Care of Louisiana, Inc.

Summary Investment Schedule

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage of Gross Investment Holdings	Amount	Percentage of Gross Investment Holdings
<b>Bonds</b>				
U.S. Treasury securities	\$ —	— %	\$ —	— %
U.S. government agency obligations mortgage-backed securities):				
Issued by U.S. government-sponsored agencies	498,907	1.3	498,907	1.3
Foreign government (including Canada, excluding mortgage-backed securities)	—	—	—	—
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories and possessions obligations	1,003,090	2.5	1,003,090	2.5
Political subdivisions of states, and possessions and political subdivisions general obligations	6,260,796	15.6	6,260,796	15.6
Revenue and assessment obligations	16,906,789	42.3	16,906,789	42.3
Mortgage-backed securities (includes and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	—	—	—	—
Issued or guaranteed by FNMA and FHLMC	2,409,098	6.0	2,409,098	6.0
All other	—	—	—	—
CMOs and REMICs:				
Issued or guaranteed by GNMA, FHLMC or VA	—	—	—	—
All other	—	—	—	—
Other debt and other fixed-income securities (excluding short-term):				
Unaffiliated domestic securities credit tenant loans rated by the SVO)	8,567,227	21.4	8,567,227	21.4
Unaffiliated foreign securities	—	—	—	—
Equity interests:				
Investments in mutual funds	—	—	—	—
Receivable for securities	—	—	—	—
Cash, cash equivalents, and short-term investments	4,360,277	10.9	4,360,277	10.9
Total invested assets	<u>\$ 40,006,184</u>	<u>100.0 %</u>	<u>\$ 40,006,184</u>	<u>100.0 %</u>

Coventry Health Care of Louisiana, Inc.

Note – Basis of Presentation

December 31, 2010

**Note – Basis of Presentation**

The accompanying supplemental schedules and interrogatories present selected statutory-basis financial data as of December 31, 2010 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 2010 Statutory Annual Statement as filed with the Louisiana Department of Insurance.

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