Statutory-Basis Financial Statements and Supplementary Information

Carelink Health Plans, Inc.
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Carelink Health Plans, Inc.

Statutory-Basis Financial Statements
and Other Supplementary Information

Years Ended December 31, 2011 and 2010

Contents

1108-1282428

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Report of Independent Auditors

Carelink Health Plans, Inc.

We have audited the accompanying statutory-basis balance sheets of Carelink Health Plans, Inc. as of December 31, 2011 and 2010, 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 audits 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 described in Note 2, to the financial statements, the Company presents its financial statements in conformity with accounting practices prescribed or permitted by the West Virginia 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 also 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 Carelink Health Plans, Inc. at December 31, 2011 or 2010, 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 Carelink Health Plans, Inc. at December 31, 2011 and 2010, 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 West Virginia Department of Insurance.

Ernst & Young LLP

May 24, 2012

Carelink Health Plans, Inc.

Balance Sheets – Statutory-Basis

	December 31	
	2011	**2010**
Admitted assets		
Cash, cash equivalents, and short-term investments	**$ 9,289,617**	$ 4,191,856
Restricted deposits	**791,001**	712,700
Bonds	**42,882,445**	42,545,414
Total cash and invested assets	**52,963,063**	47,449,970
Premiums due and unpaid	**400,629**	–
Deferred tax assets, net	**456,419**	653,567
Amounts due from related parties	**469,651**	178,953
Other receivables	**10,138,122**	10,665,033
Income tax recoverable	**–**	86,749
Total admitted assets	**$ 64,427,884**	$ 59,034,272
Liabilities and capital and surplus		
Liabilities:		
Liability for unpaid claims and claim adjustment expenses	**$ 13,215,314**	$ 12,361,737
Other accrued medical expenses	**7,332,855**	6,944,623
Income tax payable	**1,116,884**	–
Healthcare reform liability	**636,186**	–
Accounts payable and accrued expenses	**897,592**	2,308,959
Unearned premiums	**1,026,948**	175,766
Amounts due to related parties	**621,565**	592,274
Total liabilities	**24,847,344**	22,383,359
Capital and surplus:		
Common stock ($1 par value, 1,000,000 shares authorized, issued and outstanding)	**1,000,000**	1,000,000
Additional paid-in surplus	**69,201,967**	78,201,967
Accumulated deficit	**(30,621,427)**	(42,551,054)
Total capital and surplus	**39,580,540**	36,650,913
Total liabilities and capital and surplus	**$ 64,427,884**	$ 59,034,272

See accompanying notes.

Carelink Health Plans, Inc.

Statements of Operations – Statutory-Basis

	Year Ended December 31	
	2011	**2010**
Premiums, net	**$ 166,516,301**	$ 160,095,301
Expenses:		
Health benefits	**131,300,227**	129,521,578
General administrative	**20,591,592**	18,738,436
Total expenses	**151,891,819**	148,260,014
Gain from operations	**14,624,482**	11,835,287
Investment income, net	**1,453,454**	1,427,509
Gain from operations before income taxes	**16,077,936**	13,262,796
Federal income tax provision	**(4,667,215)**	(4,035,478)
Net income	**$ 11,410,721**	$ 9,227,318

See accompanying notes.

Carelink Health Plans, Inc.

Statements of Changes in Capital and Surplus – Statutory-Basis

	Common Stock	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total**
Balance at January 1, 2010	$ 1,000,000	$ 84,840,983	$ (51,756,232)	$ 34,084,751
Net income	–	–	9,227,318	9,227,318
Dividend to parent	–	(6,639,016)	–	(6,639,016)
Decrease in nonadmitted assets	–	–	333,670	333,670
Change in net deferred tax assets	–	–	(355,810)	(355,810)
Balance at December 31, 2010	1,000,000	78,201,967	(42,551,054)	36,650,913
Net income	**–**	**–**	**11,410,721**	**11,410,721**
Dividend to parent	**–**	**(9,000,000)**	**–**	**(9,000,000)**
Decrease in nonadmitted assets	**–**	**–**	**838,805**	**838,805**
Change in net deferred tax assets	**–**	**–**	**(319,899)**	**(319,899)**
Balance at December 31, 2011	**$ 1,000,000**	**$ 69,201,967**	**$ (30,621,427)**	**$ 39,580,540**

See accompanying notes.

Carelink Health Plans, Inc.

Statements of Cash Flow – Statutory-Basis

	Year Ended December 31	
	2011	**2010**
Operating activities		
Premiums collected, net of reinsurance paid	**$ 166,351,251**	$ 160,066,761
Claims and claims adjustment expenses paid	**(129,055,795)**	(130,720,897)
Administrative expenses paid	**(20,981,138)**	(18,292,917)
Net investment income received	**1,611,943**	1,289,883
Federal income taxes paid	**(3,463,583)**	(3,356,302)
Net cash provided by operating activities	**14,462,678**	8,986,528
Investing activities		
Proceeds from sales and maturities of bonds	**14,242,819**	9,169,085
Purchases of bonds	**(14,835,646)**	(21,775,835)
Net cash used in investing activities	**(592,827)**	(12,606,750)
Financing and miscellaneous activities		
Dividend to parent	**(9,000,000)**	(6,639,016)
Other cash provided (used)	**227,910**	(6,226,982)
Net cash used in financing and miscellaneous activities	**(8,772,090)**	(12,865,998)
Change in cash, cash equivalents, and short-term investments	**5,097,761**	(16,486,220)
Cash, cash equivalents, and short-term investments at beginning of year	**4,191,856**	20,678,076
Cash, cash equivalents, and short-term investments at end of year	**$ 9,289,617**	$ 4,191,856

See accompanying notes.

1. Organization

Carelink Health Plans, Inc. (Carelink or the Company) is a for-profit organization operating a health maintenance organization (HMO) in the State of West Virginia. The Company serves commercial HMO and Medicaid eligible participants. Services are typically provided under one-year (or less) contracts with employers and individuals under which the Company insures the health benefits of the employees who select coverage. The Company also offers administrative-services only contracts with 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 (PPO), point-of-service products (POS), Medicare Advantage, Medicare Prescription Drug Plans, 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.

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 West Virginia Department of Insurance. The State of West Virginia Department of Insurance requires that insurance companies domiciled in the State of West Virginia 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 West Virginia insurance commissioner.

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.

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 filed 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 Flow – Statutory-Basis

- Cash, cash equivalents, and short-term investments in the statements of cash flow – 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.

Loss Contingencies

- When management estimates a loss contingency using a range of possible outcomes, and no amount within that range is a better estimate than any other amount, the midpoint of the range shall be accrued. Under GAAP, the low point of the range is accrued.

2. Summary of Significant Accounting Policies (continued)

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.

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 West Virginia 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 December 2009, the NAIC adopted SSAP No. 100, *Fair Value Measurements*, which adopted with modification the fair value guidance prescribed under GAAP and was 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 Level 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.

2. Summary of Significant Accounting Policies (continued)

- 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.

The Company adopted this guidance for the statutory-basis financial statements issued for the year ended December 31, 2011. The Company's adoption of this guidance did not have a material impact on its financial statements.

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 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 revisions to SSAP No. 10R.

In December 2011, the NAIC adopted SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* (SSAP No. 101). SSAP No. 101 introduces a number of changes to the admissibility of net deferred tax assets. Under SSAP No. 101, the maximum net deferred tax asset that may be admitted is equivalent to: 1) Federal income taxes paid in prior years that can be recovered through loss carrybacks, not to exceed three years; 2) the lesser of adjusted gross deferred tax assets expected to be realized within the number of years specified by the guidance or a percentage of adjusted capital and surplus specified by the guidance; and 3) the amount of remaining adjusted gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The guidance specifies that 0%, 10%, or 15% may be realized over the course of 1, 2, or 3 years, depending on the company's RBC level for those entities subject to RBC requirements. For non-RBC reporting entities, equivalent percentages and realization periods are established for financial guaranty/mortgage-guaranty reporting entities and all other non-RBC reporting entities. SSAP No. 101 also requires the recognition of contingencies for uncertain tax

2. Summary of Significant Accounting Policies (continued)

positions if the contingency is more-likely-than-not (more than 50% likelihood) to be payable for Federal tax purposes. In addition, related interest and penalties are required to be recorded as current income tax expense.

SSAP No. 101 will also introduce additional disclosure requirements related to the various components of the ratios used in determining the realization thresholds, disclosure of the use of reinsurance as a tax planning strategy, and disclosure of a range of reasonable outcomes (or a statement that a range cannot be established) for tax contingencies related to Federal or foreign taxes that will increase within 12 months of the reporting date. SSAP No. 101 is effective for fiscal years beginning January 1, 2012. The Company does not expect the adoption of SSAP No. 101 to have a material impact on the financial statements.

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.

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.

A major premium concentration of Carelink is the Centers for Medicare and Medicaid Services (CMS). As of December 31, 2011 and 2010, premium revenue from the Medicaid Program amounted to $127,018,614 and $117,171,293, respectively. In addition, Carelink receives newborn premium revenue from the State of West Virginia for maternity and delivery costs. As of December 31, 2011 and 2010, receivables related to newborn revenue totaled $9,324,965 and $9,971,205, respectively, and are included in other receivables.

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.

2. Summary of Significant Accounting Policies (continued)

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.

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;

2. Summary of Significant Accounting Policies (continued)

- 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 – Mortgage-backed or loan-backed securities

In accordance with 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), 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 for securities with an NAIC rating of 3 or higher. For the years ended December 31, 2011 and 2010, 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 investment income, net in the accompanying statements of operations – statutory basis and statements of changes in capital and surplus – statutory basis.

2. Summary of Significant Accounting Policies (continued)

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, 2011 and 2010. 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.

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.

Health Care Reform Liability

Effective in 2011, as required by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, PPACA), commercial health plans with medical loss ratios (MLR) on fully insured products that fall below certain targets are required to rebate ratable portions of their premiums annually. The mandated minimum MLR targets (as calculated under the definitions in PPACA and related regulations) for health plans, such that the percentage of health coverage premium revenue spent on health care medical costs and quality improvement expenses, are set at 85% for large employer groups, 80% for small employer groups and 80% for individuals, subject to state-specific exceptions. The potential for and size of the rebates are measured by regulated entity, state and market segment (individual, small group and large group). Accordingly, as of December 31, 2011, the Company has recorded $636,186 for the estimated rebate, which is also

2. Summary of Significant Accounting Policies (continued)

recognized as contra-revenue in premiums, net in the accompanying statements of operations – statutory-basis. The Company estimates the rebate liability based on judgments and estimated information, including utilization, unit cost trends, quality improvement costs, and product pricing, features and benefits. If actual experience varies from the Company's estimates or future regulatory guidance differs from its current judgments, the actual rebate liability could differ from the Company's estimates. The Company is required to issue rebates related to 2011 minimum MLR targets by August 1, 2012.

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 premiums received in advance 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.

Administrative-Services Only (ASO) Contracts

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 the accompanying statements of operations – statutory-basis.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications did not effect net income or financial position.

3. Liability for Unpaid Claims and Claim Adjustment Expenses

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

	Year Ended December 31	
	2011	**2010**
Balance at January 1	**$ 12,106,737**	$ 14,245,847
Incurred related to:		
Current year	**135,431,057**	132,947,313
Prior years	**(4,130,830)**	(3,425,735)
Total incurred	**131,300,227**	129,521,578
Paid related to:		
Current year	**(114,790,656)**	(115,656,232)
Prior years	**(14,587,955)**	(16,004,456)
Total paid	**(129,378,611)**	(131,660,688)
Balance at December 31	**14,028,353**	12,106,737
Less reinsurance recoverable	**(1,081,135)**	–
Net balance at December 31	**$ 12,947,218**	$ 12,106,737

The methodology used in calculating the liability has been consistently applied between years. As of December 31, 2011 and 2010, accrued claim adjustment expenses, were $268,096 and $255,000, respectively. 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, 2011 and 2010 has been adjusted favorably by $4,130,830 and $3,425,735, 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.

4. Investments

The amortized cost and fair value of investments in bonds, including restricted deposits, are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of December 31, 2011				
State and municipal bonds	**$ 16,957,146**	**$ 783,143**	**$ –**	**$ 17,740,289**
Mortgage-backed securities	**12,634,598**	**383,078**	**(24)**	**13,017,652**
U.S. treasury and agency securities	**1,590,958**	**8,619**	**(228)**	**1,599,349**
Corporate bonds and other securities	**12,490,744**	**296,287**	**(61,704)**	**12,725,327**
Total bonds	**$ 43,673,446**	**$ 1,471,127**	**$ (61,956)**	**$ 45,082,617**
As of December 31, 2010				
State and municipal bonds	$ 12,730,705	$ 296,222	$ (83,094)	$ 12,943,833
Mortgage-backed securities	11,366,177	227,290	(93,320)	11,500,147
U.S. treasury and agency securities	5,816,611	145,398	(21,366)	5,940,643
Corporate bonds and other securities	13,344,621	339,092	(2,745)	13,680,968
Total bonds	$ 43,258,114	$ 1,008,002	$ (200,525)	$ 44,065,591

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**
As of December 31, 2011						
Mortgage-backed securities	**$ 11,353**	**$ (24)**	**$ –**	**$ –**	**$ 11,353**	**$ (24)**
U.S. Treasury and agency securities	**400,064**	**(228)**	**–**	**–**	**400,064**	**(228)**
Corporate bonds and other securities	**2,030,829**	**(61,704)**	**–**	**–**	**2,030,829**	**(61,704)**
Total bonds	**$ 2,442,246**	**$ (61,956)**	**$ –**	**$ –**	**$ 2,442,246**	**$ (61,956)**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
As of December 31, 2010						
State and municipal bonds	$ 4,256,742	$ (83,094)	$ –	$ –	$ 4,256,742	$ (83,094)
Mortgage-backed securities	3,959,237	(93,320)	–	–	3,959,237	(93,320)
U.S. Treasury and agency securities	1,318,382	(21,366)	–	–	1,318,382	(21,366)
Corporate bonds and other securities	1,043,555	(2,745)	–	–	1,043,555	(2,745)
Total bonds	$10,577,916	$ (200,525)	$ –	$ –	$10,577,916	$ (200,525)

As of December 31, 2011 and 2010, the Company held 9 and 14 investments, respectively, which had an unrealized loss. The unrealized loss in these securities was caused primarily by changes in interest rates. 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 to 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, 2011 and 2010.

4. Investments (continued)

A summary of the amortized cost and fair value of as the Company's investments in bonds at December 31, 2011 by contractual maturity date are as follows:

	Amortized Cost	Fair Value
Years to maturity:		
One or less	$ 4,044,736	$ 4,075,760
One through five	13,553,808	13,995,744
Five through ten	5,168,653	5,322,046
After ten	8,271,651	8,671,415
Mortgage-backed securities	12,634,598	13,017,652
Total	$ 43,673,446	$ 45,082,617

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 if the NAIC rating for the security is 3 or higher.

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.

4. Investments (continued)

For the year ended December 31, 2011, the Company recognized no OTTI charges. For the year ended December 31, 2010, the Company recognized $20,635 related to mortgage-backed securities. Management believes that it has adequately reviewed its investment securities for impairment and that its investment securities are fairly stated within the balance sheets – statutory-basis.

The Company maintains restricted deposits held by the State of West Virginia**.** The purpose of these deposits is to comply with the State of West Virginia's deposit statutes. As of December 31, 2011 and 2010, restricted deposits were $791,001 and $712,700, respectively.

Proceeds from the sales of investments in debt securities during 2011 were $7,360,387. Proceeds from maturities and bond repayments during 2011 were $6,882,432; gross gains of $231,774 and gross losses of $(885) were realized on those sales. Proceeds from the sales of investments in debt securities during 2010 were $4,132,728. Proceeds from maturities and bond repayments during 2010 were $5,036,357; gross gains of $585,188 and gross losses of $(97,519) were realized on those sales.

Net investment income by type of investment as of December 31, 2011 and 2010 (including net realized gains of $230,889 and $487,669, respectively) is as follows:

	Year Ended December 31	
	2011	**2010**
Bonds	**$ 1,453,178**	$ 1,423,406
Short-term investments	**276**	4,103
Total	**$ 1,453,454**	$ 1,427,509

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.

The following table presents the fair value hierarchy for the Company's financial assets measured at fair value at December 31, 2011 and 2010:

	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, 2011				
Cash, cash equivalents and short-term investments	**$ 9,289,617**	**$ 7,818,292**	**$ 1,471,325**	**$ –**
As of December 31, 2010				
Cash, cash equivalents and short-term investments	$ 4,191,856	$ 3,809,620	$ 382,236	$ –

The Company's Level 1 securities primarily consist of U.S. Treasury securities and cash. The Company determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

5. Fair Value Measurements (continued)

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.

The following summarizes changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy.

	Balance at December 31, 2009	Transfers in to Level 3	Transfers Out of Level 3	Total Gains Included in Net Income	Total Gains (Losses) Included in Accumulated Deficit	Purchases, Issuances, Sales, and Settlements	Balance at December 31, 2010
Mortgage-backed securities	$ 427,866	$ –	$ –	$ 413,927	$ (427,866)	$ (413,927)	$ –
Corporate	97,500	–	–	105,000	(97,500)	(105,000)	–
Total	$ 525,366	$ –	$ –	$ 518,927	$ (525,366)	$ (518,927)	$ –

The Company's Level 3 securities primarily consisted of corporate financial holdings and mortgage-backed securities that were thinly traded due to market volatility and lack of liquidity. The Company determines the estimated fair value for its Level 3 securities using unobservable inputs that cannot be corroborated by observable market data including, but not limited to, broker quotes, default rates, benchmark yields, credit spreads and prepayment speeds.

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 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.

6. Income Taxes (continued)

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.

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

	December 31, 2011		
	Capital	**Ordinary**	**Total**
Gross deferred tax assets	**$ –**	**$ 1,446,509**	**$ 1,446,509**
Statutory valuation allowance	**–**	**–**	**–**
Adjusted gross deferred tax assets	**–**	**1,446,509**	**1,446,509**
Gross deferred tax liabilities	**–**	**(35,146)**	**(35,146)**
Net deferred tax asset before admissibility test	**–**	**1,411,363**	**1,411,363**
Nonadmitted deferred tax assets	**–**	**(954,944)**	**(954,944)**
Net admitted deferred tax asset	**$ –**	**$ 456,419**	**$ 456,419**
Decrease in DTAs nonadmitted			**$ (122,751)**

	December 31, 2010		
	Capital	**Ordinary**	**Total**
Gross deferred tax assets	$ –	$ 1,785,620	$ 1,785,620
Statutory valuation allowance	–	–	–
Adjusted gross deferred tax assets	–	1,785,620	1,785,620
Gross deferred tax liabilities	–	(54,358)	(54,358)
Net deferred tax asset before admissibility test	–	1,731,262	1,731,262
Nonadmitted deferred tax assets	–	(1,077,695)	(1,077,695)
Net admitted deferred tax asset	$ –	$ 653,567	$ 653,567
Decrease in DTAs nonadmitted			$ (371,199)

6. Income Taxes (continued)

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 10R during 2011 and 2010 is as follows:

		December 31, 2011		
		Capital	**Ordinary**	**Total**
Federal income taxes recoverable through loss carryback	**10.a**	**$ –**	**$ –**	**$ –**
Adjusted gross DTA expected to be realized in one year	**10.b.i**	**–**	**456,419**	**456,419**
10% adjusted capital and surplus limit	**10.b.ii**	**–**	**–**	**3,485,164**
Admitted pursuant to paragraph 10.b (lesser of i. or ii.)		**–**	**456,419**	**456,419**
Additional admitted pursuant to paragraph 10.c	**10.c**	**–**	**35,146**	**35,146**
Risk-based capital:				
Total adjusted capital	**10.d**	**–**	**–**	**37,701,645**
Authorized control level		**–**	**–**	**6,017,947**
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		**–**	**491,565**	**491,565**
Total DTL		**–**	**(35,146)**	**(35,146)**
Net admitted DTA		**$ –**	**$ 456,419**	**$ 456,419**
Nonadmitted DTA		**$ –**	**$ 954,944**	**$ 954,944**

6. Income Taxes (continued)

		December 31, 2010		
		Capital	**Ordinary**	**Total**
Federal income taxes recoverable through loss carryback	10.a	$ –	$ –	$ –
Adjusted gross DTA expected to be realized in one year	10.b.i	–	653,567	653,567
10% adjusted capital and surplus limit	10.b.ii	–	–	2,974,987
Admitted pursuant to paragraph 10.b (lesser of i. or ii.)		–	653,567	653,567
Additional admitted pursuant to paragraph 10.c	10.c	–	54,358	54,358
Risk-based capital:				
Total adjusted capital	10.d	–	–	33,885,361
Authorized control level		–	–	5,377,249
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		–	707,925	707,925
Total DTL		–	(54,358)	(54,358)
Net admitted DTA		$ –	$ 653,567	$ 653,567
Nonadmitted DTA		$ –	$ 1,077,695	$ 1,077,695

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.

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:

	December 31			
	2011	**2010**	**Change**	**Character**
Deferred tax assets:				
Unpaid claims	**$ 123,379**	$ 129,830	$ (6,451)	Ordinary
Unearned premiums	**71,887**	12,304	59,583	Ordinary
Net operating loss carryforward	**1,109,995**	1,268,565	(158,570)	Ordinary
Other accrued liabilities	**45,875**	80,279	(34,404)	Ordinary
Nonadmitted assets	**64,643**	277,802	(213,159)	Ordinary
Other	**30,730**	16,840	13,890	Ordinary
Total deferred tax assets	**1,446,509**	1,785,620	(339,111)	
Nonadmitted deferred tax assets	**(954,944)**	(1,077,695)	122,751	
Admitted deferred tax assets	**491,565**	707,925	(216,360)	
Deferred tax liabilities:				
Other	**(35,146)**	(54,358)	19,212	Ordinary
Total deferred tax liabilities	**(35,146)**	(54,358)	19,212	
Net admitted deferred tax asset	**$ 456,419**	$ 653,567	$ (197,148)	

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

	Year Ended December 31	
	2011	**2010**
Federal	**$ 5,255,000**	$ 3,971,399
Tax on capital gains	**80,811**	163,461
Change in estimate	**(668,596)**	(99,382)
Federal taxes incurred	**$ 4,667,215**	$ 4,035,478

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:

	Year Ended December 31	
	2011	**2010**
Provision computed at statutory rate	**$ 5,627,278**	$ 4,641,979
Tax-exempt interest	**(112,370)**	(115,576)
Change in estimate	**(668,596)**	(99,382)
Unpaid claims	**(6,451)**	(7,636)
Unearned premiums	**59,583**	(17,406)
Allowance for doubtful accounts	**59**	(217)
Depreciation and amortization	**772**	1,662
Capital losses	**–**	(207,448)
Other accrued liabilities	**(49,947)**	47,688
Net operating loss utilization	**(158,571)**	(158,571)
Other permanent	**(37,105)**	(57,350)
Other temporary	**12,563**	7,735
Income tax provision per accompanying statements of operations – statutory-basis	**$ 4,667,215**	$ 4,035,478

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:

2011	**$ 4,667,215**
2010	4,035,478

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

7. Related-Party Transactions

The amounts due from related parties consist of the following:

	December 31			
	2011		**2010**	
Coventry Health & Life Insurance Company	**$**	**469,651**	$	178,953
Amounts due from related parties	**$**	**469,651**	$	178,953

The amounts due to related parties consist of the following:

	December 31			
	2011		**2010**	
Southern Health Services, Inc.	**$**	**382,005**	$	364,327
Coventry Health Care, Inc.		**239,560**		224,369
Coventry Management Services, Inc.		**–**		3,578
Amounts due to related parties	**$**	**621,565**	$	592,274

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 $13,607,542 and $12,223,380 in 2011 and 2010, respectively.

The Company also has a management agreement with Southern Health Services, Inc., another Coventry subsidiary. According to the agreement, Southern Health Services, Inc. provides general management services to the Company including, but not limited to, senior management services, finance and accounting services, regulatory compliance and governmental affairs, medical management services, and human resources consulting. The Company incurred management fees of $3,408,276 and $3,153,228 in 2011 and 2010, respectively. As of December 31, 2011 and 2010, the Company had $382,005 and $364,327, respectively, of related payables included in due to affiliates.

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 Coventry Health and Life Insurance Company (CH&L), an affiliate of Coventry Health Care, Inc. Total reinsurance premiums paid to CH&L for the years ended December 31, 2011 and 2010 or $2,219,089 and $2,126,178, respectively, are included as reductions of premium revenues. Total reinsurance recoveries from CH&L of $958,476 and $733,221 are included as a reduction of health benefits expense for the years ended December 31, 2011 and 2010, 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.

9. Leases

The Company leases its office facilities and certain office equipment under noncancelable operating leases. As of December 31, 2011, future minimum lease and sublease payments are as follows:

	Operating Lease
2012	$ 320,456
2013	296,078
2014	24,733
Total minimum payments	$ 641,267

Rent expense for the years ended December 31, 2011 and 2010 was $314,693 and $307,075, respectively.

10. Regulatory Matters

In conjunction with an acquisition, Coventry entered into an agreement with the State of West Virginia Department of Insurance effective February 1, 2000 whereby Coventry agreed that the Company would, at all times, maintain a minimum capital and surplus of $7,800,000 and deposits with the State of West Virginia of at least $300,000. The Company must also seek the permission of the applicable state insurance regulators prior to paying any dividends. The Company obtained permission from the State of West Virginia Department of Insurance to make an extraordianary dividend payment of $9,000,000 and $6,639,016 in 2011 and 2010, respectively.

In addition to the statutory net worth requirement, West Virginia has adopted the NAIC risk-based capital (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 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.

The Company has no preferred stock outstanding. The portion of capital and surplus reduced by nonadmitted assets is as follows:

	December 31	
	2011	**2010**
Nonadmitted assets	**$ 1,032,611**	$ 1,871,416

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 $105,425 and $95,330 in stock to the Coventry Plan during 2011 and 2010, 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 market value of the underlying stock at the date of grant. Options generally become exercisable after one year in 25% 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 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, 2011 and 2010.

12. Administrative Services Only Uninsured Plans

The result of the Company's administrative services only contracts are as follows:

	Year Ended December 31 2011	2010
Net reimbursement for administrative expenses in excess of actual expenses	**$ 858,040**	$ 379,484
Total net expenses	**(1,040,729)**	(670,939)
Net loss from operations	**$ (182,689)**	$ (291,455)

The total claim payment volume for the years ended December 31, 2011 and 2010 was $14,375,252 and $8,318,552, 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.

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.

13. Commitments and Contingencies (continued)

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.

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 2011 and 2010 Annual Statements, which were previously filed with the State of West Virginia Department of Insurance to those reported in the accompanying statutory-basis financial statements herein:

	December 31	
	2011	**2010**
Balance sheet:		
Assets as reported in the Company's Annual Statement	**$ 64,427,884**	$ 58,283,417
Decrease deferred tax assets	**–**	(1,225,333)
Decrease federal tax recoverable	**–**	(263,808)
Decrease amounts due from related parties	**–**	(1,245,810)
Increase other receivables	**–**	3,485,806
Assets as reported in the accompanying audited statutory-basis balance sheet	**$ 64,427,884**	$ 59,034,272
Liabilities as reported in the Company's Annual Statement	**$ 26,726,239**	$ 24,398,056
Decrease claims unpaid	**(627,202)**	(768,887)
Decrease amounts due to related parties	**–**	(1,245,810)
Decrease accrued expenses	**(1,251,693)**	–
Liabilities as reported in the accompanying audited statutory-basis balance sheet	**$ 24,847,344**	$ 22,383,359

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

	December 31	
	2011	**2010**
Capital and surplus as reported in the Company's Annual Statement	**$ 37,701,645**	$ 33,885,361
Increase premiums, net	**1,251,693**	–
Decrease health benefit expenses	**256,363**	371,868
Decrease/increase federal income tax provision	**263,808**	(263,808)
Decrease in nonadmitted assets	**107,031**	3,485,805
Decrease in deferred tax assets	**–**	(828,313)
Total capital and surplus as reported in the accompanying audited statutory-basis balance sheet	**$ 39,580,540**	$ 36,650,913
Statements of operations:		
Statutory net income as reported in the Company's Annual Statement	**$ 10,143,935**	$ 9,119,258
Increase premiums, net	**1,251,693**	–
Increase health benefit expenses	**(248,715)**	371,868
Increase federal income tax provision	**263,808**	(263,808)
Total statutory net income per financial statements	**$ 11,410,721**	$ 9,227,318

15. Subsequent Events

The Company has evaluated subsequent events through May 24, 2012, the date at which the financial statements were available to be issued, and has determined there are no significant events to report.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

Carelink Health Plans, Inc.

Our audits were conducted for the purpose of forming an opinion on the statutory-basis financial statements as a whole. The accompanying supplemental schedule of selected statutory-basis financial data and 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 for purposes of additional analysis and are not a required part of the statutory-basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the statutory-basis financial statements as a whole.

This report is intended solely for the information and use of Carelink Health Plans, Inc. 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

May 24, 2012

Carelink Health Plans, Inc.

Supplemental Schedule of Investment Risks Interrogatories

December 31, 2011

1. The Company's total admitted assets as reported on page two of its Annual Statement are $64,427,884.

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**
Washington State	$ 1,249,382	1.9%
Sovereign Bank	1,000,734	1.6
Pennsylvania State Turnpike Comm	943,394	1.5
CJP Morgan Chase & Co	899,166	1.4
North Carolina St Capital Impt	878,764	1.4
West Virginia St Sch Bldg Auth	845,786	1.3
General Electric Cap Corp	800,965	1.2
Delaware St Transportation Auth	768,733	1.2
New York State Thruway Auth	761,987	1.2
BACM 2001-1 A4	751,486	1.2

3. The Company's total admitted assets held in bonds, restricted deposits, and short-term investments by NAIC rating, are as follows:

Bonds, Restricted Deposits, and Short-Term Investments – NAIC Rating Category	**Amount**	**Percentage of Total Admitted Assets**
NAIC-1	$ 43,399,086	67.4%
NAIC-2	1,429,921	2.2
NAIC-6	15,173	0.0

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 2011. The Company did not hold any repurchase agreements, reverse repurchase agreements, dollar repurchase agreements and dollar reverse repurchase agreements during 2011.

15. The Company did not own any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2011.

16. The Company did not have any potential exposure for collars, swaps, and forwards during 2011.

17. The Company did not have any potential exposure for futures contracts during 2011.

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, 2011.

Carelink Health Plans, Inc.

Summary Investment Schedule

December 31, 2011

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Admitted Assets as Reported in the Annual Statement Percentage
Bonds				
U.S. Treasury securities	$ 791,001	1.5%	$ 791,001	1.5%
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government-sponsored agencies	799,957	1.5	799,957	1.5
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	1,249,382	2.4	1,249,382	2.4
Political subdivisions of states, territories and possessions and political subdivisions general obligations	618,782	1.2	618,782	1.2
Revenue and assessment obligations	15,088,982	28.5	15,088,982	28.5
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	–	–	–	–
Issued or guaranteed by FNMA and FHLMC	10,452,455	19.7	10,452,455	19.7
All other	–	–	–	–
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,400,267	2.6	1,400,267	2.6
All other	781,876	1.5	781,876	1.5
Other debt and other fixed-income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	11,592,308	21.9	11,592,308	21.9
Unaffiliated foreign securities	898,436	1.7	898,436	1.7
Cash, cash equivalents and short-term investments	9,289,617	17.5	9,289,617	17.5
Total invested assets	$ 52,963,063	100.0%	$ 52,963,063	100.0%

Note – Basis of Presentation

The accompanying supplemental schedules and interrogatories present selected statutory-basis financial data as of December 31, 2011 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 2011 Statutory Annual Statement as filed with the State of West Virginia Department of Insurance.

Ernst & Young LLP

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