



# QUARTERLY STATEMENT

AS OF MARCH 31, 2009  
OF THE CONDITION AND AFFAIRS OF THE

## Preferred Health Partnership of Tennessee, Inc.

NAIC Group Code 0119 (Current Period) 0119 (Prior Period) NAIC Company Code 95749 Employer's ID Number 62-1546662

Organized under the Laws of Tennessee State of Domicile or Port of Entry Tennessee

Country of Domicile United States

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Hospital, Medical & Dental Service or Indemnity [ ]  
 Dental Service Corporation [ ] Vision Service Corporation [ ] Health Maintenance Organization [ X ]  
 Other [ ] Is HMO, Federally Qualified? Yes [ X ] No [ ]

Incorporated/Organized 01/01/1994 Commenced Business 01/01/1994

Statutory Home Office 1420 Centerpoint Blvd. Knoxville, TN 37932  
 (Street and Number) (City, State and Zip Code)

Main Administrative Office 1420 Centerpoint Blvd. Knoxville, TN 37932 865-670-7282  
 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address P.O. Box 740036 Louisville, KY 40201-7436  
 (Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 500 West Main Street Louisville, KY 40202 502-580-1000  
 (Street and Number) (City, State and Zip Code) (Area Code) (Telephone Number)

Internet Web Site Address www.humana.com

Statutory Statement Contact Sophia Chen 502-580-3766  
 (Name) (Area Code) (Telephone Number) (Extension)  
schen@humana.com 502-580-2099  
 (E-Mail Address) (Fax Number)

### OFFICERS

Name	Title	Name	Title
Michael Benedict McCallister	President & CEO	Joan Olliges Lenahan	Vice President & Secretary
James Harry Bloem	Sr. VP, CFO & Treasurer	Frank Murray Amrine	Appointed Actuary

### OTHER OFFICERS

George Andreas Andrews M.D.	VP - CMO/Tennessee	George Grant Bauernfeind	Vice President
John Gregory Catron	Vice President	Douglas Edward Haaland	Mkt. Pres. - Sr. Prod./Tennessee
Thomas Joseph Liston	Sr. Vice President - Sr. Prod.	Clarence Evans Looney	Market President - Tennessee
Kathleen Stephenson Pellegrino	Vice President & Asst. Secretary	George Renaudin	VP & Div. Leader - Southern Div.
Larry Dale Savage	Reg. CEO - IN/KS/KY/MO/OH/TN	William Joseph Tail	Vice President
Gary Dean Thompson	Vice President	Ralph Martin Wilson	Vice President

### DIRECTORS OR TRUSTEES

James Harry Bloem	Michael Benedict McCallister	James Elmer Murray
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State of Kentucky  
 County of Jefferson SS

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ, or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Michael Benedict McCallister  
 President & CEO

Joan Olliges Lenahan  
 Vice President & Secretary

James Harry Bloem  
 Sr. VP, CFO & Treasurer

a. Is this an original filing? Yes [ ] No [ X ]

b. If no,  
 1. State the amendment number 1  
 2. Date filed 07/08/2009  
 3. Number of pages attached 14

Subscribed and sworn to before me this  
8th day of July, 2009

Myra Carpenter, Notary Public  
 August 9, 2009

## LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1 Claims unpaid (less \$ ..... reinsurance ceded)	0		0	0
2. Accrued medical incentive pool and bonus amounts	0		0	0
3. Unpaid claims adjustment expenses	0		0	0
4. Aggregate health policy reserves	0		0	0
5. Aggregate life policy reserves	0		0	0
6. Property/casualty unearned premium reserve	0		0	0
7. Aggregate health claim reserves	0		0	0
8. Premiums received in advance	0		0	0
9. General expenses due or accrued	78		78	17,649
10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... on realized gains (losses))	0		0	0
10.2 Net deferred tax liability	0		0	0
11. Ceded reinsurance premiums payable	0		0	0
12. Amounts withheld or retained for the account of others	0		0	0
13. Remittances and items not allocated	0		0	0
14. Borrowed money (including \$ ..... current) and interest thereon \$ ..... (including \$ ..... current)	0		0	0
15. Amounts due to parent, subsidiaries and affiliates	3,136,326		3,136,326	3,624,467
16. Payable for securities	0		0	0
17. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers)	0		0	0
18. Reinsurance in unauthorized companies	0		0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates	0		0	0
20. Liability for amounts held under uninsured plans	0		0	0
21. Aggregate write ins for other liabilities (including \$ ..... current)	5,363,939	0	5,363,939	8,859,678
22. Total liabilities (Lines 1 to 21)	8,500,343	0	8,500,343	12,501,794
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX	1,000	1,000
25. Preferred capital stock	XXX	XXX	0	0
26. Gross paid in and contributed surplus	XXX	XXX	61,379,848	61,379,848
27. Surplus notes	XXX	XXX	0	0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	(15,378,346)	(16,699,051)
30. Less treasury stock, at cost:				
30.1 ..... shares common (value included in Line 24)				
\$ ..... )	XXX	XXX	0	0
30.2 ..... shares preferred (value included in Line 25)				
\$ ..... )	XXX	XXX		0
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	46,002,502	44,681,797
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	54,502,845	57,183,591
<b>DETAILS OF WRITE-INS</b>				
2101. Accrued Run-Out Costs	5,244,592		5,244,592	8,740,987
2102. Unclaimed Property	119,347		119,347	118,691
2103. ....				
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	5,363,939	0	5,363,939	8,859,678
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801. ....	XXX	XXX		
2802. ....	XXX	XXX		
2803. ....	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above)	XXX	XXX	0	0

## STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months.....	XXX	0	0	0
2. Net premium income (including \$ ..... non-health premium income)	XXX	0	0	0
3. Change in unearned premium reserves and reserve for rate credits.....	XXX	0	0	0
4. Fee-for-service (net of \$ ..... medical expenses)	XXX	0	0	0
5. Risk revenue.....	XXX	0	0	0
6. Aggregate write-ins for other health care related revenues.....	XXX	0	0	0
7. Aggregate write-ins for other non-health revenues.....	XXX	0	0	0
8. Total revenues (Lines 2 to 7).....	XXX	0	0	0
<b>Hospital and Medical:</b>				
9. Hospital/medical benefits.....		(3,496,395)	0	(53,966)
10. Other professional services.....		0	0	0
11. Outside referrals.....		0	0	0
12. Emergency room and out-of-area.....		0	0	0
13. Prescription drugs.....		0	0	0
14. Aggregate write-ins for other hospital and medical.....	0	0	(114,665)	(170,659)
15. Incentive pool, withhold adjustments and bonus amounts.....		0	0	0
16. Subtotal (Lines 9 to 15).....	0	(3,496,395)	(114,665)	(224,625)
<b>Less:</b>				
17. Net reinsurance recoveries.....		0	0	0
18. Total hospital and medical (Lines 16 minus 17).....	0	(3,496,395)	(114,665)	(224,625)
19. Non-health claims (net).....		0	0	0
20. Claims adjustment expenses, including \$ ..... cost containment expenses.		0	563,568	(6,110)
21. General administrative expenses.....		305,550	1,464,780	(3,141,243)
22. Increase in reserves for life and accident and health contracts including \$ ..... increase in reserves for life only).....		0	0	0
23. Total underwriting deductions (Lines 18 through 22).....	0	(3,190,845)	1,913,683	(3,371,978)
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX	3,190,845	(1,913,683)	3,371,978
25. Net investment income earned.....		391,524	572,519	2,992,277
26. Not realized capital gains (losses) less capital gains tax of \$.....		0	73,944	(2,730,798)
27. Net investment gains (losses) (Lines 25 plus 26).....	0	391,524	646,463	261,478
28. Net gain or (loss) from agents' or premium balances charged off ((amount recovered \$ ..... ) (amount charged off \$ ..... ).....		0	0	0
29. Aggregate write-ins for other income or expenses.....	0	0	0	25,000
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX	3,582,369	(1,267,220)	3,658,456
31. Federal and foreign income taxes incurred.....	XXX	2,261,199	(430,855)	(1,525,738)
32. Net income (loss) (Lines 30 minus 31).....	XXX	1,321,170	(836,365)	5,184,194
<b>DETAILS OF WRITE-INS</b>				
0601. ....	XXX			
0602. ....	XXX			
0603. ....	XXX			
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above).....	XXX	0	0	0
0701. ....	XXX			
0702. ....	XXX			
0703. ....	XXX			
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX	0	0	0
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above).....	XXX	0	0	0
1401. Recoveries.....			(114,665)	(170,659)
1402. ....				
1403. ....				
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above).....	0	0	(114,665)	(170,659)
2901. Miscellaneous Income.....			0	25,000
2902. ....				
2903. ....				
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above).....	0	0	0	25,000

## CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	0	(5,903,520)
2. Net investment income	325,716	3,595,647
3. Miscellaneous income	0	0
4. Total (Lines 1 to 3)	325,716	(2,307,873)
5. Benefit and loss related payments	(3,496,395)	(230,735)
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	332,011	(2,918,724)
8. Dividends paid to policyholders	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	2,261,199	(1,525,738)
10. Total (Lines 5 through 9)	(903,185)	(4,675,197)
11. Net cash from operations (Line 4 minus Line 10)	1,228,901	2,367,324
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	800,000	119,774,894
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	800,000	119,774,894
13. Cost of investments acquired (long-term only):		
13.1 Bonds	19,919,308	101,036,976
13.2 Stocks	0	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	19,919,308	101,036,976
14. Net increase (or decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(19,119,308)	18,737,918
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	(2,752,560)	(839,096)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	(2,752,560)	(839,096)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(20,642,967)	20,266,146
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	22,677,766	2,411,620
19.2 End of period (Line 18 plus Line 19.1)	2,034,799	22,677,766

STATEMENT AS OF MARCH 31, 2009 OF THE Preferred Health Partnership of Tennessee, Inc.

**EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION**

	1 Total	Comprehensive (Hospital & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Other
		2 Individual	3 Group							
<b>Total Members at end of:</b>										
1. Prior Year .....	0	0	0	0	0	0	0	0	0	0
2. First Quarter .....	0									
3. Second Quarter .....	0									
4. Third Quarter .....	0									
5. Current Year .....	0									
6. Current Year Member Months	0									
<b>Total Member Ambulatory Encounters for Period:</b>										
7. Physician .....	0									
8. Non-Physician .....	0									
9. Total .....	0	0	0	0	0	0	0	0	0	0
10. Hospital Patient Days Incurred	0									
11. Number of Inpatient Admissions	0									
12. Health Premiums Written .....	0									
13. Life Premiums Direct .....	0									
14. Property/Casualty Premiums Written .....	0									
15. Health Premiums Earned .....	0									
16. Property/Casualty Premiums Earned .....	0									
17. Amount Paid for Provision of Health Care Services .....	(3,496,395)								(3,496,395)	
18. Amount Incurred for Provision of Health Care Services .....	(3,496,395)								(3,496,395)	

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees \$ .....

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE**

Line of Business	Claims Paid Year to Date		Liability End of Current Quarter		5 Claims Incurred in Prior Years (Columns 1 - 3)	6 Estimated Claim Reserve and Claim Liability Dec. 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid Dec. 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital & medical) .....					0	0
2. Medicare Supplement .....					0	0
3. Dental Only .....					0	0
4. Vision Only .....					0	0
5. Federal Employees Health Benefits Plan .....					0	0
6. Title XVIII - Medicare .....					0	0
7. Title XIX - Medicaid .....	(3,496,395)				(3,496,395)	0
8. Other Health .....					0	0
9. Health Subtotal (Lines 1 to 8) .....	(3,496,395)	0	0	0	(3,496,395)	0
10. Healthcare receivables (a) .....					0	0
11. Other non-health .....					0	0
12. Medical incentive pools and bonus amounts .....					0	0
13. Totals	(3,496,395)	0	0	0	(3,496,395)	0

(a) Excludes \$ ..... loans and advances to providers not yet expensed.

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## EXHIBIT 2 - ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID

1 Name of Debtor	2 1-30 Days	3 31-60 Days	4 61-90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
0199999 Total individuals						
0299998 Premium due and unpaid not individually listed						
0299999 Total group		<b>NONE</b>				
0399999 Premiums due and unpaid from Medicare entities						
0499999 Premiums due and unpaid from Medicaid entities						
0599999 Accident and health premiums due and unpaid (Page 2, Line 12)						

### EXHIBIT 3 - HEALTH CARE RECEIVABLES

1 Name of Doctor	2 1-30 Days	3 31-60 Days	4 61-90 Days	5 Over 90 Days	6 Nonadmitted	7 Admitted
0199998 Subtotal - Pharmaceutical Rebate Receivables - Not Individually Listed						
0199999 Subtotal - Pharmaceutical Rebate Receivables						
0299998 Subtotal - Claim Overpayment Receivables - Not Individually Listed						
0299999 Subtotal - Claim Overpayment Receivables						
0399998 Subtotal - Loans and Advances to Providers - Not Individually Listed						
0399999 Subtotal - Loans and Advances to Providers		<b>NONE</b>				
0499998 Subtotal - Capitation Arrangements Receivables - Not Individually Listed						
0499999 Subtotal - Capitation Arrangements Receivables						
0599998 Subtotal - Risk Sharing Receivables - Not Individually Listed						
0599999 Subtotal - Risk Sharing Receivables						
0699998 Subtotal - Other Receivables - Not Individually Listed						
0699999 Subtotal - Other Receivables						
0799999 Gross health care receivables						



## EXHIBIT 5 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES

1 Name of Affiliate	2 1-30 Days	3 31-60 Days	4 61-90 Days	5 Over 90 Days	6 Nonadmitted	Admitted	
						7 Current	8 Non-Current
<b>Individually listed receivables</b>							
Preferred Health Partnership Companies, Inc Cariten Insurance Company Cariten Health Plan, Inc.							0
0199999 - Total Individually Listed Receivables	0	0	0	0	0	0	0
0299999 - Receivables not individually listed							
0399999 - Total gross amounts receivable	0	0	0	0	0	0	0

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Insurance.

The Tennessee Insurance Department recognizes only statutory accounting practices prescribed or permitted by the state of Tennessee for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Tennessee. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. No deviations currently exist.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the state of Tennessee is shown below:

	State of Domicile		2009		2008
1. Net Income, Tennessee basis	TN	\$	1,321,170	\$	5,184,195
2. State Prescribed Practices (Income):	TN		-		-
3. State Permitted Practices (Income):	TN		-		-
4. Net Income, NAIC SAP	TN	\$	1,321,170	\$	5,184,195
5. Statutory Surplus, Tennessee basis	TN	\$	46,002,502	\$	44,681,797
6. State Prescribed Practices (Surplus):	TN		-		-
7. State Permitted Practices (Surplus):	TN		-		-
8. Statutory Surplus, NAIC SAP	TN	\$	46,002,502	\$	44,681,797

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results could differ from those estimates.

#### C. Accounting Policy

Short-term investments include investments mainly in U.S. Government obligations with a maturity of twelve months or less from the date of purchase. Short-term investments are recorded at amortized cost. The carrying value of short-term investments approximates fair value due to the short-term maturities of the investments.

Investments are valued and classified in accordance with methods prescribed by the NAIC. Bonds with an NAIC rating of 1 or 2 are carried at amortized cost, with all other bonds being recorded at the lower of amortized cost or fair value; redeemable preferred stocks are carried at amortized cost; and non-redeemable preferred stocks are carried at fair value.

The Company regularly evaluates investment securities for impairment. The Company considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. The Company also considers the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and the Company's intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other-than-temporary, the related investment is written down to its estimated fair value through earnings.

Amortization of bond premium or discount is computed using the scientific interest method.

Income from investments is recorded on an accrual basis. For the purpose of determining realized gains and losses, the cost of securities sold is based upon specific identification. Investment income due and accrued over 90 days past due is nonadmitted.

The Company recognizes an asset or liability for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. The temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled.

Premiums are reported as earned in the period in which members are entitled to receive services, and are net of retroactive membership adjustments. Retroactive membership adjustments result from enrollment changes not yet processed, or not yet reported by an employer group or the government. Premiums received prior to such period are recorded as advance premiums.

Benefits incurred and loss adjustment expenses include claim payments, capitation payments, pharmacy costs net of rebates, allocations of certain centralized expenses, legal and administrative costs to settle claims, and various other costs incurred to provide health insurance coverage to members, as well as estimates of future payments to hospitals and others for medical care provided prior to the date of the statements of admitted assets, liabilities and surplus. Capitation payments represent monthly contractual fees disbursed to participating primary care physicians, and other providers who are responsible for providing medical care to members. Pharmacy costs represent payments for members' prescription drug benefits, net of rebates from drug manufacturers.

## NOTES TO FINANCIAL STATEMENTS

The estimates of future medical benefit payments are developed using actuarial methods and assumptions based upon claim payment patterns, medical cost inflation, historical development such as claim inventory levels and claim receipt patterns, and other relevant factors. Corresponding administrative costs to process outstanding claims are estimated and accrued. Estimates of future payments relating to services incurred in the current and prior periods are continually reviewed by management and adjusted as necessary.

The Company assesses the profitability of its contracts for providing health insurance coverage to its members when current operating results or forecasts indicate probable future losses. The Company records a premium deficiency liability in current operations to the extent that the sum of expected future medical costs, claim adjustment expenses and maintenance costs exceed related future premiums. Investment income is not contemplated in the calculation of the premium deficiency liability.

Management believes the Company's benefits payable and loss adjustment expenses are adequate to cover future claims and loss adjustment expense payments required, however, such estimates are based on knowledge of current events and anticipated future events, and therefore, the actual liability could differ from the amounts provided

### 2. Accounting Changes and Corrections of Errors

Not Applicable.

### 3. Business Combinations and Goodwill

#### A. Statutory Purchase Method

Not Applicable.

#### B. Statutory Merger

Not Applicable.

#### C. Assumption Reinsurance

Not Applicable.

#### D. Impairment Loss

Not Applicable.

### 4. Discontinued Operations

Not Applicable.

### 5. Investments

#### A. Mortgage Loans, Including Mezzanine Real Estate Loans

Not Applicable.

#### B. Debt Restructuring

Not Applicable.

#### C. Reverse Mortgages

Not Applicable.

#### D. Loan-Backed Securities

Not Applicable.

#### E. Repurchase Agreements

Not Applicable.

#### F. Real Estate

Not Applicable.

#### G. Low-Income Housing Tax Credits (LIHTC)

Not Applicable.

### 6. Joint Ventures, Partnerships and Limited Liability Companies

A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10.0 percent of its admitted assets.

B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

### 7. Investment Income

A. Due and accrued income was excluded from surplus on the following basis:

## NOTES TO FINANCIAL STATEMENTS

All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loan default.

B. The total amount excluded was \$0.

### 8. Derivative Instruments

Not Applicable.

### 9. Income Taxes

No material change since year-end December 31, 2008.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

Not Applicable.

### 11. Debt

#### A. Capital Notes

The Company has no capital notes outstanding.

#### B. All other Debt

The Company has no debentures outstanding.

The Company does not have any reverse repurchase agreements

### 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

#### A. Defined Benefit Plan

Not Applicable.

#### B. Defined Contribution Plan

Not Applicable.

#### C. Multiemployer Plans

Not Applicable.

#### D. Consolidated/Holding Company Plans

The Company employees are eligible to participate in the Humana Retirement and Savings Plan ("the Plan"), a defined contribution plan, sponsored by Humana Inc. The Plan maintains two accounts, the Savings Account and the Retirement Account.

Humana Inc.'s total contributions paid to the Savings and Retirement accounts of the Humana Retirement and Savings Plan were \$78.0 million for 2008. As of December 31, 2008 the fair market value of the Humana Retirement and Savings Plan's assets was \$1.0 billion.

#### E. Post Employment Benefits and Compensated Absences

Not Applicable.

#### F. Impact of Medicare Modernization Act on Postretirement Benefits (INT 04-17)

Not Applicable

### 13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

- 1) The company has \$.01 par value common stock with 100,000 shares authorized and 90,200 shares issued and outstanding.
- 2) The Company has no preferred stock outstanding.

3) Dividends are non cumulative and are paid as determined by the Board of Directors. Dividends are subject to the approval of the Department of Insurance if such dividend distribution exceeds the greater of the Company's prior year net operating profits or ten percent of policyholders surplus funds derived from realized net operating profits.

4) Within the limitations of (3) above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.

5) There were no restrictions placed on the Company's surplus, including for whom the surplus is being held.

6) Not Applicable.

7) Not Applicable.

8) Not Applicable.

9) Not Applicable.

10) Not Applicable.

11) Not Applicable.

12) Not Applicable.

### 14. Contingencies

## NOTES TO FINANCIAL STATEMENTS

A. Contingent Commitments

Not Applicable.

B. Assessments

Not Applicable.

C. Gain Contingencies

Not Applicable.

D. Claims related extra contractual obligation and bad faith losses stemming from lawsuits

Not Applicable.

E. All Other Contingencies

During the ordinary course of business, the Company is subject to pending and threatened legal actions. Management of the Plan does not believe that any of these actions will have a material adverse effect on the Company's surplus, results of operations or cash flows. However, the likelihood or outcome of current or future legal proceedings cannot be accurately predicted, and they could adversely affect the Company's surplus, results of operations and cash flows.

The Company is not aware of any other material contingent liabilities as of March 31, 2009.

15. Leases

A. Lessee Operating Lease

Not Applicable.

B. Other Leases

Not Applicable.

16. Information about Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentration of Credit Risk

1) The Company has no investment in Financial Instruments with Off Balance Sheet Risk.

2) The Company has no investment in Financial Instruments with Concentration Credit Risk.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

A. Transfers of Receivables Reported as Sales

Not Applicable.

B. Transfer and Servicing of Financial Assets

Not Applicable.

C. Wash Sales

Not Applicable.

18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

A. ASO Plans

Not Applicable.

B. ASC Plans

Not Applicable.

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contract

Not Applicable.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not Applicable.

20. Other Items

A. Extraordinary Items

Not Applicable.

B. Troubled Debt Restructuring

Not Applicable.

## NOTES TO FINANCIAL STATEMENTS

C. Other Disclosures

Not Applicable

- D. Disclose the nature of any portion of the balance that is reasonably possible to be uncollectible for assets covered by SSAP No. 6, Uncollected Premium Balances, Bill Receivable for Premiums, and Amounts Due From Agents and Brokers, SSAP No. 47, Uninsured Plans, or SSAP No. 66, Retrospectively Rated Contracts.

Not Applicable.

E. Business Interruption Insurance Recoveries

Not Applicable.

F. State Transferable Tax Credits

Not Applicable.

G. Hybrid Securities

Not Applicable.

H. Subprime Mortgage Related Risk Exposure

- (1) Direct exposure through investments in sub-prime mortgage loans.

The Company has no direct exposure through investment to sub-prime mortgage loans.

- (2) Indirect exposure to sub-prime mortgage risk through investments in the following securities:

- a. Residential mortgage backed securities – No substantial exposure noted.
- b. Collateralized debt obligations – No substantial exposure noted.
- c. Structured Securities (including principal protected notes) – No substantial exposure noted.
- d. Debt Securities of companies with significant sub-prime exposure – No substantial exposure noted
- e. Equity securities of companies with significant sub-prime exposure – No substantial exposure noted.
- f. Other Assets – No substantial exposure noted.

- (3) Underwriting exposure to sub-prime mortgage risk through Mortgage Guaranty coverage, Financial Guaranty coverage, Directors and Officers liability coverage, or Errors and Omissions liability coverage.

Not Applicable.

- (4) Classification of mortgage related securities is primarily based on information from outside data services, including rating agency actions. When considering our exposure, the Company evaluated the percentage of full documentation loans, percent of owner occupied properties, FICO scores, average margin for ARM loans, percent of loans with prepayment penalties, the existence of non-traditional underwriting standards, among other factors.

21. Events Subsequent

An extraordinary dividend in the amount of \$30.0 million was approved by the applicable regulatory authorities and later paid by the Company on April 30, 2009.

22. Reinsurance

A. Ceded Reinsurance Report

Section 1 – General Interrogatories

- (1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10.0 percent or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes ( ) No ( X )

If yes, give full details.

- (2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10.0 percent or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes ( ) No ( X )

If yes, give full details.

Section 2 – Ceded Reinsurance Report – Part A

- (1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits?

Yes ( ) No ( X )

- a. If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation is not presently accrued? Where necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. \$0

## NOTES TO FINANCIAL STATEMENTS

- b. What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability, for these agreements in this statement? \$0
- (2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?
- Yes ( ) No (X)
- If yes, give full details.

### Section 3 – Ceded Reinsurance Report – Part B

- (1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0
- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?
- Yes ( ) No (X)
- If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? \$0

#### B. Uncollectible Reinsurance

Not Applicable.

#### C. Commutation of Ceded Reinsurance

Not Applicable.

### 23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

- A. The Company estimates accrued retrospective premium adjustments for its Medicare business through a mathematical approach using an algorithm based upon settlement procedures defined by contracts with CMS.
- B. The Company records accrued retrospective premium as an adjustment to earned premiums.
- C. Not Applicable.

### 24. Change in Incurred Claims and Claim Adjustment Expenses

Reserves as of December 31, 2008 were \$0. As of March 31, 2009, \$0.2 million has been received for incurred claims and claim adjustment expenses attributable to insured events of prior years. There are no reserves remaining for prior years as a result of reestimation of unpaid claims and claim adjustment expenses on the Medicaid book of business. Therefore, there has been a \$0.2 million favorable prior-year development since December 31, 2008. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. The Company has no retrospectively rated policies.

### 25. Intercompany Pooling Arrangements

Not Applicable.

### 26. Structured Settlements

Not Applicable.

### 27. Health Care Receivables

#### A. Pharmaceutical Rebate Receivables

Not Applicable.

#### B. Risk Sharing Receivables

Not Applicable.

### 28. Participating Policies

Not Applicable.

### 29. Premium Deficiency Reserves

Not Applicable.

### 30. Anticipated Salvage and Subrogation

As of March 31, 2009, Preferred Health Partnership of Tennessee, Inc. had no liabilities related to premium deficiency reserves.