QUARTERLY STATEMENT

OF THE

Volunteer State Health Plan, Inc.

of

Chattanooga

in the state of

Tennessee

TO THE

Insurance Department

OF THE STATE OF

Tennessee

FOR THE QUARTER ENDED
June 30, 2009

HEALTH

2009

2009

00000200920100102 (NAIC code not entered) 2009 Document Code: 201

QUARTERLY STATEMENT

AS OF June 30, 2009

OF THE CONDITION AND AFFAIRS OF THE

Volunteer State Health Plan, Inc.

NAIC Group Code 0000 (Current Period), 0000 (Prior Period) NAIC Company Code _____ Employer's ID Number 62-1656610

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

Country of Domicile United States of America

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[ ] No[X] N/A[ ]

Incorporated/Organized 07/11/1996 Commenced Business 11/01/1996

Statutory Home Office 1 Cameron Hill Circle (Street and Number), Chattanooga, TN 37402 (City, or Town, State and Zip Code)

Main Administrative Office 1 Cameron Hill Circle (Street and Number)
Chattanooga, TN 37402 (City or Town, State and Zip Code) (423)535-5600 (Area Code) (Telephone Number)

Mail Address 1 Cameron Hill Circle 1.3 (Street and Number or P.O. Box), Chattanooga, TN 37402 (City, or Town, State and Zip Code)

Primary Location of Books and Records 1 Cameron Hill Circle (Street and Number)
Chattanooga, TN 37402 (City, or Town, State and Zip Code) (423)535-5600 (Area Code) (Telephone Number)

Internet Web Site Address www.bcbst.com

Statutory Statement Contact Dana Elaine Hull (Name) (423)535-7919 (Area Code)(Telephone Number)(Extension)
Dana_Hull@BCBST.com (E-Mail Address) (423)535-8331 (Fax Number)

OFFICERS

Name	Title
Vicky Brown Gregg	Chairman
Sonya Kay Nelson	President & CEO
Steven Lee Coulter MD	Managing Director
Robert Stanley DeMerritt	Chief Financial Officer
Albert Irving Koehler	Chief Operating Officer
Daniel Paul Timblin	Treasurer
Alaine Marie Zachary	Assistant Treasurer
Shelia Dian Clemons	Secretary
Katharine Anne Laurance	Assistant Secretary

OTHERS

DIRECTORS OR TRUSTEES

Vicky Brown Gregg
John Francis Giblin
Steven Lee Coulter MD

State of Tennessee
County of Hamilton ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the 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.

(Signature)	(Signature)	(Signature)
Sonya Kay Nelson	Shelia Dian Clemons	Robert Stanley DeMerritt
(Printed Name)	(Printed Name)	(Printed Name)
1.	2.	3.
President & CEO	Secretary	Chief Financial Officer
(Title)	(Title)	(Title)

Subscribed and sworn to before me this 12TH day of AUGUST, 2009

a. Is this an original filing? Yes[X] No[ ]
b. If no, 1. State the amendment number
2. Date filed
3. Number of pages attached

Micki Collins
(Notary Public Signature)

MICKI COLLINS NOTARY PUBLIC AT LARGE HAMILTON CO., TN

My Commission Expires
August 18, 2010

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I, James Howard Srite, FSA, MAAA, Vice President and Chief Actuary, am an employee of BlueCross BlueShield of Tennessee, Inc. (BCBST). I am a member of the American Academy of Actuaries. I meet the American Academy of Actuaries qualification standards for issuing an opinion on the unpaid claims liability of health insurers. I have examined the assumptions and methods used in determining loss reserves, actuarial liabilities, and related items as shown in the annual statement of Volunteer State Health Plan (the Company) as prepared for filing with the Tennessee Department of Insurance for the period ending June 30, 2009.

Item	Statement Reference Page – Line		Amount
Claims Unpaid	3-1	$	157,687,635
Accrued medical incentive & bonus payments	3-2	$	0
Unpaid claims adjustment expenses	3-3	$	9,630,077
Aggregate policy reserves	3-4	$	0
Aggregate health claim reserves	3-7	$	0
Experience rated refunds	3-4	$	0
Any other actuarial liabilities	3-21	$	0

My examination included such review of the assumptions and methods used and of the underlying basic records and/or summaries and such tests and calculations, as I considered necessary. In making my examination, I have relied on Norman John Zwitter, FSA, MAAA, an employee of BlueCross BlueShield of Tennessee, Inc. (BCBST) for making the underlying calculations of the reserve liability and reviewing the underlying data as required by actuarial standards of practice. I have relied on listings and summaries of claims and other relevant data, and upon representations regarding the consistency of paid claims data and un-paid claims reported in the Underwriting and Investment Exhibit – Part 2B of the Annual Statement as prepared by Dana Elaine Hull, Manager of Subsidiary Accounting. I have also relied on the calculation of the unpaid expense reserve as prepared by William Hurst, Director of Financial Reporting and on the accuracy and consistency of the electronic systems and databases used as the basis of my analysis as provided by John Timothy Morgan, Senior Manager Information Management Finance.

My review did not include asset adequacy analysis, as such analysis is not in the scope of my assignment. I have not reviewed any of the Company's assets and I have not formed an opinion as to the validity or value. The following opinion rests on the assumption that the Company's June 30, 2009 statutory-basis unpaid claims liability is funded by valid assets that have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

In my opinion, the amounts carried on the balance sheet on account of the items identified above for June 30, 2009:

(a) Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial standards,
(b) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared,
(c) Meet the requirements of the insurance laws and regulations of the state of Tennessee,
(d) Make a good and sufficient provision for all unpaid claims liabilities and other actuarial liabilities of the corporation under the terms of its contracts and agreements,
(e) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end,
(f) Include appropriate provision for all actuarial reserves and related actuarial items that ought to be established.

The Underwriting and Investment Exhibit – Part 2B was prepared consistent with "Standard of Practice No. 3.6 Follow-Up Studies" contained in the Actuarial standards of Practice No. 5, "Incurred Health and Disability Claims" as adopted by the Actuarial Standards Board of the American Academy of Actuaries in December 2000.

Actuarial methods, considerations, and analyses used in forming this opinion conform to the relevant Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

Considerable uncertainty and variability are inherent in estimating the unpaid claim liability. Accordingly, the subsequent development may not conform to the assumptions inherent in its determination and therefore may cause fluctuations in the ultimate amount of claims that are paid.

My review related only to the statutory-basis items identified herein, and I do not express an opinion on the Company's financial statements taken as a whole. This opinion has been prepared solely for the Board and the management of the Company, for filing with insurance regulatory agencies of states in which the Company is licensed, and for the Blue Cross and Blue Shield Association and is not intended for any other purpose.

James Howard Srite, FSA, MAAA
BlueCross BlueShield of Tennessee, Inc.

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ASSETS

	Current Statement Date 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31, Prior Year Net Admitted Assets
1. Bonds	63,081,158		63,081,158	27,615,542
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less $.....0 encumbrances)				
4.2 Properties held for the production of income (less $.....0 encumbrances)				
4.3 Properties held for sale (less $.....0 encumbrances)				
5. Cash ($.....1,781,919), cash equivalents ($.....0) and short-term investments ($.....126,881,076)	128,662,995		128,662,995	66,737,947
6. Contract loans (including $.....0 premium notes)				
7. Other invested assets				
8. Receivables for securities				
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	191,744,153		191,744,153	94,353,489
11. Title plants less $.....0 charged off (for Title insurers only)				
12. Investment income due and accrued	633,442		633,442	390,187
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	17,778,185		17,778,185	5,885,037
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $.....0 earned but unbilled premiums)				
13.3 Accrued retrospective premiums				
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers				
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans	1,615,617		1,615,617	2,881,638
16.1 Current federal and foreign income tax recoverable and interest thereon				
16.2 Net deferred tax asset	4,294,416	603,771	3,690,645	13,069,574
17. Guaranty funds receivable or on deposit				
18. Electronic data processing equipment and software				
19. Furniture and equipment, including health care delivery assets ($.....0)				
20. Net adjustments in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	2,655,854		2,655,854	32,837,848
22. Health care ($.....0) and other amounts receivable	14,566,674	250,489	14,316,185	2,225,049
23. Aggregate write-ins for other than invested assets				
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	233,288,341	854,260	232,434,081	151,642,822
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	233,288,341	854,260	232,434,081	151,642,822
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301.				
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)				

LIABILITIES, CAPITAL AND SURPLUS

		Current Period			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less $.....0 reinsurance ceded)	157,687,635		157,687,635	62,220,304
2.	Accrued medical incentive pool and bonus amounts				
3.	Unpaid claims adjustment expenses	9,630,077		9,630,077	8,798,831
4.	Aggregate health policy reserves				42,663,267
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserve				
7.	Aggregate health claim reserves				
8.	Premiums received in advance	755,632		755,632	818,453
9.	General expenses due or accrued	5,952,307		5,952,307	4,497,863
10.1	Current federal and foreign income tax payable and interest thereon (including $.....0 on realized gains (losses))				
10.2	Net deferred tax liability				
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others	404,308		404,308	387,744
13.	Remittances and items not allocated	197,836		197,836	129
14.	Borrowed money (including $.....0 current) and interest thereon $.....0 (including $.....0 current)				
15.	Amounts due to parent, subsidiaries and affiliates				
16.	Payable for securities	149,883		149,883	
17.	Funds held under reinsurance treaties with ($.....0 authorized reinsurers and $.....0 unauthorized reinsurers)				
18.	Reinsurance in unauthorized companies				
19.	Net adjustments in assets and liabilities due to foreign exchange rates				
20.	Liability for amounts held under uninsured plans	2,219,664		2,219,664	3,821,953
21.	Aggregate write-ins for other liabilities (including $.....0 current)	6,371,891		6,371,891	1,577,977
22.	Total liabilities (Lines 1 to 21)	183,369,233		183,369,233	124,786,521
23.	Aggregate write-ins for special surplus funds	XXX	XXX		
24.	Common capital stock	XXX	XXX	10	10
25.	Preferred capital stock	XXX	XXX		
26.	Gross paid in and contributed surplus	XXX	XXX	55,299,990	44,299,990
27.	Surplus notes	XXX	XXX		
28.	Aggregate write-ins for other than special surplus funds	XXX	XXX	25,326,692	25,326,692
29.	Unassigned funds (surplus)	XXX	XXX	(31,561,844)	(42,770,391)
30.	Less treasury stock, at cost:				
	30.1 .....0 shares common (value included in Line 24 $.....0)	XXX	XXX		
	30.2 .....0 shares preferred (value included in Line 25 $.....0)	XXX	XXX		
31.	Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	49,064,848	26,856,301
32.	Total Liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	232,434,081	151,642,822
DETAILS OF WRITE-INS					
2101.	Insured Premium Tax Payable	6,317,523		6,317,523	1,560,158
2102.	Insured Payable to State of Tennessee	42,787		42,787	
2103.	Pending Escheatment to State	9,680		9,680	17,534
2198.	Summary of remaining write-ins for Line 21 from overflow page	1,901		1,901	285
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)	6,371,891		6,371,891	1,577,977
2301.		XXX	XXX		
2302.		XXX	XXX		
2303.		XXX	XXX		
2398.	Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX		
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	XXX	XXX		
2801.	Legally Required Reserves	XXX	XXX	25,326,692	25,326,692
2802.		XXX	XXX		
2803.		XXX	XXX		
2898.	Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX		
2899.	TOTALS (Lines 2801 through 2803 plus 2898) (Line 28 above)	XXX	XXX	25,326,692	25,326,692

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	2,658,110		369,733
2.	Net premium income (including $.....0 non-health premium income)	XXX	590,241,190	(8,432)	77,924,108
3.	Change in unearned premium reserves and reserves for rate credits	XXX			
4.	Fee-for-service (net of $.....0 medical expenses)	XXX			
5.	Risk revenue	XXX			
6.	Aggregate write-ins for other health care related revenues	XXX			
7.	Aggregate write-ins for other non-health revenues	XXX			
8.	Total revenues (Lines 2 to 7)	XXX	590,241,190	(8,432)	77,924,108
Hospital and Medical:					
9.	Hospital/medical benefits		438,956,586	(347,973)	63,861,440
10.	Other professional services		86,285,224	(2,136)	9,499,193
11.	Outside referrals				
12.	Emergency room and out-of-area		27,682,731	1,683	2,620,763
13.	Prescription drugs				
14.	Aggregate write-ins for other hospital and medical		2,186	128,329	139,336
15.	Incentive pool, withhold adjustments and bonus amounts				
16.	Subtotal (Lines 9 to 15)		552,926,727	(220,097)	76,120,732
Less:					
17.	Net reinsurance recoveries				
18.	Total hospital and medical (Lines 16 minus 17)		552,926,727	(220,097)	76,120,732
19.	Non-health claims (net)				
20.	Claims adjustment expenses, including $.....13,798,784 cost containment expenses		45,535,989	2,906,765	18,622,849
21.	General administrative expenses		23,457,934	4,122,896	11,153,144
22.	Increase in reserves for life and accident and health contracts (including $.....0 increase in reserves for life only)				42,663,267
23.	Total underwriting deductions (Lines 18 through 22)		621,920,650	6,809,564	148,559,992
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(31,679,460)	(6,817,996)	(70,635,884)
25.	Net investment income earned		1,263,032	810,375	1,531,325
26.	Net realized capital gains (losses) less capital gains tax of $.....0		(14,779)		
27.	Net investment gains or (losses) (Lines 25 plus 26)		1,248,253	810,375	1,531,325
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered $.....0) (amount charged off $.....0)]				
29.	Aggregate write-ins for other income or expenses				
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	(30,431,207)	(6,007,621)	(69,104,559)
31.	Federal and foreign income taxes incurred	XXX	(8,615,187)	(2,110,619)	(7,328,071)
32.	Net income (loss) (Lines 30 minus 31)	XXX	(21,816,020)	(3,897,002)	(61,776,488)
DETAILS OF WRITE-INS					
0601.		XXX			
0602.		XXX			
0603.		XXX			
0698.	Summary of remaining write-ins for Line 6 from overflow page	XXX			
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	XXX			
0701.		XXX			
0702.		XXX			
0703.		XXX			
0798.	Summary of remaining write-ins for Line 7 from overflow page	XXX			
0799.	TOTALS (Lines 0701 through 0703 plus 0798) (Line 7 above)	XXX			
1401.	Exigency Post-Settlement Activity		2,186	128,329	139,336
1402.					
1403.					
1498.	Summary of remaining write-ins for Line 14 from overflow page				
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		2,186	128,329	139,336
2901.					
2902.					
2903.					
2998.	Summary of remaining write-ins for Line 29 from overflow page				
2999.	TOTALS (Lines 2901 through 2903 plus 2998) (Line 29 above)				

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
	CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	26,856,301	31,363,217	31,363,217
34.	Net income or (loss) from Line 32	(21,816,020)	(3,897,002)	(61,776,488)
35.	Change in valuation basis of aggregate policy and claim reserves	42,663,267		
36.	Change in net unrealized capital gains (losses) less capital gains tax of $.....0	(9,282)		
37.	Change in net unrealized foreign exchange capital gain or (loss)			
38.	Change in net deferred income tax	(12,818,225)	(7,951)	16,858,525
39.	Change in nonadmitted assets	3,188,807	7,951	(3,788,951)
40.	Change in unauthorized reinsurance			
41.	Change in treasury stock			
42.	Change in surplus notes			
43.	Cumulative effect of changes in accounting principles			
44.	Capital Changes:			
	44.1 Paid in			
	44.2 Transferred from surplus (Stock Dividend)			
	44.3 Transferred to surplus			
45.	Surplus adjustments:			
	45.1 Paid in	11,000,000		44,200,000
	45.2 Transferred to capital (Stock Dividend)			
	45.3 Transferred from capital			
46.	Dividends to stockholders			
47.	Aggregate write-ins for gains or (losses) in surplus			(2)
48.	Net change in capital and surplus (Lines 34 to 47)	22,208,547	(3,897,002)	(4,506,916)
49.	Capital and surplus end of reporting period (Line 33 plus 48)	49,064,848	27,466,215	26,856,301
DETAILS OF WRITE-INS				
4701.	Rounding			(2)
4702.				
4703.				
4798.	Summary of remaining write-ins for Line 47 from overflow page			
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)			(2)

Report #2A: TennCare Select Only			
	Current Year		Previous Year
	Current Period	Year-to-Date Total	Total
Member Months	214,792	425,023	1,213,001
Estimated Revenues:			
1. TennCare Capitation	106,415,633	192,196,385	348,691,309
2. Investment	-	-	-
3. Other Revenues	-	-	-
4. **Total Estimated Revenues** (Lines 1 to 3)	106,415,633	192,196,385	348,691,309
Estimated Expenses:			
Hospital and Medical (w/o Mental Health)			
5. Capitated Physician Services	353,165	668,344	1,595,426
6. Fee-for Service Physician Services	16,356,991	29,824,210	61,326,683
7. Inpatient Hospital Services	25,807,499	48,772,352	86,302,245
8. Outpatient Hospital Services	10,798,898	19,040,758	36,211,459
9. Emergency Room Services	2,240,588	3,683,161	9,380,153
10.Dental Services	-	-	1,775
11. Vision Services	75,244	132,632	244,907
12. Pharmacy Services	-	-	-
13. Home Health Services	32,258,784	57,546,005	87,087,535
14. Chiropractic Services	-	-	-
15. Radiology Services	643,124	1,116,597	2,528,144
16. Laboratory Services	555,828	1,044,846	2,794,614
17. Durable Medical Equipment Services	6,119,415	10,822,005	12,486,079
18. Transportation Services	986,648	1,975,001	6,385,619
19. Outside Referrals	-	-	-
20. Medical Incentive Pool and Withhold Adj	-	-	-
21. Occupancy, Depreciation and Amortization	-	-	-
22. Other Medical and Hospital Services - Write-Ins	3,425,547	5,145,582	10,163,707
23. **Subtotal Medical and Hospital** (Lines 5 to 22)	99,621,731	179,771,493	316,508,346
Mental Health and Substance Abuse Services			
24. Inpatient Psychiatric Facility Services	-	-	-
25. Inpatient Substance Abuse Treatment and Detox	-	-	-
26. Outpatient Mental Health Services	-	-	-
27. Outpatient Substance Abuse Treatment and Detox	-	-	-
28. Housing/Residential Treatment	-	-	-
29. Specialized Crisis Services	-	-	-
30. Psychiatric Rehab and Support Services	-	-	-
31. Case Management	-	-	-
32. Forensics	-	-	-
33. Other Judicial	-	-	-
34. Pharmacy	-	-	-
35. Lab Services	-	-	-
36. Transportation	-	-	-
37. Medical Incentive Pool and Withhold Adjustments	-	-	-
38. Occupancy, Depreciation and Amortization	-	-	-
39. Other Mental Health and Substance Abuse Services	-	-	-
40. PCP and Specialist Servcies	-	-	-
41. Other Mental Health Services - Write-Ins	-	-	-
42. **Subtotal MH & SAS** (Lines 24 to 41)	-	-	-
43. **Subtotal Hospital, Medical, MH & SAS** (Lines 23 and 42)	99,621,731	179,771,493	316,508,346
LESS:			
44. Net Reinsurance Recoveries Incurred	-	-	-
45. Copayments	4,332	8,170	22,560
46. Subrogation and Coordination of Benefits	327,286	912,048	2,859,555
47. **Subtotal Reinsurance, Copay, Subrogation** (Lines 44 to 46)	331,618	920,218	2,882,115
48. **Total Hospital, Medical, MH & SAS** (Lines 43 and 47)	99,290,113	178,851,275	313,626,231
Administation:			
49. Compensation	4,080,707	6,806,139	18,203,148
50. Marketing	-	-	-
51. Interest Expense	-	-	-
52. Premium Tax Expense	2,128,313	3,843,928	6,973,826
53. Occupancy, Depreciation, and Amortization	223,631	372,989	997,564
54. Other Administration - Write-Ins	1,786,928	2,980,383	7,971,092
55. **Total Administration Expenses** (Lines 49 to 54)	8,219,579	14,003,439	34,145,630
56. **Total Expenses** (Lines 48 and 55)	107,509,692	192,854,714	347,771,861
57. Extraordinary Item	-	-	-
58. Provision for Income Tax	(382,921)	(230,415)	321,807
59. **Net Income (Loss)** (Line 4 Less Lines 56, 57 and 58)	(711,138)	(427,914)	597,641
Write-Ins for Other Expense			
Detail of Other Revenues			
0301.	-	-	-
0399. Total Other Revenues	-	-	-
Detail of Other Medical and Hospital:			
2201. PT/OT/ST, Supplies, Prosthetics, etc.	2,394,669	3,542,866	6,332,491
2202. Out of Area Claims Expense	585,880	1,748,746	1,651,461
2203. Bad Debt Expense	444,998	(146,030)	2,179,755
2299. Total Other Medical and Hospital	3,425,547	5,145,582	10,163,707
Detail of Other MH & SAS:			
4101.	-	-	-
4102.	-	-	-
4103.	-	-	-
4199. Total Other MH & SAS	-	-	-
Detail of Other Administration:			
5401. Equipment Rental	748,514	1,248,431	3,338,953
5402. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	399,800	666,820	1,783,426
5403. Auditing, Actuarial, and Other Consulting	209,815	349,946	935,936
5404. Postage/Telephone	199,679	333,040	890,721
5405. Outsourced Services	168,481	281,007	751,558
5406. Printing and Stationary	60,639	101,139	270,498
5499. Total Other Administration	1,786,928	2,980,383	7,971,092

Report #2A: BlueCare West Only			
	Current Year		Previous Year
	Current Period	Year-to-Date Total	Total
Member Months	584,403	1,163,315	369,733
Estimated Revenues:			
1. TennCare Capitation	125,956,484	249,358,845	78,007,924
2. Investment	287,202	554,819	282,694
3. Other Revenues	-	-	-
4. **Total Estimated Revenues** (Lines 1 to 3)	126,243,686	249,913,664	78,290,618
Estimated Expenses:			
Hospital and Medical (w/o Mental Health)			
5. Capitated Physician Services	1,104,025	1,874,802	409,492
6. Fee-for Service Physician Services	35,070,666	66,469,023	41,179,485
7. Inpatient Hospital Services	32,283,476	67,759,148	13,957,028
8. Outpatient Hospital Services	19,615,434	37,058,587	7,874,076
9. Emergency Room Services	8,292,119	14,890,810	2,393,352
10.Dental Services	-	-	-
11. Vision Services	80,551	160,900	203,280
12. Pharmacy Services	-	-	-
13. Home Health Services	5,863,050	10,764,505	764,412
14. Chiropractic Services	-	-	-
15. Radiology Services	2,422,500	4,541,744	2,375,837
16. Laboratory Services	2,557,704	5,034,619	2,781,843
17. Durable Medical Equipment Services	2,911,362	5,178,770	1,271,999
18. Transportation Services	3,270,413	6,307,414	2,005,801
19. Outside Referrals	-	-	-
20. Medical Incentive Pool and Withhold Adj	-	-	-
21. Occupancy, Depreciation and Amortization	-	-	-
22. Other Medical and Hospital Services - Write-Ins	15,166,959	3,134,372	21,790,394
23. **Subtotal Medical and Hospital** (Lines 5 to 22)	128,638,259	223,174,694	97,006,999
Mental Health and Substance Abuse Services			
24. Inpatient Psychiatric Facility Services	1,993,872	2,047,317	253,009
25. Inpatient Substance Abuse Treatment and Detox	64,712	68,629	17,127
26. Outpatient Mental Health Services	734,291	746,403	91,843
27. Outpatient Substance Abuse Treatment and Detox	-	-	-
28. Housing/Residential Treatment	607,664	622,054	-
29. Specialized Crisis Services	14,106	14,106	-
30. Psychiatric Rehab and Support Services	32,985	32,985	-
31. Case Management	1,435,319	1,435,319	-
32. Forensics	-	-	-
33. Other Judicial	-	-	-
34. Pharmacy	-	-	-
35. Lab Services	89,364	89,383	3,984
36. Transportation	-	-	-
37. Medical Incentive Pool and Withhold Adjustments	-	-	-
38. Occupancy, Depreciation and Amortization	-	-	-
39. Other Mental Health and Substance Abuse Services	1,304,399	1,304,721	8,005
40. PCP and Specialist Servcies	-	-	-
41. Other Mental Health Services - Write-Ins	-	-	-
42. **Subtotal MH & SAS** (Lines 24 to 41)	6,276,712	6,360,917	373,968
43. **Subtotal Hospital, Medical, MH & SAS** (Lines 23 and 42)	134,914,971	229,535,611	97,380,967
LESS:			
44. Net Reinsurance Recoveries Incurred	-	-	-
45. Copayments	28,891	53,620	6,140
46. Subrogation and Coordination of Benefits	-	-	-
47. **Subtotal Reinsurance, Copay, Subrogation** (Lines 44 to 46)	28,891	53,620	6,140
48. **Total Hospital, Medical, MH & SAS** (Lines 43 and 47)	134,886,080	229,481,991	97,374,827
Administation:			
49. Compensation	8,138,669	14,675,277	6,090,467
50. Marketing	-	-	-
51. Interest Expense	-	-	-
52. Premium Tax Expense	2,518,942	4,986,989	1,560,158
53. Occupancy, Depreciation, and Amortization	446,013	804,230	333,768
54. Other Administration - Write-Ins	3,563,895	6,426,252	2,666,995
55. **Total Administration Expenses** (Lines 49 to 54)	14,667,519	26,892,748	10,651,388
56. **Total Expenses** (Lines 48 and 55)	149,553,599	256,374,739	108,026,215
57. Extraordinary Item	-		
58. Provision for Income Tax	(5,355,738)	(2,293,371)	(1,367,077)
59. **Net Income (Loss)** (Line 4 Less Lines 56, 57 and 58)	(17,954,175)	(4,167,704)	(28,368,520)
Write-Ins for Other Expense			
Detail of Other Revenues			
0301.	-	-	-
0399. Total Other Revenues	-	-	-
Detail of Other Medical and Hospital:			
2201. PT/OT/ST, Supplies, Prosthetics, etc.	2,046,759	2,905,533	413,128
2202. Out of Area Claims Expense	200,489	228,839	225,980
2203. (Dec)/Inc in Reserves for Life and Accident and Health Contracts	12,919,711	-	21,151,286
2204.	-	-	-
2299. Total Other Medical and Hospital	15,166,959	3,134,372	21,790,394
Detail of Other MH & SAS:			
4101.	-	-	-
4102.	-	-	-
4103.	-	-	-
4199. Total Other MH & SAS	-	-	-
Detail of Other Administration:			
5401. Equipment Rental	1,492,855	2,691,846	1,117,158
5402. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	797,373	1,437,788	596,705
5403. Auditing, Actuarial, and Other Consulting	418,460	754,547	313,149
5404. Postage/Telephone	398,244	718,095	298,020
5405. Outsourced Services	336,023	605,902	251,459
5406. Printing and Stationary	120,940	218,074	90,504
5499. Total Other Administration	3,563,895	6,426,252	2,666,995

Report #2A: BlueCare East Only			
	Current Year		Previous Year
	Current Period	Year-to-Date Total	Total
Member Months	754,568	1,494,795	
Estimated Revenues:			
1. TennCare Capitation	175,932,727	342,873,381	-
2. Investment	380,657	721,260	-
3. Other Revenues	-	-	-
4. **Total Estimated Revenues** (Lines 1 to 3)	176,313,384	343,594,641	-
Estimated Expenses:			
Hospital and Medical (w/o Mental Health)			
5. Capitated Physician Services	1,426,328	2,791,029	-
6. Fee-for Service Physician Services	59,243,453	127,336,994	-
7. Inpatient Hospital Services	38,556,617	73,241,432	-
8. Outpatient Hospital Services	23,755,678	50,066,049	-
9. Emergency Room Services	5,693,804	12,235,064	-
10.Dental Services	-	-	-
11. Vision Services	137,291	330,988	-
12. Pharmacy Services	-	-	-
13. Home Health Services	8,897,386	14,342,527	-
14. Chiropractic Services	-	-	-
15. Radiology Services	3,360,735	6,586,447	-
16. Laboratory Services	3,579,070	7,662,858	-
17. Durable Medical Equipment Services	5,686,961	10,379,457	-
18. Transportation Services	4,230,521	7,541,949	-
19. Outside Referrals	-	-	-
20. Medical Incentive Pool and Withhold Adj	-	-	-
21. Occupancy, Depreciation and Amortization	-	-	-
22. Other Medical and Hospital Services - Write-Ins	12,282,548	4,909,066	21,511,981
23. **Subtotal Medical and Hospital** (Lines 5 to 22)	166,850,392	317,423,860	21,511,981
Mental Health and Substance Abuse Services			
24. Inpatient Psychiatric Facility Services	1,986,254	2,318,132	-
25. Inpatient Substance Abuse Treatment and Detox	178,803	186,722	-
26. Outpatient Mental Health Services	1,758,694	1,819,216	-
27. Outpatient Substance Abuse Treatment and Detox	-	-	-
28. Housing/Residential Treatment	1,982,400	2,045,921	-
29. Specialized Crisis Services	-	-	-
30. Psychiatric Rehab and Support Services	53,931	54,410	-
31. Case Management	726,480	726,480	-
32. Forensics	-	-	-
33. Other Judicial	-	-	-
34. Pharmacy	-	-	-
35. Lab Services	137,916	138,850	-
36. Transportation	-	-	-
37. Medical Incentive Pool and Withhold Adjustments	-	-	-
38. Occupancy, Depreciation and Amortization	-	-	-
39. Other Mental Health and Substance Abuse Services	935,843	941,007	-
40. PCP and Specialist Servcies	-	-	-
41. Other Mental Health Services - Write-Ins	-	-	-
42. **Subtotal MH & SAS** (Lines 24 to 41)	7,760,321	8,230,738	-
43. **Subtotal Hospital, Medical, MH & SAS** (Lines 23 and 42)	174,610,713	325,654,598	21,511,981
LESS:			
44. Net Reinsurance Recoveries Incurred	-	-	-
45. Copayments	69,019	122,170	-
46. Subrogation and Coordination of Benefits	-	-	-
47. **Subtotal Reinsurance, Copay, Subrogation** (Lines 44 to 46)	69,019	122,170	-
48. **Total Hospital, Medical, MH & SAS** (Lines 43 and 47)	174,541,694	325,532,428	21,511,981
Administation:			
49. Compensation	11,524,865	20,807,233	-
50. Marketing	-	-	-
51. Interest Expense	-	-	-
52. Premium Tax Expense	3,518,655	6,857,468	-
53. Occupancy, Depreciation, and Amortization	631,583	1,140,273	-
54. Other Administration - Write-Ins	5,046,697	9,111,410	-
55. **Total Administration Expenses** (Lines 49 to 54)	20,721,800	37,916,384	-
56. **Total Expenses** (Lines 48 and 55)	195,263,494	363,448,812	21,511,981
57. Extraordinary Item	-	-	-
58. Provision for Income Tax	(591,795)	(4,820,075)	-
59. **Net Income (Loss)** (Line 4 Less Lines 56, 57 and 58)	(18,358,315)	(15,034,096)	(21,511,981)
Write-Ins for Other Expense			
Detail of Other Revenues			
0301.	-	-	-
0399. Total Other Revenues	-	-	-
Detail of Other Medical and Hospital:			
2201. PT/OT/ST, Supplies, Prosthetics, etc.	2,360,353	4,458,435	-
2202. Out of Area Claims Expense	195,129	450,631	-
2203. Decrease in Reserves for Life and Accident and Health Contracts	9,727,066	-	21,511,981
2204.	-	-	-
2299. Total Other Medical and Hospital	12,282,548	4,909,066	21,511,981
Detail of Other MH & SAS:			
4101.	-	-	-
4102.	-	-	-
4103.	-	-	-
4199. Total Other MH & SAS	-	-	-
Detail of Other Administration:			
5401. Equipment Rental	2,113,974	3,816,612	-
5402. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	1,129,132	2,038,556	-
5403. Auditing, Actuarial, and Other Consulting	592,564	1,069,828	-
5404. Postage/Telephone	563,938	1,018,145	-
5405. Outsourced Services	475,830	859,074	-
5406. Printing and Stationary	171,259	309,195	-
5499. Total Other Administration	5,046,697	9,111,410	-

Report #2A: Stabilization Plan Only			
	Current Year		Previous Year
	Current Period	Year-to-Date Total	Total
Member Months	470	9,788	2,500,560
Estimated Revenues:			
1. TennCare Capitation	7,859,274	5,635,375	497,990,610
2. Investment	-	-	-
3. Other Revenues	-	-	-
4. **Total Estimated Revenues** (Lines 1 to 3)	7,859,274	5,635,375	497,990,610
Estimated Expenses:			
Hospital and Medical (w/o Mental Health)			
5. Capitated Physician Services	(163)	1,205	1,988,864
6. Fee-for Service Physician Services	1,620,861	1,287,450	163,478,157
7. Inpatient Hospital Services	2,676,899	2,323,722	105,917,297
8. Outpatient Hospital Services	584,628	460,735	63,000,278
9. Emergency Room Services	137,728	119,368	15,799,339
10.Dental Services	482	454	3,116
11. Vision Services	1,784	1,263	358,555
12. Pharmacy Services	-	-	-
13. Home Health Services	995,645	860,177	55,266,366
14. Chiropractic Services	-	-	-
15. Radiology Services	106,160	90,259	9,859,762
16. Laboratory Services	96,971	78,592	9,834,192
17. Durable Medical Equipment Services	207,560	163,096	11,736,207
18. Transportation Services	39,740	39,199	13,647,758
19. Outside Referrals	-	-	-
20. Medical Incentive Pool and Withhold Adj	-	-	-
21. Occupancy, Depreciation and Amortization	-	-	-
22. Other Medical and Hospital Services - Write-Ins	32,384	497,521	1,076,337
23. **Subtotal Medical and Hospital** (Lines 5 to 22)	6,500,679	5,923,041	451,966,228
Mental Health and Substance Abuse Services			
24. Inpatient Psychiatric Facility Services	-	-	-
25. Inpatient Substance Abuse Treatment and Detox	-	-	-
26. Outpatient Mental Health Services	-	-	-
27. Outpatient Substance Abuse Treatment and Detox	-	-	-
28. Housing/Residential Treatment	-	-	-
29. Specialized Crisis Services	-	-	-
30. Psychiatric Rehab and Support Services	-	-	-
31. Case Management	-	-	-
32. Forensics	-	-	-
33. Other Judicial	-	-	-
34. Pharmacy	-	-	-
35. Lab Services	-	-	-
36. Transportation	-	-	-
37. Medical Incentive Pool and Withhold Adjustments	-	-	-
38. Occupancy, Depreciation and Amortization	-	-	-
39. Other Mental Health and Substance Abuse Services	-	-	-
40. PCP and Specialist Servcies	-	-	-
41. Other Mental Health Services - Write-Ins	-	-	-
42. **Subtotal MH & SAS** (Lines 24 to 41)	-	-	-
43. **Subtotal Hospital, Medical, MH & SAS** (Lines 23 and 42)	6,500,679	5,923,041	451,966,228
LESS:			
44. Net Reinsurance Recoveries Incurred	-	-	-
45. Copayments	2,348	14,514	209,112
46. Subrogation and Coordination of Benefits	115,611	393,683	1,557,968
47. **Subtotal Reinsurance, Copay, Subrogation** (Lines 44 to 46)	117,959	408,197	1,767,080
48. **Total Hospital, Medical, MH & SAS** (Lines 43 and 47)	6,382,720	5,514,844	450,199,148
Administation:			
49. Compensation	335,704	2,404,069	33,741,779
50. Marketing	-	-	-
51. Interest Expense	-	-	-
52. Premium Tax Expense	158,309	113,831	9,959,812
53. Occupancy, Depreciation, and Amortization	18,397	131,747	1,849,109
54. Other Administration - Write-Ins	147,005	1,052,733	14,775,403
55. **Total Administration Expenses** (Lines 49 to 54)	659,415	3,702,380	60,326,103
56. **Total Expenses** (Lines 48 and 55)	7,042,135	9,217,224	510,525,251
57. Extraordinary Item	-	-	-
58. Provision for Income Tax	(173,526)	(1,253,262)	(7,052,907)
59. **Net Income (Loss)** (Line 4 Less Lines 56, 57 and 58)	990,665	(2,328,587)	(5,481,734)
Write-Ins for Other Expense			
Detail of Other Revenues			
0301.	-	-	-
0399. Total Other Revenues	-	-	-
Detail of Other Medical and Hospital:			
2201. Bad Debt Expense	1,181,943	345,265	2,389,583
2202. PT/OT/ST, Supplies, Prosthetics, etc.	132,084	123,200	5,226,939
2203. Out of Area Claims Expense	32,384	29,056	1,076,337
2299. Total Other Medical and Hospital	32,384	497,521	1,076,337
Detail of Other MH & SAS:			
4101.	-	-	-
4102.	-	-	-
4103.	-	-	-
4199. Total Other MH & SAS	-	-	-
Detail of Other Administration:			
5401. Equipment Rental	61,577	440,971	6,189,162
5402. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	32,891	235,535	3,305,800
5403. Auditing, Actuarial, and Other Consulting	17,261	123,608	1,734,873
5404. Postage/Telephone	16,427	117,637	1,651,061
5405. Outsourced Services	13,861	99,258	1,393,106
5406. Printing and Stationary	4,988	35,724	501,401
5499. Total Other Administration	147,005	1,052,733	14,775,403

CASH FLOW

		1 Current Year To Date	2 Prior Year Ended December 31
	Cash from Operations		
1.	Premiums collected net of reinsurance	578,285,221	113,749,449
2.	Net investment income	1,159,283	1,646,535
3.	Miscellaneous income		
4.	Total (Lines 1 to 3)	579,444,504	115,395,984
5.	Benefit and loss related payments	457,459,396	56,563,695
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	67,044,501	11,593,568
8.	Dividends paid to policyholders		
9.	Federal and foreign income taxes paid (recovered) net of $.....0 tax on capital gains (losses)	(8,615,187)	(7,328,071)
10.	Total (Lines 5 through 9)	515,888,710	60,829,192
11.	Net cash from operations (Line 4 minus Line 10)	63,555,794	54,566,792
	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	14,697,272	7,000,000
	12.2 Stocks		
	12.3 Mortgage loans		
	12.4 Real estate		
	12.5 Other invested assets		
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
	12.7 Miscellaneous proceeds	149,883	
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	14,847,155	7,000,000
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	50,317,173	8,319,000
	13.2 Stocks		
	13.3 Mortgage loans		
	13.4 Real estate		
	13.5 Other invested assets		
	13.6 Miscellaneous applications		
	13.7 Total investments acquired (Lines 13.1 to 13.6)	50,317,173	8,319,000
14.	Net increase (or decrease) in contract loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Lines 13.7 and 14)	(35,470,018)	(1,319,000)
	Cash from Financing and Miscellaneous Sources		
16.	Cash provided (applied):		
	16.1 Surplus notes, capital notes		
	16.2 Capital and paid in surplus, less treasury stock	11,000,000	44,200,000
	16.3 Borrowed funds		
	16.4 Net deposits on deposit-type contracts and other insurance liabilities		
	16.5 Dividends to stockholders		
	16.6 Other cash provided (applied)	22,839,272	(40,210,071)
17.	Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6)	33,839,272	3,989,929
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	61,925,048	57,237,721
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year	66,737,947	9,500,226
	19.2 End of period (Line 18 plus Line 19.1)	128,662,995	66,737,947

Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

	Description	Amount 1	Amount 2
20.0001			

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10
		2	3							
	Total	Individual	Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
Total Members at end of:										
1. Prior Year	189,281								189,281	
2. First Quarter	443,854								443,854	
3. Second Quarter	443,018								443,018	
4. Third Quarter										
5. Current Year										
6. Current Year Member Months	2,658,110								2,658,110	
Total Member Ambulatory Encounters for Period:										
7. Physician	2,812,294								2,812,294	
8. Non-Physician	244,547								244,547	
9. Total	3,056,841								3,056,841	
10. Hospital Patient Days Incurred	165,913								165,913	
11. Number of Inpatient Admissions	31,170								31,170	
12. Health Premiums Written (a)	590,241,190								590,241,190	
13. Life Premiums Direct										
14. Property/Casualty Premiums Written										
15. Health Premiums Earned	590,241,190								590,241,190	
16. Property/Casualty Premiums Earned										
17. Amount Paid for Provision of Health Care Services	457,459,396								457,459,396	
18. Amount Incurred for Provision of Health Care Services	552,926,727								552,926,727	

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees $.....0.

CLAIMS UNPAID AND INCENTIVE POOL, WITHHOLD AND BONUS (Reported and Unreported)

Aging Analysis of Unpaid Claims

1 Account	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 91 - 120 days	6 Over 120 Days	7 Total
0199999 Individually Listed Claims Unpaid						
0299999 Aggregate Accounts Not Individually Listed - Uncovered	15,624,716	122,013	7,939	3,761	19,221	15,777,650
0399999 Aggregate Accounts Not Individually Listed - Covered						
0499999 Subtotals	15,624,716	122,013	7,939	3,761	19,221	15,777,650
0599999 Unreported claims and other claim reserves						141,909,985
0699999 Total Amounts Withheld						
0799999 Total Claims Unpaid						157,687,635
0899999 Accrued Medical Incentive Pool And Bonus Amounts						

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	6
	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	Claims Incurred in Prior Years (Columns 1+3)	Estimated Claim Reserve and Claim Liability Dec.31 of Prior Year
1. Comprehensive (hospital & medical)						
2. Medicare Supplement						
3. Dental only						
4. Vision only						
5. Federal Employees Health Benefits Plan						
6. Title XVIII - Medicare						
7. Title XIX - Medicaid	51,532,806	405,926,590	2,962,157	154,725,478	54,494,963	62,220,304
8. Other health						
9. Health subtotal (Lines 1 to 8)	51,532,806	405,926,590	2,962,157	154,725,478	54,494,963	62,220,304
10. Healthcare receivables (a)						
11. Other non-health						
12. Medical incentive pools and bonus amounts						
13. Totals	51,532,806	405,926,590	2,962,157	154,725,478	54,494,963	62,220,304

(a) Excludes $.....0 loans or advances to providers not yet expensed.

Notes to Financial Statement

1. Summary of Significant Accounting Policies

A. Accounting Practices

The accompanying financial statements of Volunteer State Health Plan, Inc. (VSHP) or (the Company) are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance (TDCI).

The TDCI, TennCare Division, 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 and for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP), version effective January 1, 2009, has been adopted as a component of prescribed or permitted practices by the State of Tennessee. Prescribed accounting practices are those practices which are incorporated directly or by reference to state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted accounting practices include deviations from NAIC Statutory Accounting Principles (SAP) specifically requested by an insurer and granted by the Commissioner of Insurance. These statements have no deviations from NAIC SAP other than as described in the following paragraph.

Since 2004, VSHP has accepted the risk for uninsured claims overpayments for which the Company determined the State was not responsible. At the direction of the TDCI, TennCare Division, the Company recorded the uninsured claims overpayments as claims expense instead of reporting the net gain/(loss) on the general administrative expense line as required by NAIC SAP.

The Company, at the direction of the Commissioner of Insurance of the State of Tennessee, records premium and claims equivalents for the uninsured Exigency period (July 1, 2000 – June 30, 2001), instead of reporting the net gain/(loss) in the general administrative expense line of the current year column as required by NAIC SAP. If premium equivalents were not recorded, revenues would not decrease and claims would increase by $1,821 through June 30, 2009.

At the request of the TDCI, TennCare Division, VSHP no longer reports the ASO receivables and associated payables to the State of Tennessee for premium taxes. The rationale behind the exclusion is that these assets have no economic benefit to VSHP.

The TDCI, TennCare Division, allows a prescribed practice of admitting the most current 90 days of Health Care Receivables (per Tennessee Code Annotated (TCA) §56-32-212 (a) 5D). The TDCI also accepts VSHP's reporting of admitted net deferred tax asset.

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:

	2009	2008
(1) Net Income Tennessee statutory basis	$ 20,847,247	$ (61,776,488)
(2) Tennessee Prescribed Practices (Income):		
(3) Net Income, NAIC SAP	$ 20,847,247	$ (61,776,488)
(4) Statutory Surplus, State of Tennessee	49,064,848	26,856,301
(5) Tennessee Prescribed Practices (Surplus):		
Admission of Health Care Receivables	(242,904)	0
Admission of Net Deferred Tax Asset	0	(13,069,574)
(6) Statutory Surplus, NAIC SAP	$ 48,821,944	$ 13,786,727

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. Actual results could differ from those estimates.

C. Accounting Policy

Health premiums are recognized at contractual rates and are earned during the month member coverage is provided. Expenses are charged to operations as they are incurred.

In accordance with Tennessee Code Annotated (TCA) §56-11-206(b), the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The Company may currently pay dividends of $2,685,630 to BlueCross BlueShield of Tennessee, Inc. (the Parent) based on the 2008 net worth. Any material dividend distributions require approval by the TDCI. No dividends were paid to shareholders during 2008 or through June 30, 2009.

Notes to Financial Statement

In addition, the Company uses the following accounting policies:

(1) Short-term investments are stated at amortized cost.

(2) Bonds not backed by other loans are stated at amortized cost using the scientific amortization method.

(3) The Company does not hold common stock.

(4) The Company does not hold preferred stock.

(5) The Company does not hold mortgage loans.

(6) The Company does not hold loan-backed securities.

(7) The Company does not hold investments in subsidiaries, controlled and affiliated companies.

(8) The Company does not hold investments in joint ventures, partnerships or limited liability companies.

(9) The Company does not carry derivatives.

(10) The Company uses anticipated investment income as a factor in the premium deficiency calculation.

(11) Unpaid losses and loss adjustment expenses include an amount determined from estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability, are continually reviewed and any adjustments are reflected in the period determined.

(12) The Company does not have a capitalization policy due to fixed assets being held by BCBST.

2. Accounting Changes and Corrections of Errors

A. At December 31, 2008, the Company reported a $42,663,267 premium deficiency reserve for the East and West risk contracts. At the request of the TDCI in April 2009, the reserving methodology was changed to include the full contract period. This change in reserving methodology eliminated the need for the reserve as of December 31, 2008. This change in the reserve has been recorded directly to surplus and is shown on the Statement of Revenue and Expenses, line 35, Change in valuation basis of aggregate policy and claim reserves. Accordingly, the Company has no premium deficiency reserve at June 30, 2009; however, if there were, BCBST would include investment income as a factor in the calculation of the premium deficiency reserve in accordance with SSAP No. 54, *Individual and Group Accident Health Contracts*.

B. The Company reclassed $315,000 from prepaid expenses to health care receivables in the prior year column on first quarter filing.

3. Business Combinations and Goodwill

A. Statutory Purchase Method

No business combinations taking the form of a statutory purchase have occurred.

B. Statutory Merger

No business combinations taking the form of a statutory merger have occurred.

C. Assumption Reinsurance

The Company has no goodwill resulting from assumption reinsurance.

D. Impairment Loss

The Company did not record an impairment loss relating to the above transaction types.

4. Discontinued Operations

Stabilization Plan was an ASO arrangement from July 1, 2002 through December 31, 2008. Effective January 1, 2009, these members were transitioned to an at-risk contract.

5. Investments

A. Mortgage Loans

The Company had no mortgage loans.

Notes to Financial Statement

B. Debt Restructuring

The Company had no debt restructuring.

C. Reverse Mortgages

The Company had no reverse mortgages.

D. Loan-Backed Securities

The Company had no loan-backed securities.

E. Repurchase Agreements

The Company had no repurchase agreements.

F. Real Estate

The Company had no real estate.

G. Investments in Low Income Housing Tax Credits (LIHTC)

The Company had no investments in low income housing tax credits.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Company had no investments in joint ventures, partnerships and limited liability companies.

7. Investment Income

A. No investment income due and accrued was excluded from surplus.

B. The total amount excluded was $0.

8. Derivative Instruments

The Company had no derivative instruments.

9. Income Taxes

A. The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus, and Other Funds are as follows:

	June 30, 2009	December 31, 2008
(1) Total of gross deferred tax assets (admitted and nonadmitted)	$ 4,294,416	$ 17,112,641
(2) Total of deferred tax liabilities	0	0
(3) Net deferred tax assets	4,294,416	17,112,641
(4) Deferred tax assets nonadmitted	603,771	4,043,067
(5) Net admitted deferred tax assets	$ 3,690,645	$ 13,069,574
(6) Increase (decrease) in nonadmitted asset	$ (3,439,296)	$ 3,788,951

B. No change

C. The change in net deferred income taxes is comprised of the following:

	June 30, 2009	December 31, 2008	Change
Total deferred tax assets (admitted and non-admitted)	$ 4,294,416	$ 17,112,641	$ (12,818,225)
Total deferred tax liabilities	0	0	0
Net deferred tax assets (deferred assets less liabilities)	$ 4,294,416	$ 17,112,641	(12,818,225)
Tax effect non-admitted assets			(87,670)
Change in net deferred income tax			$ (12,905,895)

Notes to Financial Statement

D. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal statutory income tax rate to income before taxes. The significant items causing this difference are as follows:

		June 30, 2009	Effective Tax Rate
Provision computed at federal statutory rate	$	4,281,221	35.0%
Federal and foreign income taxes incurred	$	(8,615,187)	(70.4)%
SSAP adjustments		(9,487)	(.1)%
Change in net deferred income tax		12,905,895	105.5%
Total statutory income taxes without effects of deferred tax assets and liabilities	$	4,281,221	35.0%

E. The Company has neither net capital loss carry-forwards nor net operating loss carry-forwards.

F. (1) The Company's federal income tax return is consolidated with the following entities:
BlueCross BlueShield of Tennessee, Inc.
Golden Security Insurance Company, Inc.
Group Insurance Services, Inc.
Southern Diversified Business Services, Inc.
RiverTrust Solutions, Inc.
Riverbend Government Benefits Administrator, Inc.
Shared Health, Inc.
Gordian Health Solutions, Inc.
BeneVive, Inc.

(2) The method of tax allocation among the members of the affiliated group is subject to a written agreement, approved by the Board of Directors. Allocation is based on a percentage calculation. Intercompany tax balances are settled monthly.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. BCBST owns 100% of BeneVive, Inc. (BeneVive) and Southern Diversified Business Services, Inc. (SDBS). BCBST also holds non-controlling interests in two joint ventures, a 20% interest in TriServ Alliance, LLC (TriServ) and an approximately 12.5% interest in TZ Holdings, LP. Due to the non-controlled nature of the joint venture interests, BCBST has decided to make application with the State to reclassify these investments out of the Subsidiary, Controlled and Affiliate category and remove them from Schedule Y.

BeneVive owns 100% of the for-profit corporations: Shared Health, Inc (Shared Health), Gordian Health Solutions, Inc. (Gordian), Riverbend Government Benefits Administrator, Inc. (Riverbend), Security Care, Inc. (Security Care), and RiverTrust Solutions, Inc. (RiverTrust). Shared Health is a health information technology company. Gordian mitigates the rising cost of health care by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses. Riverbend performs services as a Medicare Administrative Contractor or subcontractor for the Centers for Medicare and Medicaid Services (Medicare) pursuant to the Medicare Modernization Act of 2003. Security Care is pursuing business with the Federal government as a Zone Program Integrity Contractor (ZPIC) to promote the prevention, detection and investigation of fraud in Medicare and Medicaid. RiverTrust is a Qualified Independent Contractor able to bid on Medicare appeals workloads.

BCBST transferred $2,802,098 in 2009 and $18,082,749 in 2008 to BeneVive as additional capital contributions. These additional capital contributions were passed through to the following entities in the following amounts:

	Six Months June 30, 2009	**Twelve Months December 31, 2008**
Gordian	$ 1,802,098	$ 8,705,749
Riverbend	0	2,500,000
RiverTrust	0	2,100,000
Shared Health	1,000,000	4,450,000
BeneVive	0	327,000
Total	$ 2,802,098	$ 18,082,749

SDBS owns 100% of the following for-profit corporations: Golden Security Insurance Company (Golden Security), Group Insurance Services, Inc. (GIS), and Volunteer State Health Plan, Inc. (VSHP). Golden Security, an inactive corporation, is licensed to provide health, term life, disability and other insurance coverage to its policyholders. GIS is an insurance broker. BCBST participates in the TennCare^{SM} program through its Managed Care Organization (MCO), VSHP, which is contracted by the State of Tennessee to provide services for TennCare^{SM} members. BCBST transferred $40,000,000 in 2009 and $4,200,000 in 2008 to SDBS as additional capital contributions. These additional contributions were passed through SDBS to VSHP. In 2008, SDBS exchanged the 10% interest it owned in USAble Life (USAble) as well as the USAble profit sharing rights held by GIS for a 6.6% interest in Life and Specialty Ventures, LLC (LSV), which is the parent company of USAble.

Notes to Financial Statement

TriServ is a limited liability company formed in 2007 by BCBST and six other non-investor owned BlueCross and BlueShield plans in the southern United States. TriServ's primary purpose is to jointly pursue an opportunity with TRICARE, a service of the U.S. Department of Defense, to administer the Managed Care Support contract for the South Region. BCBST transferred $8,468,000 and $2,400,000 to TriServ in 2009 and 2008, respectively.

TZ Holdings, LP (TZ) is a limited partnership formed in 2008 by BCBST, The Regence Group (an affiliation of four BlueCross and/or BlueShield plans in the Pacific Northwest) and Apax Partners (a global private equity investment group), as well as, a small group of individuals and entities. BCBST is not affiliated with the other owners. Apax is the majority owner of TZ, and BCBST is a minority owner. BCBST has representation on the Board of Directors of the General Partner. TZ is the parent company of The TriZetto Group, Inc. (TriZetto), a provider of information technology solutions that enable payers and other constituents in the healthcare supply chain to improve the coordination of benefits and care for healthcare consumers. TriZetto's payer-focused information technology offerings include enterprise and component software, hosting and business process outsourcing services and consulting. BCBST transferred $115,000,000 to TZ in 2008 in exchange for its minority interest.

Tennessee Health Foundation, Inc. (THF), doing business as BlueCross BlueShield of Tennessee Health Foundation, is a public benefit nonprofit Tennessee corporation that promotes charitable activities. BCBST appoints the board of directors of THF, which has been granted a 501(c) (3) tax exemption by the Internal Revenue Service.

Southern Health Plan, Inc. (SHP), doing business as BlueCross BlueShield of Tennessee Community Trust, is a Tennessee corporation created for the purpose of improving the quality of health care in Tennessee, primarily through contributions to other tax-exempt organizations. SHP has been granted a 501(c) (4) tax exemption by the Internal Revenue Service.

B. The Company has administrative services agreements with BCBST for which BCBST provides administrative services and is reimbursed. A tax sharing agreement also exists. These amounts are settled on a monthly basis.

C. The Company paid BCBST for services performed under the administrative services agreements $28,044,612 and $43,837,831 in 2009 and 2008 respectively. While these are net amounts, the Company is developing a methodology for reporting numbers on a gross basis.

D. The Company reported $2,655,854 and $32,837,848 as due from BCBST as of June 30, 2009 and December 31, 2008, respectively.

E. The Company has no guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that result in a material contingent exposure of the reporting entity's or any related party's assets or liabilities.

F. Pursuant to the administrative services agreements, BCBST performs certain services for VSHP. Services include, but are not limited to, support areas such as information systems, finance, human resources and legal.

Under separate administrative service agreements, VSHP performs certain services for BCBST related to the various Cover Tennessee contracts. Costs for these services are primarily payroll-related.

G. All outstanding shares of the Company are owned by SDBS, an insurance holding company domiciled in the State of Tennessee.

H. The Company deducted no amounts from the value of an upstream intermediate entity.

I. The Company has no investment in SCA entity that exceeds 10% of admitted assets.

J. The Company has no investments in impaired SCA entities.

K. The Company has no investments in foreign insurance subsidiaries.

L. The Company is not using the 'look-through' approach to admit any investment in an SCA entity, joint venture, partnership and or limited liability company.

11. Debt

The Company has no debt.

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

BCBST has a non-contributory pension plan covering substantially all of its subsidiary employees, including VSHP. All disclosures of retirement plans are included in BCBST's statement.

A. Defined Benefit Plan

All disclosures of retirement plans are included in BCBST's statement.

Notes to Financial Statement

B. Defined Contribution Plan

All disclosures of retirement plans are included in BCBST's statement.

C. Multiemployer Plans

The Company does not participate in pension programs sponsored by other holding companies.

D. Consolidated/Holding Company Plans

The Company participates in BCBST's defined benefit plans or defined contribution plans.

E. Postemployment Benefits and Compensated Absences

All disclosures of retirement plans are included in BCBST's statement.

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

(1) The Company has 1,000 shares authorized, 1,000 shares issued and outstanding of common stock. Par or stated value is $.01 per share.

(2) The Company has no preferred stock outstanding.

(3) In accordance with Tennessee Code Annotated (TCA) §56-11-206(b) the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The company may currently pay dividends of $2,685,630 to BCBST based on the 2008 net worth.

(4) No dividends were paid by the Company.

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

(6) The Company's statutory deposit, required by the State of Tennessee, was $25,326,692 at June 30, 2009.

(7) The Company has no advances to surplus not repaid.

(8) The Company has no stock, including stock of affiliated companies, held for special purposes.

(9) The Company has no special surplus funds.

(10) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

a.	unrealized gains and losses:	$ (9,282)
b.	nonadmitted asset values:	$ 854,260
c.	separate account business	No change
d.	asset valuation	No change
e.	provision for reinsurance:	No change

(11) The Company issued no surplus debentures or similar obligations.

(12) No quasi reorganizations have occurred.

(13) No quasi reoganizations have occurred in the past ten years.

14. Contingencies

A. The Company had no contingent commitments.

B. Assessments

The Company receives periodic liquidated damage assessments from the State of Tennessee, primarily related to operational performance targets.

C. The Company had no gain contingencies not recognized in the Company's financial statements.

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

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

E. The Company has no other contingencies to be reported as required by SSAP No. 5.

Notes to Financial Statement

15. Leases

A. The Company has no lessee leasing arrangements.

B. Leasing is not a part of the Company's business activities.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations Of Credit Risk

(1) The Company has no financial instruments with off-balance sheet risk.

(2) The Company does not use swaps, futures or options.

(3) The Company has no financial instruments with off-balance sheet risk, and no counterparty exposure.

(4) The Company has no financial instruments subject to credit risk and therefore is not required to post collateral.

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

A. The Company has no transfers of receivables reported as sales.

B. The Company has no transfers and servicing of financial assets and extinguishment of liabilities.

C. The Company has no wash sales.

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

A. ASO Plans

TennCare℠ Select, effective July 1, 2001, and the Stabilization Plan, effective July 1, 2002, are ASO arrangements with the State. Cash and invested assets related to TennCare℠ Select and the Stabilization Plan are reported in their appropriate categories on the balance sheet. Other assets related to TennCare℠ Select and the Stabilization Plan are netted on p. Q2, line 15. Assets deemed to have no economic benefit to VSHP, such as premium tax receivable from the State of Tennessee, are netted against premium tax payable to the State of Tennessee to avoid overstatement of assets and liabilities. Liabilities for the ASO plans are netted on page Q3, line 20 in the category labeled "Liability for amounts held under uninsured accident and health plans", excluding any 'due to/from' transactions occurring between the ASO, insured business, and BCBST.

The amounts receivable relating to uninsured plans reflected on page Q2, line 15, are as follows:

Uninsured Receivables	Amount
a. TPL Recovery Expenses	$1,950,149
b. Case Management	409,884
c Miscellaneous	95,841
d. Liquidated damages	(327,568)
e. Unbilled Expenses (timing differences)	(512,689)
Total Amounts Receivable Relating to Uninsured Plans	$1,615,617

The loss from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans were as follows during 2009:

	(1) ASO Uninsured Plans	(2) Uninsured Portion of Partially Insured Plans	(3) Total ASO
a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$ (4,239,997)	0	$ (4,239,997)
b. Total net other income or expenses (including interest paid to or received from plans)	(181)	0	(181)
c. Net loss from operations	$ (4,240,178)	0	$ (4,240,178)
d. Total Claims Payment Volume	$ 243,082,782	0	$ 243,082,782

Notes to Financial Statement

B. ASC Plans

The Company operated under an Exigency agreement with the State for the period July 1, 2000 through June 30, 2001. At the direction of the TDCI, premium and claims equivalents are disseminated throughout the NAIC filing.

C. The Company had no Medicare or other similarly structured cost based reimbursement contract.

19. The Company had no premium written/produced by managing general agents or third party administrators.

20. Other Items

A. No extraordinary events occurred.

B. No troubled debt restructuring occurred.

C. 1) Assets in the amount of $26,361,277 at June 30, 2009, were on deposit with government authorities or trustees. This amount exceeds the deposit required by the State of Tennessee of $25,326,692 as of June 30, 2009.

2) The Company elected to use rounding in reporting amounts in the statement.

D. The Company does not anticipate any uncollectible premium balances. However, pursuant to line 13.1 of the Asset page, VSHP reports $17,778,185 for Uncollected premiums and agents' balances in the course of collection. By letter dated May 5, 2009, from Scott Pierce, Chief Financial Officer, Bureau of TennCare, VSHP received notice that a positive capitation adjustment would occur due to the East Grand Region acuity risk adjustment of approximately $700,000 per month. VSHP has recorded this receivable in line 13.1. However, recording of this receivable for purposes of statutory financial reporting in no way reflects VSHP's agreement that the amount due from TennCare is accurate or appropriate. VSHP and the Bureau of TennCare are currently having this dispute reviewed by the appropriate administrative bodies.

E. The Company had no business interruption insurance recoveries.

F. The Company had no state transferable tax credits.

G. The Company has no hybrid securities.

H. The Company has no subprime mortgage related risk exposure.

21. Events Subsequent

At June 30, 2009, BCBST accrued an intercompany payable to VSHP in the amount of $11,000,000. This amount represents a capital contribution from BCBST in order for VSHP to maintain statutory minimum net worth requirements. Funds were transferred to VSHP, through its parent holding company SDBS, prior to the August 15, 2009, quarterly statement filing due date.

22. Reinsurance

A. The Company had no ceded reinsurance report.

B. The Company has not written off reinsurance balances.

C. The Company has no amounts reported in its operations as a result of commutation of reinsurance with other companies.

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

There were no net premiums written by the Company through June 30, 2009 that are subject to retrospective rating features.

24. Change in Incurred Claims and Claim Adjustment Expenses

Claims unpaid and unpaid claims adjustment expenses were $71,019,135 as of December 31, 2008. As of June 30, 2009, $58,835,863 has been paid for incurred claims and claims adjustments expenses attributable to insured events of prior years. Reserves remaining for prior years are now $4,457,958 as a result of re-estimation of unpaid claims and claims adjustment expenses. Therefore, there has been a $7,725,341 favorable prior year development since December 31, 2008 to June 30, 2009. The change is the result of ongoing analysis of recent loss development trends. Original estimates are changed as additional information becomes known.

25. The Company has no intercompany pooling arrangements under which the pool participants cede substantially all of their direct and assumed business to a pool.

26. Structured settlements are not applicable to health entities.

Notes to Financial Statement

27. Health Care Receivables

    A. The Company has no pharmaceutical rebate receivables.

    B. The Company does not have any risk sharing receivables where the receivable and payable balances with a single provider are netted.

28. Participating Policies

    The Company has no participating policies where the company pays policy holders dividends.

29. Premium Deficiency Reserve

    As of June 30, 2009 the Company had liabilities of $0 related to premium deficiency reserves. The company included a release of the premium deficiency reserve in the amount of $42,663,267 between December 31, 2008 and June 30, 2009. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

30. Anticipated Salvage and Subrogation

    The Company has no anticipated salvage and subrogation.

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes[ ] No[X]
1.2 If yes, has the report been filed with the domiciliary state? Yes[ ] No[ ] N/A[X]

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes[ ] No[X]
2.2 If yes, date of change:

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes[ ] No[X]
If yes, complete the Schedule Y - Part 1 - organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes[ ] No[X]
4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes[ ] No[ ] N/A[X]
If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008
6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 06/30/2006
6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/11/2007
6.4 By what department or departments?
Tennessee Department of Commerce and Insurance
6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes[X] No[ ] N/A[ ]
6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes[X] No[ ] N/A[ ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes[ ] No[X]
7.2 If yes, give full information

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes[ ] No[X]
8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes[ ] No[X]
8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
		Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes[X] No[ ]
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.
9.11 If the response to 9.1 is No, please explain:
9.2 Has the code of ethics for senior managers been amended? Yes[ ] No[X]
9.21 If the response to 9.2 is Yes, provide information related to amendment(s).
9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes[ ] No[X]
9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes[X] No[ ]
10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 2,655,854

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes[ ] No[X]
11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: $ 0

13. Amount of real estate and mortgages held in short-term investments: $ 0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes[ ] No[X]

GENERAL INTERROGATORIES (Continued)

INVESTMENT

14.2 If yes, please complete the following:

		1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21	Bonds		
14.22	Preferred Stock		
14.23	Common Stock		
14.24	Short-Term Investments		
14.25	Mortgages Loans on Real Estate		
14.26	All Other		
14.27	Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)		
14.28	Total Investment in Parent included in Lines 14.21 to 14.26 above		

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes[ ] No[X]
15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes[ ] No[ ] N/A[X]
If no, attach a description with this statement.

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes[X] No[ ]
16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
Regions Morgan Keegan Trust	1100 Ridgeway Loop Ste 100 Memphis, TN 38120

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes[ ] No[X]
16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
4161	Regions Morgan Keegan Trust	1100 Ridgeway Loop Ste 100 Memphis, TN 38120

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes[X] No[ ]
17.2 If no, list exceptions:

SCHEDULE S - CEDED REINSURANCE

Showing All New Reinsurance Treaties - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Effective Date	4 Name of Reinsurer	5 Location	6 Type of Reinsurance Ceded	7 Is Insurer Authorized? (Yes or No)
			NONE			

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Current Year to Date - Allocated by States and Territories

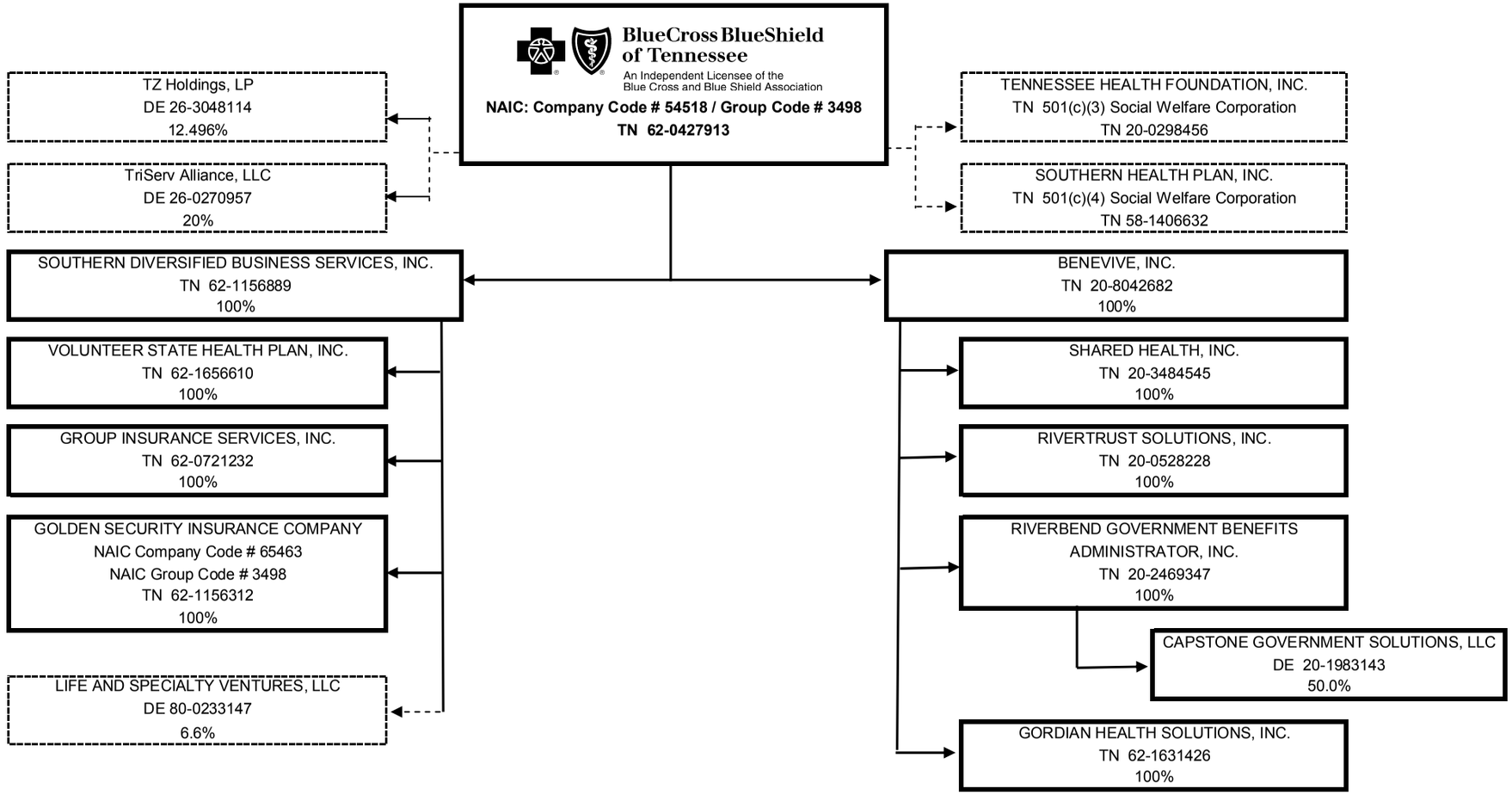
			Direct Business Only							
		1	2	3	4	5	6	7	8	9
	State, Etc.	Active Status	Accident and Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life and Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1.	Alabama (AL)	N								
2.	Alaska (AK)	N								
3.	Arizona (AZ)	N								
4.	Arkansas (AR)	N								
5.	California (CA)	N								
6.	Colorado (CO)	N								
7.	Connecticut (CT)	N								
8.	Delaware (DE)	N								
9.	District of Columbia (DC)	N								
10.	Florida (FL)	N								
11.	Georgia (GA)	N								
12.	Hawaii (HI)	N								
13.	Idaho (ID)	N								
14.	Illinois (IL)	N								
15.	Indiana (IN)	N								
16.	Iowa (IA)	N								
17.	Kansas (KS)	N								
18.	Kentucky (KY)	N								
19.	Louisiana (LA)	N								
20.	Maine (ME)	N								
21.	Maryland (MD)	N								
22.	Massachusetts (MA)	N								
23.	Michigan (MI)	N								
24.	Minnesota (MN)	N								
25.	Mississippi (MS)	N								
26.	Missouri (MO)	N								
27.	Montana (MT)	N								
28.	Nebraska (NE)	N								
29.	Nevada (NV)	N								
30.	New Hampshire (NH)	N								
31.	New Jersey (NJ)	N								
32.	New Mexico (NM)	N								
33.	New York (NY)	N								
34.	North Carolina (NC)	N								
35.	North Dakota (ND)	N								
36.	Ohio (OH)	N								
37.	Oklahoma (OK)	N								
38.	Oregon (OR)	N								
39.	Pennsylvania (PA)	N								
40.	Rhode Island (RI)	N								
41.	South Carolina (SC)	N								
42.	South Dakota (SD)	N								
43.	Tennessee (TN)	L			590,241,190				590,241,190	
44.	Texas (TX)	N								
45.	Utah (UT)	N								
46.	Vermont (VT)	N								
47.	Virginia (VA)	N								
48.	Washington (WA)	N								
49.	West Virginia (WV)	N								
50.	Wisconsin (WI)	N								
51.	Wyoming (WY)	N								
52.	American Samoa (AS)	N								
53.	Guam (GU)	N								
54.	Puerto Rico (PR)	N								
55.	U.S. Virgin Islands (VI)	N								
56.	Northern Mariana Islands (MP)	N								
57.	Canada (CN)	N								
58.	Aggregate other alien (OT)	XXX								
59.	Subtotal	XXX			590,241,190				590,241,190	
60.	Reporting entity contributions for Employee Benefit Plans	XXX								
61.	Total (Direct Business)	(a) 1			590,241,190				590,241,190	
DETAILS OF WRITE-INS										
5801.		XXX								
5802.		XXX								
5803.		XXX								
5898.	Summary of remaining write-ins for Line 58 from overflow page	XXX								
5899.	TOTALS (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX								

(a) Insert the number of L responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER

MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	RESPONSE
1. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	No

Explanations:

Bar Codes:

Medicare Part D Coverage Supplement

00000200936500002 (NAIC code not entered) 2009 Document Code: 365

OVERFLOW PAGE FOR WRITE-INS

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
2104. Exigency Post Settlement Activity	1,901		1,901	285
2105.				
2197. Summary of remaining write-ins for Line 21 (Lines 2104 through 2196)	1,901		1,901	285

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
0604.	XXX			
0605.	XXX			
0606.	XXX			
0607.	XXX			
0608.	XXX			
0609.	XXX			
0610.	XXX			
0611.	XXX			
0612.	XXX			
0613.	XXX			
0697. Summary of remaining write-ins for Line 6 (Lines 0604 through 0696)	XXX			

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
4704.			
4705.			
4706.			
4707.			
4708.			
4709.			
4710.			
4711.			
4712.			
4713.			
4714.			
4715.			
4716.			
4717.			
4718.			
4797. Summary of remaining write-ins for Line 47 (Lines 4704 through 4796)			

SCHEDULE A - VERIFICATION

Real Estate

NONE

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year		
2.	Cost of acquired		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Current year change in encumbrances		
4.	Total gain (loss) on disposals		
5.	Deduct amounts received on disposals		
6.	Total foreign exchange change in book/adjusted carrying va		
7.	Deduct current year's other than temporary impairment recognized		
8.	Deduct current year's depreciation		
9.	Book/adjusted carrying value at the end of current period (Lines 1 + 2 + 3 + 4 - 5 + 6 - 7 - 8)		
10.	Deduct total nonadmitted amounts		
11.	Statement value at end of current period (Line 9 minus Line 10)		

SCHEDULE B - VERIFICATION

Mortgage Loans

NONE

		1 Year To Date	2 Prior Year Ended December 31
1.	Book value/recorded investment excluding accrued interest, December 31 of prior year		
2.	Cost of acquired:		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Capitalized deferred interest and other		
4.	Accrual of discount		
5.	Unrealized valuation increase (decrease)		
6.	Total gain (loss) on disposals		
7.	Deduct amounts received on disposals		
8.	Deduct amortization of premium and mortgage interest poi		
9.	Total foreign exchange change in book value/recorded inve		
10.	Deduct current year's other than temporary impairment recognized		
11.	Book value/recorded investment excluding accrued interest at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12.	Total valuation allowance		
13.	Subtotal (Line 11 plus Line 12)		
14.	Deduct total nonadmitted amounts		
15.	Statement value at end of current period (Line 13 minus Line 14)		

SCHEDULE BA - VERIFICATION

Other Long-Term Invested Assets

NONE

	Description	1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year		
2.	Cost of acquired:		
	2.1 Actual cost at time of acquisition		
	2.2 Additional investment made after acquisition		
3.	Capitalized deferred interest and other		
4.	Accrual of discount		
5.	Unrealized valuation increase (decrease)		
6.	Total gain (loss) on disposals		
7.	Deduct amounts received on disposals		
8.	Deduct amortization of premium and depreciation		
9.	Total foreign exchange change in book/adjusted carrying value		
10.	Deduct current year's other than temporary impairment recognized		
11.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12.	Deduct total nonadmitted amounts		
13.	Statement value at end of current period (Line 11 minus Line 12)		

SCHEDULE D - VERIFICATION

Bonds and Stocks

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value of bonds and stocks, December 31 of prior year	27,615,542	26,433,012
2.	Cost of bonds and stocks acquired	50,317,173	8,319,000
3.	Accrual of discount	8,287	9,128
4.	Unrealized valuation increase (decrease)		
5.	Total gain (loss) on disposals	(14,779)	
6.	Deduct consideration for bonds and stocks disposed of	14,697,272	7,000,000
7.	Deduct amortization of premium	147,793	145,598
8.	Total foreign exchange change in book/adjusted carrying value		
9.	Deduct current year's other than temporary impairment recognized		
10.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	63,081,158	27,615,542
11.	Deduct total nonadmitted amounts		
12.	Statement value at end of current period (Line 10 minus Line 11)	63,081,158	27,615,542

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	225,406,951	336,354,640	374,726,377	2,927,019	225,406,951	189,962,233		76,721,231
2. Class 2 (a)								
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	225,406,951	336,354,640	374,726,377	2,927,019	225,406,951	189,962,233		76,721,231
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	225,406,951	336,354,640	374,726,377	2,927,019	225,406,951	189,962,233		76,721,231

Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 $.....697,373; NAIC 2 $.....0; NAIC 3 $.....0; NAIC 4 $.....0; NAIC 5 $.....0; NAIC 6 $.....0

SCHEDULE DA - PART 1

Short - Term Investments Owned End of Current Quarter

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999. Totals	126,881,076	X X X	126,884,104	451,360	4,886

SCHEDULE DA - Verification

Short-Term Investments

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year	49,105,689	3,417,945
2.	Cost of short-term investments acquired	891,078,365	134,470,278
3.	Accrual of discount		
4.	Unrealized valuation increase (decrease)		
5.	Total gain (loss) on disposals		
6.	Deduct consideration received on disposals	813,299,950	88,782,534
7.	Deduct amortization of premium	3,028	
8.	Total foreign exchange change in book/adjusted carrying value		
9.	Deduct current year's other than temporary impairment recognized		
10.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	126,881,076	49,105,689
11.	Deduct total nonadmitted amounts		
12.	Statement value at end of current period (Line 10 minus Line 11)	126,881,076	49,105,689

SCHEDULE DB - PART F - SECTION 1

Summary of Replicated (Synthetic) Assets Open

Replicated (Synthetic) Asset					Components of the Replicated (Synthetic) Asset						
					Derivative Instruments Open		Cash Instrument(s) Held				
1 Replication RSAT Number	2 Description	3 NAIC Designation or Other Description	4 Statement Value	5 Fair Value	6 Description	7 Fair Value	8 CUSIP	9 Description	10 Statement Value	11 Fair Value	12 NAIC Designation or Other Description
					NONE						
9999999 Totals					XXX		XXX	XXX			XXX

QSI04

SCHEDULE DB - PART F - SECTION 2

Reconciliation of Replicated (Synthetic) Assets Open

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year-To-Date	
	1 Number of Positions	2 Total Replicated (Synthetic) Assets Statement Value	3 Number of Positions	4 Total Replicated (Synthetic) Assets Statement Value	5 Number of Positions	6 Total Replicated (Synthetic) Assets Statement Value	7 Number of Positions	8 Total Replicated (Synthetic) Assets Statement Value	9 Number of Positions	10 Total Replicated (Synthetic) Assets Statement Value
1. Beginning Inventory										
2. Add: Opened or Acquired Transactions										
3. Add: Increases in Replicated Asset Statement Value	XXX		XXX		XXX		XXX		XXX	
4. Less: Closed or Disposed of Transactions										
5. Less: Positions Disposed of for Failing Effectiveness Criteria										
6. Less: Decreases in Replicated (Synthetic) Asset Statement Value	XXX		XXX		XXX		XXX		XXX	
7. Ending Inventory										

NONE

SCHEDULE E - Verification

(Cash Equivalents)

		1 Year To Date	2 Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year		
2.	Cost of cash equivalents acquired		
3.	Accrual of discount		
4.	Unrealized valuation increase (decrease)		
5.	Total gain (loss) on disposals		
6.	Deduct consideration received on dis		
7.	Deduct amortization of premium		
8.	Total foreign exchange change in boo		
9.	Deduct current year's other than temporary impairment recognized		
10.	Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)		
11.	Deduct total nonadmitted amounts		
12.	Statement value at end of current period (Line 10 minus Line 11)		

NONE

SCHEDULE A - PART 2

Showing all Real Estate ACQUIRED and Additions Made During the Current Quarter

1	Location		4	5	6	7	8	9
	2	3						
Description of Property	City	State	Date Acquired	Name of Vendor	Actual Cost at Time of Acquisition	Amount of Encumbrances	Book/Adjusted Carrying Value Less Encumbrances	Additional Investment Made After Acquisition
NONE								
0399999 Totals								

SCHEDULE A - PART 3

Showing All Real Estate DISPOSED During the Quarter, Including Payments During the Final Year on "Sales Under Contract"

1	Location		4	5	6	7	8	Change in Book/Adjusted Carrying Value Less Encumbrances					14	15	16	17	18	19	20
	2	3						9	10	11	12	13							
Description of Property	City	State	Disposal Date	Name of Purchaser	Actual Cost	Expended for Additions, Permanent Improvements and Changes in Encumbrances	Book/Adjusted Carrying Value Less Encumbrances Prior Year	Current Year's Depreciation	Current Year's Other Than Temporary Impairment Recognized	Current Year's Change in Encumbrances	Total Change in B/A C.V. (11 - 9 - 10)	Total Foreign Exchange Change in B/A C.V.	Book/Adjusted Carrying Value Less Encumbrances on Disposal	Amounts Received During Year	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Gross Income Earned Less Interest Incurred on Encumbrances	Taxes, Repairs and Expenses Incurred
NONE																			
0399999 Totals																			

SCHEDULE B - PART 2

Showing All Mortgage Loans ACQUIRED During the Current Quarter

1	Location		4	5	6	7	8	9
	2	3						
Loan Number	City	State	Loan Type	Date Acquired	Rate of Interest	Actual Cost at Time of Acquisition	Additional Investment Made After Acquisition	Value of Land and Buildings
NONE								
3399999 Total Mortgages (sum of Lines 0899999, 1699999, 2499999 and 3299999)								

SCHEDULE B - PART 3

Showing All Mortgage Loans DISPOSED, Transferred or Repaid During the Current Quarter

1	Location		4	5	6	7	Change in Book Value/Recorded Investment						14	15	16	17	18
	2	3					8	9	10	11	12	13					
Loan Number	City	State	Loan Type	Date Acquired	Disposal Date	Book Value/Recorded Investment Excluding Accrued Interest Prior Year	Unrealized Valuation Increase (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Capitalized Deferred Interest and Other	Total Change in Book Value (8+9-10+11)	Total Foreign Exchange Change in Book Value	Book Value/Recorded Investment Excluding Accrued Interest on Disposal	Consider-ation	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal
NONE																	
0599999 Totals																	

QE02

SCHEDULE BA - PART 2

Showing Other Long-Term Invested Assets ACQUIRED During the Current Quarter

1	2	Location		5	6	7	8	9	10	11	12	13
		3	4									
CUSIP Identification	Name or Description	City	State	Name of Vendor or General Partner	NAIC Designation	Date Originally Acquired	Type and Strategy	Actual Cost at Time of Acquisition	Additional Investment Made After Acquisition	Amount of Encumbrances	Commitment for Additional Investment	Percentage of Ownership
NONE												
4199999 TOTALS												XXX

SCHEDULE BA - PART 3

Showing Other Long-Term Invested Assets DISPOSED, Transferred or Repaid During the Current Quarter

1	2	Location		5	6	7	8	Change in Book/Adjusted Carrying Value						15	16	17	18	19	20
		3	4					9	10	11	12	13	14						
CUSIP Identification	Name or Description	City	State	Name of Purchaser or Nature of Disposal	Date Originally Acquired	Disposal Date	Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Unrealized Valuation Increase (Decrease)	Current Year's (Depreciation) or (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Capitalized Deferred Interest and Other	Total Change in B./A.C.V. (9 + 10 - 11 + 12)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value Less Encumbrances on Disposal	Consideration	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Investment Income
NONE																			
4199999 TOTALS																			

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired by the Company During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
Bonds - U.S. Governments									
31331GST7	FEDERAL FARM CR BK CONS		04/07/2009	First Tennessee	X X X	499,000	500,000.00		1
31331GSS9	FEDERAL FARM CR BK CONS BD		04/13/2009	Non Broker Trade	X X X	399,750	400,000.00		1
31331YGP9	FEDERAL FARM CR BKS CONS		04/23/2009	Non Broker Trade	X X X	312,603	300,000.00	4,313	1
3133XTXS0	FEDERAL HOME LOAN BANK CONS		06/17/2009	Non Broker Trade	X X X	2,246,970	2,200,000.00		1
3133XBV28	FEDERAL HOME LOAN BANKS		04/01/2009	Non Broker Trade	X X X	418,648	400,000.00	7,083	1
3128X8XS6	FEDERAL HOME LOAN MORTGAGE COMPANY		04/29/2009	Non Broker Trade	X X X	399,800	400,000.00	67	1
3128X8XK3	FEDERAL HOME LOAN MORTGAGE CORP		04/23/2009	Non Broker Trade	X X X	400,030	400,000.00		1
31398AWK4	FEDERAL NATIONAL MTG ASSN MTN		04/02/2009	Barclays Bank NY	X X X	399,496	400,000.00	208	1
31398AWL2	FEDERAL NATL MTG ASSN		04/20/2009	Non Broker Trade	X X X	599,976	600,000.00	175	1
31398AWQ1	FEDERAL NATL MTG ASSN		04/08/2009	Goldman Sachs NY	X X X	374,096	375,000.00		1
31395USW2	FHLMC MULTICLASS MTG 2977 PA		04/20/2009	Non Broker Trade	X X X	313,667	307,140.55	938	1
0399999 Subtotal - Bonds - U.S. Governments					X X X	6,364,036	6,282,140.55	12,784	X X X
Bonds - U.S. Special Revenue, Special Assessment									
31331GUE7	FEDERAL FARM CR BK CONS BD		05/05/2009	Barclays Cap	X X X	499,750	500,000.00		1
3128X8KY7	FEDERAL HOME LN MTG CORP		05/19/2009	Added by SunGard	X X X	402,674	400,000.00	1,360	1
3128X8KX9	FEDERAL HOME LN MTG CORP MTN		05/14/2009	Greenwich Capital Mkts	X X X	401,912	400,000.00	2,138	1
31398AST0	FEDERAL NATL MTG ASSN MTN		05/18/2009	Fortis Secs	X X X	409,128	400,000.00	5,810	1
31393UJ87	FNMA GTD REMIC P/T		04/16/2009	Stifel Nicolaus	X X X	279,197	270,000.00	675	1
3199999 Subtotal - Bonds - U.S. Special Revenue, Special Assessment					X X X	1,992,661	1,970,000.00	9,983	X X X
Bonds - Industrial and Miscellaneous (Unaffiliated)									
00209AAE6	AT&T WIRELESS SVCS INC SR NT		04/23/2009	J P Morgan	X X X	270,748	250,000.00	3,117	1
110122AL2	BRISTOL MYERS SQUIBB CO SR NT		04/26/2009	J P Morgan	X X X	107,736	100,000.00	1,065	1
31394U6L1	FNMA GTD REMIC P/T 05-99 KC		06/16/2009	First Boston Corp	X X X	280,162	272,166.72	748	1
585055AP1	MEDTRONIC INC SR NT		04/23/2009	J P Morgan	X X X	208,410	200,000.00	1,150	1
913017BD0	UNITED TECHNOLOGIES CORP NT		04/23/2009	BNP Paribas Securites	X X X	269,158	250,000.00	2,514	1
06051GDY2	BANK OF AMERICA CORP		05/08/2009	Goldman Sachs NY	X X X	149,168	150,000.00		1
06406HBL2	BANK OF NEW YORK MELLON		05/05/2009	Alex Brown & Sons	X X X	174,944	175,000.00		1
073928X73	BEAR STEARNS COS INC MTN		04/01/2009	J P Morgan	X X X	408,384	400,000.00	4,324	1
14041NDZ1	CAPITAL ONE		04/08/2009	Non Broker Trade	X X X	404,047	400,000.00	9,625	1
17314JAL7	CITIBANK NA		06/25/2009	Salomon Brothers	X X X	250,000	250,000.00		1
17290CAA4	CITIGROUP INC		05/27/2009	Non Broker Trade	X X X	200,990	200,000.00		1
191219BT0	COCA COLA ENTERPRISES		04/23/2009	Non Broker Trade	X X X	287,385	250,000.00	2,817	1
20825CAT1	CONOCOPHILLIPS		05/18/2009	Alex Brown & Sons	X X X	99,911	100,000.00		1
264399EF9	DUKE ENERGY CORP SR NT		04/23/2009	Goldman Sachs NY	X X X	216,032	200,000.00	4,625	1FE
34528CAE5	FORD CR AUTO 06-C CL A4A		04/22/2009	J P Morgan	X X X	102,168	100,000.00	172	1
302570AV8	FPL GROUP CAP INC GTD DEB		04/23/2009	Goldman Sachs NY	X X X	160,823	150,000.00	1,336	1
36962G4C5	GENERAL ELECTRIC CAP CORP		06/17/2009	Non Broker Trade	X X X	4,180,720	4,000,000.00	25,567	1
36186CBF9	GMAC LLC		06/03/2009	Bank of America	X X X	404,356	405,000.00		1
428236AX1	HEWLETT-PACKARD CO		05/21/2009	Morgan Stanley	X X X	124,959	125,000.00		1
459200DU2	iNTERNATIONAL BUSINESS MACHINES		04/22/2009	Non Broker Trade	X X X	316,854	300,000.00	1,444	1
46625HDC1	JP MORGAN CHASE SR NT		05/01/2009	Chemical Securities	X X X	484,500	500,000.00	338	1
46625HHN3	JPMORGAN CHASE & CO		05/13/2009	Chemical Securities	X X X	374,228	375,000.00		1
57629WBH2	MASSMUTUAL GLOBAL FUNDIN		06/25/2009	First Boston Corp	X X X	149,883	150,000.00		1
589331AR8	MERCK & CO INC/NJ		06/22/2009	Chase Greenwich	X X X	199,952	200,000.00		1

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired by the Company During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
59217EBV5	MET LIFE GLOB FUNDING I		06/03/2009	SBC Capital Mkts	X X X	250,000	250,000.00		1
594918AB0	MICROSOFT CORP		05/11/2009	Morgan Stanley	X X X	249,755	250,000.00		1
61757UAN0	MORGAN STANLEY FDIC GTD TLGP		04/21/2009	Non Broker Trade	X X X	502,135	500,000.00		1
665859AG9	NORTHERN TRUST CORP		05/07/2009	Bank of America	X X X	315,192	300,000.00	3,268	1
665859AK0	NORTHERN TRUST CORP		04/28/2009	Morgan Stanley	X X X	50,207	50,000.00		1
68389XAD7	ORACLE CORP NT		04/23/2009	National Finl Svcs Corp	X X X	213,930	200,000.00	358	1
713448BK3	PEPSICO INC SR NT		04/23/2009	J P Morgan	X X X	205,888	200,000.00	1,167	1
842587CD7	SOUTHERN COMPANY SENIOR NOTE		04/22/2009	First Tennessee	X X X	399,164	400,000.00		1
846042AA7	SOVEREIGN BANK		04/08/2009	Non Broker Trade	X X X	255,908	250,000.00	1,661	1
846042AB5	SOVEREIGN BANK		04/02/2009	First Tennessee	X X X	304,125	300,000.00	2,188	1
857477AE3	STATE STREET CORP		05/19/2009	Goldman Sachs NY	X X X	24,976	25,000.00		1
87244EAC6	TIAA GLOBAL MARKETS		06/08/2009	VARIOUS	X X X	512,238	500,000.00	8,470	1
91159HGR5	US BANCORP		05/11/2009	Morgan Stanley	X X X	124,978	125,000.00		1
90327XAB0	USAA AUTO OWNER		04/15/2009	Bank of America	X X X	339,989	340,000.00		1
92344GAL0	VERIZON GLOBAL FDG CORP NT		04/23/2009	First Union Cap Mkts	X X X	266,003	250,000.00	7,149	1
92344SAR1	VERIZON WIRELESS CAPITAL		05/19/2009	Goldman Sachs NY	X X X	174,864	175,000.00		1
931142CQ4	WAL-MART STORES INC		05/14/2009	Bank of America	X X X	324,958	325,000.00		1
3899999 Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated)					X X X	14,339,828	13,942,166.72	83,103	X X X
8399997 Subtotal - Bonds - Part 3					X X X	22,696,525	22,194,307.27	105,870	X X X
8399998 Summary Item from Part 5 for Bonds (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
8399999 Subtotal - Bonds					X X X	22,696,525	22,194,307.27	105,870	X X X
8999998 Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
9799998 Summary Item from Part 5 for Common Stocks (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
9899999 Subtotal - Preferred and Common Stocks					X X X		X X X		X X X
9999999 Total - Bonds, Preferred and Common Stocks					X X X	22,696,525	X X X	105,870	X X X

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues .....0.

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stocks Sold, Redeemed, or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
Bonds - U.S. Governments																					
3133XKW27	FEDERAL HOME LOAN BANK		05/22/2009	CALLED @ 100.0000000	XXX	2,200,000	2,200,000.00	2,200,000	2,200,000						2,200,000				57,200	05/22/2012	1
3133XKX75	FEDERAL HOME LOAN BANK		06/21/2009	CALLED @ 100.0000000	XXX	4,000,000	4,000,000.00	4,000,000	4,000,000						4,000,000				105,000	05/21/2012	1
31398AWK4	FEDERAL NATIONAL MTG ASSN MTN		06/09/2009	First Boston Corp	XXX	398,696	400,000.00	399,496			29		29		399,525		(830)	(830)	1,396	04/20/2012	1
31359MK93	FEDERAL NATL MTG ASSOC		04/06/2009	Called	XXX	747,991	750,000.00	745,313	747,727		253		253		747,979		12	12	19,688	04/06/2011	1
31395USW2	FHLMC MULTICLASS MTG 2977 PA		06/01/2009	Pay Down	XXX	33,427	33,426.69	34,137			(2)		(2)		34,135		(708)	(708)	139	12/15/2025	1
36211V6Q8	GNMA POOL #0524779		06/15/2009	VARIOUS	XXX	623,321	597,068.35	623,470			290		290		623,760		(439)	(439)	1,855	01/15/2024	1
36295P4L3	GNMA POOL #0676827		06/15/2009	VARIOUS	XXX	473,794	456,544.15	477,017			(4,404)		(4,404)		472,613		1,181	1,181	2,404	05/15/2023	1
36296E5H5	GNMA POOL #0689448		06/15/2009	VARIOUS	XXX	327,085	314,985.16	328,913			(2,441)		(2,441)		326,473		612	612	2,846	07/15/2023	1
36297A3K7	GNMA POOL #0706502		06/15/2009	VARIOUS	XXX	291,007	280,044.57	292,428			(1,903)		(1,903)		290,525		482	482	1,549	01/15/2024	1
36297B4P3	GNMA POOL #0707430		06/15/2009	VARIOUS	XXX	399,856	383,046.64	399,984			215		215		400,200		(344)	(344)	2,376	01/15/2024	1
36297CVT3	GNMA POOL #0708126		06/15/2009	VARIOUS	XXX	313,440	299,948.17	313,540			185		185		313,724		(285)	(285)	1,861	01/15/2024	1
36210B4N2	GNMA POOL #0487829		06/01/2009	Pay Down	XXX	3,338	3,337.60	3,454			(1)		(1)		3,454		(116)	(116)	13	04/15/2024	1
36210B4R3	GNMA POOL #0487832		06/01/2009	Pay Down	XXX	2,761	2,761.42	2,886			(1)		(1)		2,885		(124)	(124)	12	04/15/2024	1
912828DV9	U S TREASURY NOTES		06/09/2009	HSBC Securities	XXX	262,479	250,000.00	279,796			(954)		(954)		278,842		(16,362)	(16,362)	5,885	05/15/2015	1
0399999 Subtotal - Bonds - U.S. Governments					XXX	10,077,195	9,971,162.75	10,100,434	6,947,727		(8,734)		(8,734)		10,094,115		(16,921)	(16,921)	202,224	XXX	XXX
Bonds - All Other Governments																					
912828KE9	U S TREASURY NOTE		06/29/2009	VARIOUS	XXX	1,500,646	1,500,000.00	1,496,079			457		457		1,496,536		4,111	4,111	3,504	02/28/2011	1
912828KF6	U S TREASURY NOTE		04/28/2009	Citigroup Global Markets	XXX	1,002,379	1,000,000.00	1,005,882			(122)		(122)		1,005,760		(3,380)	(3,380)	3,057	02/28/2014	1
912828JZ4	U S TREASURY NOTES		05/11/2009	VARIOUS	XXX	271,567	275,000.00	275,151			(7)		(7)		275,144		(3,577)	(3,577)	1,362	01/31/2014	1
1099999 Subtotal - Bonds - All Other Governments					XXX	2,774,592	2,775,000.00	2,777,112			328		328		2,777,440		(2,846)	(2,846)	7,923	XXX	XXX
Bonds - U.S. Special Revenue, Special Assessment																					
3128X8KP6	FEDERAL HOME LN MTG CORP MTN		05/18/2009	Called	XXX	300,000	300,000.00	299,955			10		10		299,965		35	35	938	03/12/2010	1
3128X8LE0	FEDERAL HOME LN MTG CORP MTN		05/20/2009	Called	XXX	200,000	200,000.00	199,980			4		4		199,984		16	16	650	03/19/2010	1
31416B4M7	FNMA POOL #0995528		06/25/2009	PRINCIPAL RECEIPT	XXX	50,865	50,865.47	52,844			(1,979)		(1,979)		50,865				212	12/01/2021	1
31416B4P0	FNMA POOL #0995530		06/25/2009	PRINCIPAL RECEIPT	XXX	50,255	50,254.88	52,406			(2,152)		(2,152)		50,255				230	12/01/2021	1
31393UJ87	FNMA GTD REMIC P/T		06/01/2009	Pay Down	XXX	4,786	4,785.52	4,949							4,948		(163)	(163)		07/25/2033	1
784422AA5	SLC STUDENT LN 07 2 CL A-1		05/15/2009	PRINCIPAL RECEIPT	XXX	14,154	14,153.82	13,729			425		425		14,154					05/15/2018	1
78442GHP4	SLM STUDENT LN TR 03-8 CL A-4		06/15/2009	PRINCIPAL RECEIPT	XXX	12,497	12,496.92	12,036			461		461		12,497				117	03/15/2019	1
3199999 Subtotal - Bonds - U.S. Special Revenue, Special Assessment					XXX	632,557	632,556.61	635,899			(3,231)		(3,231)		632,668		(112)	(112)	2,147	XXX	XXX
8399997 Subtotal - Bonds - Part 4					XXX	13,484,344	13,378,719.36	13,513,445	6,947,727		(11,637)		(11,637)		13,504,223		(19,879)	(19,879)	212,294	XXX	XXX
8399998 Summary Item from Part 5 for Bonds (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
8399999 Subtotal - Bonds					XXX	13,484,344	13,378,719.36	13,513,445	6,947,727		(11,637)		(11,637)		13,504,223		(19,879)	(19,879)	212,294	XXX	XXX
8999998 Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
9799998 Summary Item from Part 5 for Common Stocks (N/A to Quarterly)					XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
9899999 Subtotal - Preferred and Common Stocks					XXX		XXX													XXX	XXX
9999999 Total - Bonds, Preferred and Common Stocks					XXX	13,484,344	XXX	13,513,445	6,947,727		(11,637)		(11,637)		13,504,223		(19,879)	(19,879)	212,294	XXX	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues .....0.

SCHEDULE DB - PART A - SECTION 1

Showing all Options, Caps, Floors and Insurance Futures Options Owned at Current Statement Date

1 Description	2 Number of Contracts or Notional Amount	3 Date of Maturity, Expiry, or Settlement	4 Strike Price Rate or Index	5 Date of Acquisition	6 Exchange or Counterparty	7 Cost/ Option Premium	8 Book Value	9 *	10 Statement Value	11 Fair Value	12 Year to Date Increase/ (Decrease) by Adjustment	13 Used to Adjust Basis of Hedged Item	14 Other Investment/ Miscellaneous Income
NONE													
9999999 Total								XXX					

SCHEDULE DB - PART B - SECTION 1

Showing all Options, Caps, Floors and Insurance Futures Options Written and In-Force at Current Statement Date

1 Description	2 Number of Contracts or Notional Amount	3 Date of Maturity, Expiry, or Settlement	4 Strike Price Rate or Index	5 Date of Issuance/ Purchase	6 Exchange or Counterparty	7 Consideration Received	8 Book Value	9 *	10 Statement Value	11 Fair Value	12 Year to Date Increase/ (Decrease) by Adjustment	13 Used to Adjust Basis	14 Other Investment/ Miscellaneous Income
NONE													
9999999 Total								XXX					

SCHEDULE DB - PART C - SECTION 1

Showing all Collar, Swap and Forwards Open at Current Statement Date

1 Description	2 Notional Amount	3 Date of Maturity, Expiry, or Settlement	4 Strike Price Rate or Index Rec (Pay)	5 Date of Opening Position or Agreement	6 Exchange or Counterparty	7 Cost or (Consideration Received)	8 Book Value	9 *	10 Statement Value	11 Fair Value	12 Year to Date Increase/ (Decrease) by Adjustment	13 Used to Adjust Basis of Hedged Item	14 Other Investment/ Miscellaneous Income	15 Potential Exposure
NONE														
9999999 Total								XXX						

SCHEDULE DB - PART D - SECTION 1

Showing all Futures Contracts and Insurance Futures Contracts at Current Statement Date

1 Description	2 Number of Contracts	3 Maturity Date	4 Original Value	5 Current Value	6 Variation Margin	7 Date of Opening Position	8 Exchange or Counterparty	9 Cash Deposit	Variation Margin Information			13 Potential Exposure
									10 Recognized	11 Used to Adjust Basis of Hedged Item	12 Deferred	
NONE												
9999999 Total						XXX	XXX					

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1			2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
							6	7	8	
Depository			Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	*
open depositories										
Regions Bank	601 Market Street, Chattanooga, TN 37402						11,695,072	3,673,992	4,534,337	X X X
Regions Bank	601 Market Street, Chattanooga, TN 37402						6,345,050	3,937,174	3,858,472	X X X
Regions Bank	601 Market Street, Chattanooga, TN 37402						1,518,375	1,539,793	1,519,558	X X X
Regions Bank	601 Market Street, Chattanooga, TN 37402						(6,205,949)	(22,183,098)	(8,173,671)	X X X
										X X X
0199998 Deposits in .....3 depositories that do not exceed the allowable limit in any one depository (See Instructions) - open depositories			X X X	X X X			51,539	79,869	43,223	X X X
0199999 Totals - Open Depositories			X X X	X X X			13,404,087	(12,952,270)	1,781,919	X X X
0299998 Deposits in .....0 depositories that do not exceed the allowable limit in any one depository (See Instructions) - suspended depositories			X X X	X X X						X X X
0299999 Totals - Suspended Depositories			X X X	X X X						X X X
0399999 Total Cash On Deposit			X X X	X X X			13,404,087	(12,952,270)	1,781,919	X X X
0499999 Cash in Company's Office			X X X	X X X	X X X	X X X				X X X
0599999 Total Cash			X X X	X X X			13,404,087	(12,952,270)	1,781,919	X X X

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
NONE							
8699999 Total - Cash Equivalents							

00000200936500002 (NAIC code not entered) 2009 Document Code: 365

MEDICARE PART D COVERAGE SUPPLEMENT

Net of Reinsurance

For the Quarter Ended June 30, 2009

NAIC Group Code: 0000 **NAIC Company Code: 00000**

	Individual Coverage		Group Coverage		5
	1 Insured	2 Uninsured	3 Insured	4 Uninsured	Total Cash
1. Premiums Collected		X X X		X X X	
2. Earned Premiums		X X X		X X X	X X X
3. Claims Paid		X X X		X X X	
4. Claims Incurred		X X X		X X X	X X X
5. Reinsurance Coverage and Low Income Cost Sharing - Claims Paid Net of Reimbursements Applied (a)			X X X		
6. Aggregate Policy Reserves - change				X X X	X X X
7. Expenses Paid				X X X	
8. Expenses Incurred		X X X		X X X	X X X
9. Underwriting Gain or Loss		X X X		X X X	X X X
10. Cash Flow Results	X X X	X X X	X X X	X X X	

NONE

(a) Uninsured Receivable/Payable with CMS at End of Quarter: $.....0 due from CMS or $.....0 due to CMS

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INDEX TO HEALTH QUARTERLY STATEMENT

Accounting Changes and Corrections of Errors; Q10, Note 2; Q11
Accounting Practices and Policies; Q5; Q10, Note 1
Admitted Assets; Q2
Bonds; Q2; Q6; Q11.1; Q11.2; QE04; QE05
Bonuses; Q3; Q4; Q8; Q9
Borrowed Funds; Q3; Q6
Business Combinations and Goodwill; Q10, Note 3
Capital Gains (Losses)
    Realized; Q4
    Unrealized; Q4; Q5
Capital Stock; Q3; Q10, Note 13
Capital Notes; Q6; Q10, Note 11
Caps; QE06
Cash; Q2; Q6; QE08
Cash Equivalents; Q2; Q6; QE09
Claims; Q3; Q4; Q8; Q9
Collars; QE07
Commissions; Q6
Common Stock; Q2; Q3; Q6; Q11.1; Q11.2
Cost Containment Expenses; Q4
Contingencies; Q10, Note 14
Counterparty Exposure; Q10, Note 8; QE06; QE07
Debt; Q10, Note 11
Deferred Compensation; Q10, Note 2
Derivative Instruments; Q10, Note 8; QSI04; QSI05; QE06; QE07
Discontinued Operations; Q10, Note 4
Electronic Data Processing Equipment; Q2
Encumbrances; Q2; QSI01; QE01
Emergency Room; Q4
Expenses; Q3; Q4; Q6
Extinguishment of Liabilities; Q10, Note 17
Extraodinary Item; Q10, Note 20
Fee for Service; Q4
Foreign Exchange; Q2; Q3; Q5; QSI01; QSI03; QE01; QE02; QE03; QE05
Forwards; QE07
Furniture, Equipment and Supplies; Q2
Guaranty Fund; Q2
Health Care Receivables; Q2; Q9; Q10, Note 27
Hospital/Medical Benefits; Q4
Incentive Pools; Q3; Q4; Q8; Q9
Income; Q4; Q5; Q6
Income Taxes; Q2; Q3; Q4; Q5; Q10, Note 9
Incurred Claims and Claim Adjustment Expenses; Q10, Note 24
Intercompany Pooling; Q10, Note 25
Investment Income; Q10, Note 7
    Accrued; Q2
    Earned; Q2; QSI03
    Received; Q6
Investments; Q10, Note 5; Q11.1; Q11.2
Joint Venture; Q10, Note 6
Leases; Q10, Note 15
Limited Liability Company (LLC); Q10, Note 6
Limited Partnership; Q10, Note 6
Long-Term Invested Assets; Q2; QE03
Managing General Agents; Q10, Note 19
Medicare Part D Coverage; QSupp1
Member Months; Q4; Q7
Mortgage Loans; Q2; Q6; Q11.1; QSI01; QE02
Nonadmitted Assets; Q2; Q5; QSI01; QSI03
Off-Balance Sheet Risk; Q10, Note 16
Options; QE06
Organizational Chart; Q11; Q14
Out-of-Area; Q4
Outside Referrals; Q4
Parent, Subisidaries and Affiliates; Q2; Q3; Q10, Note 10; Q11.1
Participating Policies; Q10, Note 28
Pharmaceutical Rebates; Q10, Note 27
Policyholder Dividends; Q5; Q6
Postemployment Benefits; Q10, Note 12
Postretirement Benefits; Q10, Note 12
Preferred Stock; Q2; Q3; Q6; Q11.1; Q11.2
Premium Deficiency Reserves; Q10, Note 29

INDEX TO HEALTH QUARTERLY STATEMENT

Premiums and Considerations
- Advance; Q3
- Collected; Q6
- Deferred; Q2
- Direct; Q7; Q13
- Earned; Q7
- Retrospective; Q2
- Uncollected; Q2
- Unearned; Q4
- Written; Q4; Q7

Prescription Drugs; Q4
Quasi Reorganizations; Q10, Note 13
Real Estate; Q2; Q6; QE01; QSI01
Redetermination, Contracts Subject to; Q10, Note 23
Reinsurance; Q9; Q10, Note 22
- Ceded; Q3; Q12
- Funds Held; Q2
- Payable; Q3
- Premiums; Q3
- Receivable; Q2; Q4
- Unauthorized; Q3; Q5

Reserves
- Accident and Health; Q3; Q4
- Claim; Q3; Q5; Q8
- Life; Q3

Retirement Plans; Q10, Note 12
Retrospectively Rated Policies; Q10, Note 23
Risk Revenue; Q4
Salvage and Subrogation; Q10, Note 30
Servicing of Financial Assets; Q10, Note 17
Short-Term Investments; Q2; Q6; Q11.1; QSI03
Stockholder Dividends; Q5; Q6
Subsequent Events; Q10, Note 21
Surplus; Q3; Q5; Q6
Surplus Notes; Q3; Q5; Q6
Swaps; QE07
Synthetic Assets; QSI04; QSI05
Third Party Administrator; Q10, Note 19
Treasury Stock; Q3; Q5
Uninsured Accident and Health; Q2; Q3; Q10, Note 18
Valuation Allowance; QSI01
Wash Sales; Q10, Note 17
Withholds; Q4; Q8

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	.....	.....	.....	.....	.....	.....
0299999 Total group	.....	.....	.....	.....	.....	.....
0399999 Premiums due and unpaid from Medicare entities	.....	.....	.....	.....	.....	.....
Medicaid Entities:						
State of Tennessee Premium Withhold Receivable 10%	7,784,551	.....	.....	.....	.....	7,784,551
Premium Accrual	5,077,814	2,023,670	661,578	2,230,572	.....	9,993,634
0299997 Subtotal - Group Subscribers:	12,862,365	2,023,670	661,578	2,230,572	-	17,778,185
0499999 Premiums due and unpaid from Medicaid entities	-	-	-	-	-	-
0599999 Accident and health premiums due and unpaid (Page 2, Line 13)	12,862,365	2,023,670	661,578	2,230,572	-	17,778,185

EXHIBIT 3 - HEALTH CARE RECEIVABLES

1 Name of debtor	2 1 - 30 days	3 31 - 60 days	4 61 - 90 days	5 Over 90 days	6 Nonadmitted	7 Admitted
0199998 Pharmaceutical Rebate Receivables - Not Individually Listed						
0199999 Subtotal - Pharmaceutical Rebate Receivables						
Provider Receivables	242,905	-	-	-		242,905
0299998 Claim Overpayment Receivables - Not Individually Listed	242,905	-	-			242,905
0299999 Subtotal - Claim Overpayment Receivables						
Loans and Advances to Providers						
Cherokee	847,249	750,000	-	722,000		2,319,249
Volunteer Behavioral Healthcare System	350,000	350,000	350,000	1,050,000		2,100,000
Helen Ross McNabb Center	300,000	300,000	300,000	784,944		1,684,944
Frontier Health	312,500	312,500	312,500	567,967		1,505,467
Pathways of Tennessee, Inc.	250,000	250,000	250,000	663,055		1,413,055
0399998 Loans and Advances to Providers - Not Individually Listed	1,126,000	1,055,983	1,165,112	1,703,470		5,050,565
0399999 Subtotal - Loans and Advances to Providers	3,185,749	3,018,483	2,377,612	5,491,436	-	14,073,280
0499998 Capitation Arrangement Receivables - Not Individually Listed						
0499999 Subtotal - Capitation Arrangement Receivables						
0599998 Risk Sharing Receivables - Not Individually Listed						
0599999 Subtotal - Risk Sharing Receivables						
0699998 Other Receivables - Not Individually Listed						
0699999 Subtotal - Other Receivables	-	-	-	-	-	-
0799999 Gross health care receivables	3,428,654	3,018,483	2,377,612	5,491,436	-	14,316,185

EXHIBIT 5 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES

1	2	3	4	5	6	Admitted	
						7	8
Name of Affiliate	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Nonadmitted	Current	Non-Current
Individually listed receivables							
Capital Contribution with Administrative Expense offset	2,655,854	-	-	-	-	2,655,854	-
0199999 Total - individually listed receivables							
0299999 Receivables not individually listed							
0399999 Total gross amounts receivable	2,655,854					2,655,854	

EXHIBIT 6 - AMOUNTS DUE TO PARENT, SUBSIDIARIES AND AFFILIATES

Affiliate	2 Description	3 Amount	4 Current	5 Non-Current
	NONE			-
0199999 Total - Individually listed payables	……XXX……	-	-	-
0299999 Payables not individually listed	……XXX……	……	……	……
0399999 Total gross payables	……XXX……	-	-	-

Notes to Financial Statement

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1. Summary of Significant Accounting Policies

A. Accounting Practices

The accompanying financial statements of Volunteer State Health Plan, Inc. (VSHP) or (the Company) are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance (TDCI).

The TDCI, TennCare Division, 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 and for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP), version effective January 1, 2009, has been adopted as a component of prescribed or permitted practices by the State of Tennessee. Prescribed accounting practices are those practices which are incorporated directly or by reference to state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted accounting practices include deviations from NAIC Statutory Accounting Principles (SAP) specifically requested by an insurer and granted by the Commissioner of Insurance. These statements have no deviations from NAIC SAP other than as described in the following paragraph.

Since 2004, VSHP has accepted the risk for uninsured claims overpayments for which the Company determined the State was not responsible. At the direction of the TDCI, TennCare Division, the Company recorded the uninsured claims overpayments as claims expense instead of reporting the net gain/(loss) on the general administrative expense line as required by NAIC SAP.

The Company, at the direction of the Commissioner of Insurance of the State of Tennessee, records premium and claims equivalents for the uninsured Exigency period (July 1, 2000 – June 30, 2001), instead of reporting the net gain/(loss) in the general administrative expense line of the current year column as required by NAIC SAP. If premium equivalents were not recorded, revenues would not decrease and claims would increase by $1,821 through June 30, 2009.

At the request of the TDCI, TennCare Division, VSHP no longer reports the ASO receivables and associated payables to the State of Tennessee for premium taxes. The rationale behind the exclusion is that these assets have no economic benefit to VSHP.

The TDCI, TennCare Division, allows a prescribed practice of admitting the most current 90 days of Health Care Receivables (per Tennessee Code Annotated (TCA) §56-32-212 (a) 5D). The TDCI also accepts VSHP's reporting of admitted net deferred tax asset.

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:

	2009	2008
(1) Net Income Tennessee statutory basis	$ 20,847,247	$ (61,776,488)
(2) Tennessee Prescribed Practices (Income):		
(3) Net Income, NAIC SAP	$ 20,847,247	$ (61,776,488)
(4) Statutory Surplus, State of Tennessee	49,064,848	26,856,301
(5) Tennessee Prescribed Practices (Surplus):		
Admission of Health Care Receivables	(242,904)	0
Admission of Net Deferred Tax Asset	0	(13,069,574)
(6) Statutory Surplus, NAIC SAP	$ 48,821,944	$ 13,786,727

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. Actual results could differ from those estimates.

C. Accounting Policy

Health premiums are recognized at contractual rates and are earned during the month member coverage is provided. Expenses are charged to operations as they are incurred.

In accordance with Tennessee Code Annotated (TCA) §56-11-206(b), the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The Company may currently pay dividends of $2,685,630 to BlueCross BlueShield of Tennessee, Inc. (the Parent) based on the 2008 net worth. Any material dividend distributions require approval by the TDCI. No dividends were paid to shareholders during 2008 or through June 30, 2009.

Notes to Financial Statement

In addition, the Company uses the following accounting policies:

(1) Short-term investments are stated at amortized cost.

(2) Bonds not backed by other loans are stated at amortized cost using the scientific amortization method.

(3) The Company does not hold common stock.

(4) The Company does not hold preferred stock.

(5) The Company does not hold mortgage loans.

(6) The Company does not hold loan-backed securities.

(7) The Company does not hold investments in subsidiaries, controlled and affiliated companies.

(8) The Company does not hold investments in joint ventures, partnerships or limited liability companies.

(9) The Company does not carry derivatives.

(10) The Company uses anticipated investment income as a factor in the premium deficiency calculation.

(11) Unpaid losses and loss adjustment expenses include an amount determined from estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability, are continually reviewed and any adjustments are reflected in the period determined.

(12) The Company does not have a capitalization policy due to fixed assets being held by BCBST.

2. Accounting Changes and Corrections of Errors

A. At December 31, 2008, the Company reported a $42,663,267 premium deficiency reserve for the East and West risk contracts. At the request of the TDCI in April 2009, the reserving methodology was changed to include the full contract period. This change in reserving methodology eliminated the need for the reserve as of December 31, 2008. This change in the reserve has been recorded directly to surplus and is shown on the Statement of Revenue and Expenses, line 35, Change in valuation basis of aggregate policy and claim reserves. Accordingly, the Company has no premium deficiency reserve at June 30, 2009; however, if there were, BCBST would include investment income as a factor in the calculation of the premium deficiency reserve in accordance with SSAP No. 54, *Individual and Group Accident Health Contracts*.

B. The Company reclassed $315,000 from prepaid expenses to health care receivables in the prior year column on first quarter filing.

3. Business Combinations and Goodwill

A. Statutory Purchase Method

No business combinations taking the form of a statutory purchase have occurred.

B. Statutory Merger

No business combinations taking the form of a statutory merger have occurred.

C. Assumption Reinsurance

The Company has no goodwill resulting from assumption reinsurance.

D. Impairment Loss

The Company did not record an impairment loss relating to the above transaction types.

4. Discontinued Operations

Stabilization Plan was an ASO arrangement from July 1, 2002 through December 31, 2008. Effective January 1, 2009, these members were transitioned to an at-risk contract.

5. Investments

A. Mortgage Loans

The Company had no mortgage loans.

Notes to Financial Statement

B. Debt Restructuring

The Company had no debt restructuring.

C. Reverse Mortgages

The Company had no reverse mortgages.

D. Loan-Backed Securities

The Company had no loan-backed securities.

E. Repurchase Agreements

The Company had no repurchase agreements.

F. Real Estate

The Company had no real estate.

G. Investments in Low Income Housing Tax Credits (LIHTC)

The Company had no investments in low income housing tax credits.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Company had no investments in joint ventures, partnerships and limited liability companies.

7. Investment Income

A. No investment income due and accrued was excluded from surplus.

B. The total amount excluded was $0.

8. Derivative Instruments

The Company had no derivative instruments.

9. Income Taxes

A. The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus, and Other Funds are as follows:

	June 30, 2009	December 31, 2008
(1) Total of gross deferred tax assets (admitted and nonadmitted)	$ 4,294,416	$ 17,112,641
(2) Total of deferred tax liabilities	0	0
(3) Net deferred tax assets	4,294,416	17,112,641
(4) Deferred tax assets nonadmitted	603,771	4,043,067
(5) Net admitted deferred tax assets	$ 3,690,645	$ 13,069,574
(6) Increase (decrease) in nonadmitted asset	$ (3,439,296)	$ 3,788,951

B. No change

C. The change in net deferred income taxes is comprised of the following:

	June 30, 2009	December 31, 2008	Change
Total deferred tax assets (admitted and non-admitted)	$ 4,294,416	$ 17,112,641	$ (12,818,225)
Total deferred tax liabilities	0	0	0
Net deferred tax assets (deferred assets less liabilities)	$ 4,294,416	$ 17,112,641	(12,818,225)
Tax effect non-admitted assets			13,449,011
Change in net deferred income tax			$ 630,786

Notes to Financial Statement

D. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal statutory income tax rate to income before taxes. The significant items causing this difference are as follows:

		June 30, 2009	Effective Tax Rate
Provision computed at federal statutory rate	$	(10,650,922)	(35.0)%
Federal and foreign income taxes incurred	$	(8,615,187)	(28.3)
SSAP adjustments		(1,404,949)	(4.6)
Change in net deferred income tax		(630,786)	(2.1)
Total statutory income taxes without effects of deferred tax assets and liabilities	$	(10,650,922)	(35.0)%

E. The Company has neither net capital loss carry-forwards nor net operating loss carry-forwards.

F. (1) The Company's federal income tax return is consolidated with the following entities:
BlueCross BlueShield of Tennessee, Inc.
Golden Security Insurance Company, Inc.
Group Insurance Services, Inc.
Southern Diversified Business Services, Inc.
RiverTrust Solutions, Inc.
Riverbend Government Benefits Administrator, Inc.
Shared Health, Inc.
Gordian Health Solutions, Inc.
BeneVive, Inc.

(2) The method of tax allocation among the members of the affiliated group is subject to a written agreement, approved by the Board of Directors. Allocation is based on a percentage calculation. Intercompany tax balances are settled monthly.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. BCBST owns 100% of BeneVive, Inc. (BeneVive) and Southern Diversified Business Services, Inc. (SDBS). BCBST also holds non-controlling interests in two joint ventures, a 20% interest in TriServ Alliance, LLC (TriServ) and an approximately 12.5% interest in TZ Holdings, LP. Due to the non-controlled nature of the joint venture interests, BCBST has decided to make application with the State to reclassify these investments out of the Subsidiary, Controlled and Affiliate category and remove them from Schedule Y.

BeneVive owns 100% of the for-profit corporations: Shared Health, Inc (Shared Health), Gordian Health Solutions, Inc. (Gordian), Riverbend Government Benefits Administrator, Inc. (Riverbend), Security Care, Inc. (Security Care), and RiverTrust Solutions, Inc. (RiverTrust). Shared Health is a health information technology company. Gordian mitigates the rising cost of health care by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses. Riverbend performs services as a Medicare Administrative Contractor or subcontractor for the Centers for Medicare and Medicaid Services (Medicare) pursuant to the Medicare Modernization Act of 2003. Security Care is pursuing business with the Federal government as a Zone Program Integrity Contractor (ZPIC) to promote the prevention, detection and investigation of fraud in Medicare and Medicaid. RiverTrust is a Qualified Independent Contractor able to bid on Medicare appeals workloads.

BCBST transferred $2,802,098 in 2009 and $18,082,749 in 2008 to BeneVive as additional capital contributions. These additional capital contributions were passed through to the following entities in the following amounts:

	Six Months June 30, 2009	Twelve Months December 31, 2008
Gordian	$ 1,802,098	$ 8,705,749
Riverbend	0	2,500,000
RiverTrust	0	2,100,000
Shared Health	1,000,000	4,450,000
BeneVive	0	327,000
Total	$ 2,802,098	$ 18,082,749

SDBS owns 100% of the following for-profit corporations: Golden Security Insurance Company (Golden Security), Group Insurance Services, Inc. (GIS), and Volunteer State Health Plan, Inc. (VSHP). Golden Security, an inactive corporation, is licensed to provide health, term life, disability and other insurance coverage to its policyholders. GIS is an insurance broker. BCBST participates in the TennCare^{SM} program through its Managed Care Organization (MCO), VSHP, which is contracted by the State of Tennessee to provide services for TennCare^{SM} members. BCBST transferred $40,000,000 in 2009 and $4,200,000 in 2008 to SDBS as additional capital contributions. These additional contributions were passed through SDBS to VSHP. In 2008, SDBS exchanged the 10% interest it owned in USAble Life (USAble) as well as the USAble profit sharing rights held by GIS for a 6.6% interest in Life and Specialty Ventures, LLC (LSV), which is the parent company of USAble.

Notes to Financial Statement

TriServ is a limited liability company formed in 2007 by BCBST and six other non-investor owned BlueCross and BlueShield plans in the southern United States. TriServ's primary purpose is to jointly pursue an opportunity with TRICARE, a service of the U.S. Department of Defense, to administer the Managed Care Support contract for the South Region. BCBST transferred $8,468,000 and $2,400,000 to TriServ in 2009 and 2008, respectively.

TZ Holdings, LP (TZ) is a limited partnership formed in 2008 by BCBST, The Regence Group (an affiliation of four BlueCross and/or BlueShield plans in the Pacific Northwest) and Apax Partners (a global private equity investment group), as well as, a small group of individuals and entities. BCBST is not affiliated with the other owners. Apax is the majority owner of TZ, and BCBST is a minority owner. BCBST has representation on the Board of Directors of the General Partner. TZ is the parent company of The TriZetto Group, Inc. (TriZetto), a provider of information technology solutions that enable payers and other constituents in the healthcare supply chain to improve the coordination of benefits and care for healthcare consumers. TriZetto's payer-focused information technology offerings include enterprise and component software, hosting and business process outsourcing services and consulting. BCBST transferred $115,000,000 to TZ in 2008 in exchange for its minority interest.

Tennessee Health Foundation, Inc. (THF), doing business as BlueCross BlueShield of Tennessee Health Foundation, is a public benefit nonprofit Tennessee corporation that promotes charitable activities. BCBST appoints the board of directors of THF, which has been granted a 501(c) (3) tax exemption by the Internal Revenue Service.

Southern Health Plan, Inc. (SHP), doing business as BlueCross BlueShield of Tennessee Community Trust, is a Tennessee corporation created for the purpose of improving the quality of health care in Tennessee, primarily through contributions to other tax-exempt organizations. SHP has been granted a 501(c) (4) tax exemption by the Internal Revenue Service.

B. The Company has administrative services agreements with BCBST for which BCBST provides administrative services and is reimbursed. A tax sharing agreement also exists. These amounts are settled on a monthly basis.

C. The Company paid BCBST for services performed under the administrative services agreements $28,044,612 and $43,837,831 in 2009 and 2008 respectively. While these are net amounts, the Company is developing a methodology for reporting numbers on a gross basis.

D. The Company reported $2,655,854 and $32,837,848 as due from BCBST as of June 30, 2009 and December 31, 2008, respectively.

E. The Company has no guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that result in a material contingent exposure of the reporting entity's or any related party's assets or liabilities.

F. Pursuant to the administrative services agreements, BCBST performs certain services for VSHP. Services include, but are not limited to, support areas such as information systems, finance, human resources and legal.

Under separate administrative service agreements, VSHP performs certain services for BCBST related to the various Cover Tennessee contracts. Costs for these services are primarily payroll-related.

G. All outstanding shares of the Company are owned by SDBS, an insurance holding company domiciled in the State of Tennessee.

H. The Company deducted no amounts from the value of an upstream intermediate entity.

I. The Company has no investment in SCA entity that exceeds 10% of admitted assets.

J. The Company has no investments in impaired SCA entities.

K. The Company has no investments in foreign insurance subsidiaries.

L. The Company is not using the 'look-through' approach to admit any investment in an SCA entity, joint venture, partnership and or limited liability company.

11. Debt

The Company has no debt.

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

BCBST has a non-contributory pension plan covering substantially all of its subsidiary employees, including VSHP. All disclosures of retirement plans are included in BCBST's statement.

A. Defined Benefit Plan

All disclosures of retirement plans are included in BCBST's statement.

Notes to Financial Statement

B. Defined Contribution Plan

All disclosures of retirement plans are included in BCBST's statement.

C. Multiemployer Plans

The Company does not participate in pension programs sponsored by other holding companies.

D. Consolidated/Holding Company Plans

The Company participates in BCBST's defined benefit plans or defined contribution plans.

E. Postemployment Benefits and Compensated Absences

All disclosures of retirement plans are included in BCBST's statement.

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

(1) The Company has 1,000 shares authorized, 1,000 shares issued and outstanding of common stock. Par or stated value is $.01 per share.

(2) The Company has no preferred stock outstanding.

(3) In accordance with Tennessee Code Annotated (TCA) §56-11-206(b) the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The company may currently pay dividends of $2,685,630 to BCBST based on the 2008 net worth.

(4) No dividends were paid by the Company.

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

(6) The Company's statutory deposit, required by the State of Tennessee, was $25,326,692 at June 30, 2009.

(7) The Company has no advances to surplus not repaid.

(8) The Company has no stock, including stock of affiliated companies, held for special purposes.

(9) The Company has no special surplus funds.

(10) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

a.	unrealized gains and losses:	$ (9,282)
b.	nonadmitted asset values:	$ 854,260
c.	separate account business	No change
d.	asset valuation	No change
e.	provision for reinsurance:	No change

(11) The Company issued no surplus debentures or similar obligations.

(12) No quasi reorganizations have occurred.

(13) No quasi reoganizations have occurred in the past ten years.

14. Contingencies

A. The Company had no contingent commitments.

B. Assessments

The Company receives periodic liquidated damage assessments from the State of Tennessee, primarily related to operational performance targets.

C. The Company had no gain contingencies not recognized in the Company's financial statements.

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

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

E. The Company has no other contingencies to be reported as required by SSAP No. 5.

Notes to Financial Statement

15. Leases

A. The Company has no lessee leasing arrangements.

B. Leasing is not a part of the Company's business activities.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations Of Credit Risk

(1) The Company has no financial instruments with off-balance sheet risk.

(2) The Company does not use swaps, futures or options.

(3) The Company has no financial instruments with off-balance sheet risk, and no counterparty exposure.

(4) The Company has no financial instruments subject to credit risk and therefore is not required to post collateral.

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

A. The Company has no transfers of receivables reported as sales.

B. The Company has no transfers and servicing of financial assets and extinguishment of liabilities.

C. The Company has no wash sales.

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

A. ASO Plans

TennCare℠ Select, effective July 1, 2001, and the Stabilization Plan, effective July 1, 2002, are ASO arrangements with the State. Cash and invested assets related to TennCare℠ Select and the Stabilization Plan are reported in their appropriate categories on the balance sheet. Other assets related to TennCare℠ Select and the Stabilization Plan are netted on p. Q2, line 15. Assets deemed to have no economic benefit to VSHP, such as premium tax receivable from the State of Tennessee, are netted against premium tax payable to the State of Tennessee to avoid overstatement of assets and liabilities. Liabilities for the ASO plans are netted on page Q3, line 20 in the category labeled "Liability for amounts held under uninsured accident and health plans", excluding any 'due to/from' transactions occurring between the ASO, insured business, and BCBST.

The amounts receivable relating to uninsured plans reflected on page Q2, line 15, are as follows:

Uninsured Receivables	Amount
a. TPL Recovery Expenses	$1,950,149
b. Case Management	409,884
c Miscellaneous	95,841
d. Liquidated damages	(327,568)
e. Unbilled Expenses (timing differences)	(512,689)
Total Amounts Receivable Relating to Uninsured Plans	$1,615,617

The loss from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans were as follows during 2009:

	(1) ASO Uninsured Plans	(2) Uninsured Portion of Partially Insured Plans	(3) Total ASO
a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$ (4,239,997)	0	$ (4,239,997)
b. Total net other income or expenses (including interest paid to or received from plans)	(181)	0	(181)
c. Net loss from operations	$ (4,240,178)	0	$ (4,240,178)
d. Total Claims Payment Volume	$ 243,082,782	0	$ 243,082,782

Notes to Financial Statement

B. ASC Plans

The Company operated under an Exigency agreement with the State for the period July 1, 2000 through June 30, 2001. At the direction of the TDCI, premium and claims equivalents are disseminated throughout the NAIC filing.

C. The Company had no Medicare or other similarly structured cost based reimbursement contract.

19. The Company had no premium written/produced by managing general agents or third party administrators.

20. Other Items

A. No extraordinary events occurred.

B. No troubled debt restructuring occurred.

C. 1) Assets in the amount of $26,361,277 at June 30, 2009, were on deposit with government authorities or trustees. This amount exceeds the deposit required by the State of Tennessee of $25,326,692 as of June 30, 2009.

2) The Company elected to use rounding in reporting amounts in the statement.

D. The Company does not anticipate any uncollectible premium balances. However, pursuant to line 13.1 of the Asset page, VSHP reports $17,778,185 for Uncollected premiums and agents' balances in the course of collection. By letter dated May 5, 2009, from Scott Pierce, Chief Financial Officer, Bureau of TennCare, VSHP received notice that a positive capitation adjustment would occur due to the East Grand Region acuity risk adjustment of approximately $700,000 per month. VSHP has recorded this receivable in line 13.1. However, recording of this receivable for purposes of statutory financial reporting in no way reflects VSHP's agreement that the amount due from TennCare is accurate or appropriate. VSHP and the Bureau of TennCare are currently having this dispute reviewed by the appropriate administrative bodies.

E. The Company had no business interruption insurance recoveries.

F. The Company had no state transferable tax credits.

G. The Company has no hybrid securities.

H. The Company has no subprime mortgage related risk exposure.

21. Events Subsequent

At June 30, 2009, BCBST accrued an intercompany payable to VSHP in the amount of $11,000,000. This amount represents a capital contribution from BCBST in order for VSHP to maintain statutory minimum net worth requirements. Funds were transferred to VSHP, through its parent holding company SDBS, prior to the August 15, 2009, quarterly statement filing due date.

22. Reinsurance

A. The Company had no ceded reinsurance report.

B. The Company has not written off reinsurance balances.

C. The Company has no amounts reported in its operations as a result of commutation of reinsurance with other companies.

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

There were no net premiums written by the Company through June 30, 2009 that are subject to retrospective rating features.

24. Change in Incurred Claims and Claim Adjustment Expenses

Claims unpaid and unpaid claims adjustment expenses were $71,019,135 as of December 31, 2008. As of June 30, 2009, $58,835,863 has been paid for incurred claims and claims adjustments expenses attributable to insured events of prior years. Reserves remaining for prior years are now $4,457,958 as a result of re-estimation of unpaid claims and claims adjustment expenses. Therefore, there has been a $7,725,341 favorable prior year development since December 31, 2008 to June 30, 2009. The change is the result of ongoing analysis of recent loss development trends. Original estimates are changed as additional information becomes known.

25. The Company has no intercompany pooling arrangements under which the pool participants cede substantially all of their direct and assumed business to a pool.

26. Structured settlements are not applicable to health entities.

Notes to Financial Statement

27. Health Care Receivables

A. The Company has no pharmaceutical rebate receivables.

B. The Company does not have any risk sharing receivables where the receivable and payable balances with a single provider are netted.

28. Participating Policies

The Company has no participating policies where the company pays policy holders dividends.

29. Premium Deficiency Reserve

As of June 30, 2009 the Company had liabilities of $0 related to premium deficiency reserves. The company included a release of the premium deficiency reserve in the amount of $42,663,267 between December 31, 2008 and June 30, 2009. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

30. Anticipated Salvage and Subrogation

The Company has no anticipated salvage and subrogation.

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes[ ] No[X]
1.2 If yes, has the report been filed with the domiciliary state? Yes[ ] No[ ] N/A[X]

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes[ ] No[X]
2.2 If yes, date of change:

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes[ ] No[X]
If yes, complete the Schedule Y - Part 1 - organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes[ ] No[X]
4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes[ ] No[ ] N/A[X]
If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008
6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 06/30/2006
6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/11/2007
6.4 By what department or departments?
Tennessee Department of Commerce and Insurance
6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes[X] No[ ] N/A[ ]
6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes[X] No[ ] N/A[ ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes[ ] No[X]
7.2 If yes, give full information

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes[ ] No[X]
8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes[ ] No[X]
8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
		Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes[X] No[ ]
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.
9.11 If the response to 9.1 is No, please explain:
9.2 Has the code of ethics for senior managers been amended? Yes[ ] No[X]
9.21 If the response to 9.2 is Yes, provide information related to amendment(s).
9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes[ ] No[X]
9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes[X] No[ ]
10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 2,655,854

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes[ ] No[X]
11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: $ 0

13. Amount of real estate and mortgages held in short-term investments: $ 0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes[ ] No[X]

Notes to Financial Statement

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1. Summary of Significant Accounting Policies

A. Accounting Practices

The accompanying financial statements of Volunteer State Health Plan, Inc. (VSHP) or (the Company) are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance (TDCI).

The TDCI, TennCare Division, 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 and for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP), version effective January 1, 2009, has been adopted as a component of prescribed or permitted practices by the State of Tennessee. Prescribed accounting practices are those practices which are incorporated directly or by reference to state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted accounting practices include deviations from NAIC Statutory Accounting Principles (SAP) specifically requested by an insurer and granted by the Commissioner of Insurance. These statements have no deviations from NAIC SAP other than as described in the following paragraph.

Since 2004, VSHP has accepted the risk for uninsured claims overpayments for which the Company determined the State was not responsible. At the direction of the TDCI, TennCare Division, the Company recorded the uninsured claims overpayments as claims expense instead of reporting the net gain/(loss) on the general administrative expense line as required by NAIC SAP.

The Company, at the direction of the Commissioner of Insurance of the State of Tennessee, records premium and claims equivalents for the uninsured Exigency period (July 1, 2000 – June 30, 2001), instead of reporting the net gain/(loss) in the general administrative expense line of the current year column as required by NAIC SAP. If premium equivalents were not recorded, revenues would not decrease and claims would increase by $1,821 through June 30, 2009.

At the request of the TDCI, TennCare Division, VSHP no longer reports the ASO receivables and associated payables to the State of Tennessee for premium taxes. The rationale behind the exclusion is that these assets have no economic benefit to VSHP.

The TDCI, TennCare Division, allows a prescribed practice of admitting the most current 90 days of Health Care Receivables (per Tennessee Code Annotated (TCA) §56-32-212 (a) 5D). The TDCI also accepts VSHP's reporting of admitted net deferred tax asset.

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:

	2009	2008
(1) Net Income Tennessee statutory basis	$ 20,847,247	$ (61,776,488)
(2) Tennessee Prescribed Practices (Income):		
(3) Net Income, NAIC SAP	$ 20,847,247	$ (61,776,488)
(4) Statutory Surplus, State of Tennessee	49,064,848	26,856,301
(5) Tennessee Prescribed Practices (Surplus):		
Admission of Health Care Receivables	(242,904)	0
Admission of Net Deferred Tax Asset	0	(13,069,574)
(6) Statutory Surplus, NAIC SAP	$ 48,821,944	$ 13,786,727

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. Actual results could differ from those estimates.

C. Accounting Policy

Health premiums are recognized at contractual rates and are earned during the month member coverage is provided. Expenses are charged to operations as they are incurred.

In accordance with Tennessee Code Annotated (TCA) §56-11-206(b), the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The Company may currently pay dividends of $2,685,630 to BlueCross BlueShield of Tennessee, Inc. (the Parent) based on the 2008 net worth. Any material dividend distributions require approval by the TDCI. No dividends were paid to shareholders during 2008 or through June 30, 2009.

Notes to Financial Statement

In addition, the Company uses the following accounting policies:

(1) Short-term investments are stated at amortized cost.

(2) Bonds not backed by other loans are stated at amortized cost using the scientific amortization method.

(3) The Company does not hold common stock.

(4) The Company does not hold preferred stock.

(5) The Company does not hold mortgage loans.

(6) The Company does not hold loan-backed securities.

(7) The Company does not hold investments in subsidiaries, controlled and affiliated companies.

(8) The Company does not hold investments in joint ventures, partnerships or limited liability companies.

(9) The Company does not carry derivatives.

(10) The Company uses anticipated investment income as a factor in the premium deficiency calculation.

(11) Unpaid losses and loss adjustment expenses include an amount determined from estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability, are continually reviewed and any adjustments are reflected in the period determined.

(12) The Company does not have a capitalization policy due to fixed assets being held by BCBST.

2. Accounting Changes and Corrections of Errors

A. At December 31, 2008, the Company reported a $42,663,267 premium deficiency reserve for the East and West risk contracts. At the request of the TDCI in April 2009, the reserving methodology was changed to include the full contract period. This change in reserving methodology eliminated the need for the reserve as of December 31, 2008. This change in the reserve has been recorded directly to surplus and is shown on the Statement of Revenue and Expenses, line 35, Change in valuation basis of aggregate policy and claim reserves. Accordingly, the Company has no premium deficiency reserve at June 30, 2009; however, if there were, BCBST would include investment income as a factor in the calculation of the premium deficiency reserve in accordance with SSAP No. 54, *Individual and Group Accident Health Contracts*.

B. The Company reclassed $315,000 from prepaid expenses to health care receivables in the prior year column on first quarter filing.

3. Business Combinations and Goodwill

A. Statutory Purchase Method

No business combinations taking the form of a statutory purchase have occurred.

B. Statutory Merger

No business combinations taking the form of a statutory merger have occurred.

C. Assumption Reinsurance

The Company has no goodwill resulting from assumption reinsurance.

D. Impairment Loss

The Company did not record an impairment loss relating to the above transaction types.

4. Discontinued Operations

Stabilization Plan was an ASO arrangement from July 1, 2002 through December 31, 2008. Effective January 1, 2009, these members were transitioned to an at-risk contract.

5. Investments

A. Mortgage Loans

The Company had no mortgage loans.

Notes to Financial Statement

B. Debt Restructuring

The Company had no debt restructuring.

C. Reverse Mortgages

The Company had no reverse mortgages.

D. Loan-Backed Securities

The Company had no loan-backed securities.

E. Repurchase Agreements

The Company had no repurchase agreements.

F. Real Estate

The Company had no real estate.

G. Investments in Low Income Housing Tax Credits (LIHTC)

The Company had no investments in low income housing tax credits.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Company had no investments in joint ventures, partnerships and limited liability companies.

7. Investment Income

A. No investment income due and accrued was excluded from surplus.

B. The total amount excluded was $0.

8. Derivative Instruments

The Company had no derivative instruments.

9. Income Taxes

A. The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus, and Other Funds are as follows:

	June 30, 2009	December 31, 2008
(1) Total of gross deferred tax assets (admitted and nonadmitted)	$ 4,294,416	$ 17,112,641
(2) Total of deferred tax liabilities	0	0
(3) Net deferred tax assets	4,294,416	17,112,641
(4) Deferred tax assets nonadmitted	603,771	4,043,067
(5) Net admitted deferred tax assets	$ 3,690,645	$ 13,069,574
(6) Increase (decrease) in nonadmitted asset	$ (3,439,296)	$ 3,788,951

B. No change

C. The change in net deferred income taxes is comprised of the following:

	June 30, 2009	December 31, 2008	Change
Total deferred tax assets (admitted and non-admitted)	$ 4,294,416	$ 17,112,641	$ (12,818,225)
Total deferred tax liabilities	0	0	0
Net deferred tax assets (deferred assets less liabilities)	$ 4,294,416	$ 17,112,641	(12,818,225)
Tax effect non-admitted assets			13,449,011
Change in net deferred income tax			$ 630,786

Notes to Financial Statement

D. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal statutory income tax rate to income before taxes. The significant items causing this difference are as follows:

		June 30, 2009	Effective Tax Rate
Provision computed at federal statutory rate	$	(10,650,922)	(35.0)%
Federal and foreign income taxes incurred	$	(8,615,187)	(28.3)
SSAP adjustments		(1,404,949)	(4.6)
Change in net deferred income tax		(630,786)	(2.1)
Total statutory income taxes without effects of deferred tax assets and liabilities	$	(10,650,922)	(35.0)%

E. The Company has neither net capital loss carry-forwards nor net operating loss carry-forwards.

F. (1) The Company's federal income tax return is consolidated with the following entities:
BlueCross BlueShield of Tennessee, Inc.
Golden Security Insurance Company, Inc.
Group Insurance Services, Inc.
Southern Diversified Business Services, Inc.
RiverTrust Solutions, Inc.
Riverbend Government Benefits Administrator, Inc.
Shared Health, Inc.
Gordian Health Solutions, Inc.
BeneVive, Inc.

(2) The method of tax allocation among the members of the affiliated group is subject to a written agreement, approved by the Board of Directors. Allocation is based on a percentage calculation. Intercompany tax balances are settled monthly.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. BCBST owns 100% of BeneVive, Inc. (BeneVive) and Southern Diversified Business Services, Inc. (SDBS). BCBST also holds non-controlling interests in two joint ventures, a 20% interest in TriServ Alliance, LLC (TriServ) and an approximately 12.5% interest in TZ Holdings, LP. Due to the non-controlled nature of the joint venture interests, BCBST has decided to make application with the State to reclassify these investments out of the Subsidiary, Controlled and Affiliate category and remove them from Schedule Y.

BeneVive owns 100% of the for-profit corporations: Shared Health, Inc (Shared Health), Gordian Health Solutions, Inc. (Gordian), Riverbend Government Benefits Administrator, Inc. (Riverbend), Security Care, Inc. (Security Care), and RiverTrust Solutions, Inc. (RiverTrust). Shared Health is a health information technology company. Gordian mitigates the rising cost of health care by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses. Riverbend performs services as a Medicare Administrative Contractor or subcontractor for the Centers for Medicare and Medicaid Services (Medicare) pursuant to the Medicare Modernization Act of 2003. Security Care is pursuing business with the Federal government as a Zone Program Integrity Contractor (ZPIC) to promote the prevention, detection and investigation of fraud in Medicare and Medicaid. RiverTrust is a Qualified Independent Contractor able to bid on Medicare appeals workloads.

BCBST transferred $2,802,098 in 2009 and $18,082,749 in 2008 to BeneVive as additional capital contributions. These additional capital contributions were passed through to the following entities in the following amounts:

	Six Months June 30, 2009	Twelve Months December 31, 2008
Gordian	$ 1,802,098	$ 8,705,749
Riverbend	0	2,500,000
RiverTrust	0	2,100,000
Shared Health	1,000,000	4,450,000
BeneVive	0	327,000
Total	$ 2,802,098	$ 18,082,749

SDBS owns 100% of the following for-profit corporations: Golden Security Insurance Company (Golden Security), Group Insurance Services, Inc. (GIS), and Volunteer State Health Plan, Inc. (VSHP). Golden Security, an inactive corporation, is licensed to provide health, term life, disability and other insurance coverage to its policyholders. GIS is an insurance broker. BCBST participates in the TennCare^{SM} program through its Managed Care Organization (MCO), VSHP, which is contracted by the State of Tennessee to provide services for TennCare^{SM} members. BCBST transferred $40,000,000 in 2009 and $4,200,000 in 2008 to SDBS as additional capital contributions. These additional contributions were passed through SDBS to VSHP. In 2008, SDBS exchanged the 10% interest it owned in USAble Life (USAble) as well as the USAble profit sharing rights held by GIS for a 6.6% interest in Life and Specialty Ventures, LLC (LSV), which is the parent company of USAble.

Notes to Financial Statement

TriServ is a limited liability company formed in 2007 by BCBST and six other non-investor owned BlueCross and BlueShield plans in the southern United States. TriServ's primary purpose is to jointly pursue an opportunity with TRICARE, a service of the U.S. Department of Defense, to administer the Managed Care Support contract for the South Region. BCBST transferred $8,468,000 and $2,400,000 to TriServ in 2009 and 2008, respectively.

TZ Holdings, LP (TZ) is a limited partnership formed in 2008 by BCBST, The Regence Group (an affiliation of four BlueCross and/or BlueShield plans in the Pacific Northwest) and Apax Partners (a global private equity investment group), as well as, a small group of individuals and entities. BCBST is not affiliated with the other owners. Apax is the majority owner of TZ, and BCBST is a minority owner. BCBST has representation on the Board of Directors of the General Partner. TZ is the parent company of The TriZetto Group, Inc. (TriZetto), a provider of information technology solutions that enable payers and other constituents in the healthcare supply chain to improve the coordination of benefits and care for healthcare consumers. TriZetto's payer-focused information technology offerings include enterprise and component software, hosting and business process outsourcing services and consulting. BCBST transferred $115,000,000 to TZ in 2008 in exchange for its minority interest.

Tennessee Health Foundation, Inc. (THF), doing business as BlueCross BlueShield of Tennessee Health Foundation, is a public benefit nonprofit Tennessee corporation that promotes charitable activities. BCBST appoints the board of directors of THF, which has been granted a 501(c) (3) tax exemption by the Internal Revenue Service.

Southern Health Plan, Inc. (SHP), doing business as BlueCross BlueShield of Tennessee Community Trust, is a Tennessee corporation created for the purpose of improving the quality of health care in Tennessee, primarily through contributions to other tax-exempt organizations. SHP has been granted a 501(c) (4) tax exemption by the Internal Revenue Service.

B. The Company has administrative services agreements with BCBST for which BCBST provides administrative services and is reimbursed. A tax sharing agreement also exists. These amounts are settled on a monthly basis.

C. The Company paid BCBST for services performed under the administrative services agreements $28,044,612 and $43,837,831 in 2009 and 2008 respectively. While these are net amounts, the Company is developing a methodology for reporting numbers on a gross basis.

D. The Company reported $2,655,854 and $32,837,848 as due from BCBST as of June 30, 2009 and December 31, 2008, respectively.

E. The Company has no guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that result in a material contingent exposure of the reporting entity's or any related party's assets or liabilities.

F. Pursuant to the administrative services agreements, BCBST performs certain services for VSHP. Services include, but are not limited to, support areas such as information systems, finance, human resources and legal.

Under separate administrative service agreements, VSHP performs certain services for BCBST related to the various Cover Tennessee contracts. Costs for these services are primarily payroll-related.

G. All outstanding shares of the Company are owned by SDBS, an insurance holding company domiciled in the State of Tennessee.

H. The Company deducted no amounts from the value of an upstream intermediate entity.

I. The Company has no investment in SCA entity that exceeds 10% of admitted assets.

J. The Company has no investments in impaired SCA entities.

K. The Company has no investments in foreign insurance subsidiaries.

L. The Company is not using the 'look-through' approach to admit any investment in an SCA entity, joint venture, partnership and or limited liability company.

11. Debt

The Company has no debt.

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

BCBST has a non-contributory pension plan covering substantially all of its subsidiary employees, including VSHP. All disclosures of retirement plans are included in BCBST's statement.

A. Defined Benefit Plan

All disclosures of retirement plans are included in BCBST's statement.

Notes to Financial Statement

B. Defined Contribution Plan

All disclosures of retirement plans are included in BCBST's statement.

C. Multiemployer Plans

The Company does not participate in pension programs sponsored by other holding companies.

D. Consolidated/Holding Company Plans

The Company participates in BCBST's defined benefit plans or defined contribution plans.

E. Postemployment Benefits and Compensated Absences

All disclosures of retirement plans are included in BCBST's statement.

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

(1) The Company has 1,000 shares authorized, 1,000 shares issued and outstanding of common stock. Par or stated value is $.01 per share.

(2) The Company has no preferred stock outstanding.

(3) In accordance with Tennessee Code Annotated (TCA) §56-11-206(b) the maximum amount of dividends which can be paid by State of Tennessee insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the greater of ten percent (10%) of net worth of the preceding December 31 or the net gain from operations for the preceding year. The company may currently pay dividends of $2,685,630 to BCBST based on the 2008 net worth.

(4) No dividends were paid by the Company.

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

(6) The Company's statutory deposit, required by the State of Tennessee, was $25,326,692 at June 30, 2009.

(7) The Company has no advances to surplus not repaid.

(8) The Company has no stock, including stock of affiliated companies, held for special purposes.

(9) The Company has no special surplus funds.

(10) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

a.	unrealized gains and losses:	$ (9,282)
b.	nonadmitted asset values:	$ 854,260
c.	separate account business	No change
d.	asset valuation	No change
e.	provision for reinsurance:	No change

(11) The Company issued no surplus debentures or similar obligations.

(12) No quasi reorganizations have occurred.

(13) No quasi reoganizations have occurred in the past ten years.

14. Contingencies

A. The Company had no contingent commitments.

B. Assessments

The Company receives periodic liquidated damage assessments from the State of Tennessee, primarily related to operational performance targets.

C. The Company had no gain contingencies not recognized in the Company's financial statements.

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

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

E. The Company has no other contingencies to be reported as required by SSAP No. 5.

Notes to Financial Statement

15. Leases

A. The Company has no lessee leasing arrangements.

B. Leasing is not a part of the Company's business activities.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations Of Credit Risk

(1) The Company has no financial instruments with off-balance sheet risk.

(2) The Company does not use swaps, futures or options.

(3) The Company has no financial instruments with off-balance sheet risk, and no counterparty exposure.

(4) The Company has no financial instruments subject to credit risk and therefore is not required to post collateral.

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

A. The Company has no transfers of receivables reported as sales.

B. The Company has no transfers and servicing of financial assets and extinguishment of liabilities.

C. The Company has no wash sales.

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

A. ASO Plans

TennCare℠ Select, effective July 1, 2001, and the Stabilization Plan, effective July 1, 2002, are ASO arrangements with the State. Cash and invested assets related to TennCare℠ Select and the Stabilization Plan are reported in their appropriate categories on the balance sheet. Other assets related to TennCare℠ Select and the Stabilization Plan are netted on p. Q2, line 15. Assets deemed to have no economic benefit to VSHP, such as premium tax receivable from the State of Tennessee, are netted against premium tax payable to the State of Tennessee to avoid overstatement of assets and liabilities. Liabilities for the ASO plans are netted on page Q3, line 20 in the category labeled "Liability for amounts held under uninsured accident and health plans", excluding any 'due to/from' transactions occurring between the ASO, insured business, and BCBST.

The amounts receivable relating to uninsured plans reflected on page Q2, line 15, are as follows:

Uninsured Receivables	Amount
a. TPL Recovery Expenses	$1,950,149
b. Case Management	409,884
c Miscellaneous	95,841
d. Liquidated damages	(327,568)
e. Unbilled Expenses (timing differences)	(512,689)
Total Amounts Receivable Relating to Uninsured Plans	$1,615,617

The loss from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans were as follows during 2009:

	(1) ASO Uninsured Plans	(2) Uninsured Portion of Partially Insured Plans	(3) Total ASO
a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$ (4,239,997)	0	$ (4,239,997)
b. Total net other income or expenses (including interest paid to or received from plans)	(181)	0	(181)
c. Net loss from operations	$ (4,240,178)	0	$ (4,240,178)
d. Total Claims Payment Volume	$ 243,082,782	0	$ 243,082,782

Notes to Financial Statement

B. ASC Plans

The Company operated under an Exigency agreement with the State for the period July 1, 2000 through June 30, 2001. At the direction of the TDCI, premium and claims equivalents are disseminated throughout the NAIC filing.

C. The Company had no Medicare or other similarly structured cost based reimbursement contract.

19. The Company had no premium written/produced by managing general agents or third party administrators.

20. Other Items

A. No extraordinary events occurred.

B. No troubled debt restructuring occurred.

C. 1) Assets in the amount of $26,361,277 at June 30, 2009, were on deposit with government authorities or trustees. This amount exceeds the deposit required by the State of Tennessee of $25,326,692 as of June 30, 2009.

2) The Company elected to use rounding in reporting amounts in the statement.

D. The Company does not anticipate any uncollectible premium balances. However, pursuant to line 13.1 of the Asset page, VSHP reports $17,778,185 for Uncollected premiums and agents' balances in the course of collection. By letter dated May 5, 2009, from Scott Pierce, Chief Financial Officer, Bureau of TennCare, VSHP received notice that a positive capitation adjustment would occur due to the East Grand Region acuity risk adjustment of approximately $700,000 per month. VSHP has recorded this receivable in line 13.1. However, recording of this receivable for purposes of statutory financial reporting in no way reflects VSHP's agreement that the amount due from TennCare is accurate or appropriate. VSHP and the Bureau of TennCare are currently having this dispute reviewed by the appropriate administrative bodies.

E. The Company had no business interruption insurance recoveries.

F. The Company had no state transferable tax credits.

G. The Company has no hybrid securities.

H. The Company has no subprime mortgage related risk exposure.

21. Events Subsequent

At June 30, 2009, BCBST accrued an intercompany payable to VSHP in the amount of $11,000,000. This amount represents a capital contribution from BCBST in order for VSHP to maintain statutory minimum net worth requirements. Funds were transferred to VSHP, through its parent holding company SDBS, prior to the August 15, 2009, quarterly statement filing due date.

22. Reinsurance

A. The Company had no ceded reinsurance report.

B. The Company has not written off reinsurance balances.

C. The Company has no amounts reported in its operations as a result of commutation of reinsurance with other companies.

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

There were no net premiums written by the Company through June 30, 2009 that are subject to retrospective rating features.

24. Change in Incurred Claims and Claim Adjustment Expenses

Claims unpaid and unpaid claims adjustment expenses were $71,019,135 as of December 31, 2008. As of June 30, 2009, $58,835,863 has been paid for incurred claims and claims adjustments expenses attributable to insured events of prior years. Reserves remaining for prior years are now $4,457,958 as a result of re-estimation of unpaid claims and claims adjustment expenses. Therefore, there has been a $7,725,341 favorable prior year development since December 31, 2008 to June 30, 2009. The change is the result of ongoing analysis of recent loss development trends. Original estimates are changed as additional information becomes known.

25. The Company has no intercompany pooling arrangements under which the pool participants cede substantially all of their direct and assumed business to a pool.

26. Structured settlements are not applicable to health entities.

Notes to Financial Statement

27. Health Care Receivables

A. The Company has no pharmaceutical rebate receivables.

B. The Company does not have any risk sharing receivables where the receivable and payable balances with a single provider are netted.

28. Participating Policies

The Company has no participating policies where the company pays policy holders dividends.

29. Premium Deficiency Reserve

As of June 30, 2009 the Company had liabilities of $0 related to premium deficiency reserves. The company included a release of the premium deficiency reserve in the amount of $42,663,267 between December 31, 2008 and June 30, 2009. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

30. Anticipated Salvage and Subrogation

The Company has no anticipated salvage and subrogation.

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes[ ] No[X]
1.2 If yes, has the report been filed with the domiciliary state? Yes[ ] No[ ] N/A[X]

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes[ ] No[X]
2.2 If yes, date of change:

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes[ ] No[X]
If yes, complete the Schedule Y - Part 1 - organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes[ ] No[X]
4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes[ ] No[ ] N/A[X]
If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008
6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 06/30/2006
6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/11/2007
6.4 By what department or departments?
Tennessee Department of Commerce and Insurance
6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes[X] No[ ] N/A[ ]
6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes[X] No[ ] N/A[ ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes[ ] No[X]
7.2 If yes, give full information

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes[ ] No[X]
8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes[ ] No[X]
8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
		Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]	Yes[ ] No[X]

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes[X] No[ ]
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.
9.11 If the response to 9.1 is No, please explain:
9.2 Has the code of ethics for senior managers been amended? Yes[ ] No[X]
9.21 If the response to 9.2 is Yes, provide information related to amendment(s).
9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes[ ] No[X]
9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes[X] No[ ]
10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 2,655,854

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes[ ] No[X]
11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: $ 0

13. Amount of real estate and mortgages held in short-term investments: $ 0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes[ ] No[X]