EXHIBIT

A

REPORT ON EXAMINATION

of

HEALTHSPRING OF TENNESSEE, INC.
44 VANTAGE WAY, SUITE 300
NASHVILLE, TENNESSEE

as of

MARCH 31, 2007

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
September 23, 2008

Honorable Alfred W. Gross
Chair, Financial Condition Committee
NAIC
Commissioner of Insurance
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Scott Richardson
Secretary, Southeastern Zone
NAIC
Director of Insurance
South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Merle Scheiber
Secretary, Midwestern Zone, NAIC
Director of Insurance
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capital Avenue
Pierre, South Dakota 57501

Honorable Leslie Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

HEALTHSPRING OF TENNESSEE, INC.
44 VANTAGE WAY, SUITE 300
NASHVILLE, TENNESSEE 37228-1513

hereinafter and generally referred to as the "HMO", and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance, State of Tennessee and originally commenced on November 15, 2005, with an as of date of June 30, 2005. The examination was reopened on June 1, 2007 to be brought forward to an as of date of March 31, 2007. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee.

SCOPE OF EXAMINATION

This examination report covers the period from June 30, 2001, the date of the last previous examination, to the close of business on March 31, 2007, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of March 31, 2007. The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operation (includes inforce/premium by state)
- Market Conduct Activities (includes privacy statement)
- Excess Loss Agreement
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest - Tenn. Code Ann. § 56-3-103
- Commission Equity
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statement

The previous examination was conducted as of June 30, 2001, by authorized representatives of the Department of Commerce and Insurance, State of Tennessee. The previous examination resulted in a decrease of $14,102,154 in surplus due to the HMO having no custodial agreement in place with AmSouth Bank which held the same amount of short-term investments based upon requirements of Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46. As a subsequent event, the HMO entered into a custodial agreement with AmSouth on October 25, 2001, during the course of the last previous examination which restored the above referenced amount to surplus.

The Department directed that the HMO's Board Minutes reflect authorization and approval of the HMO's investments in accordance with Tenn. Code Ann. § 56-3-408(b)(1) to which the HMO subsequently complied. There were no other directives.

COMPANY HISTORY

The HMO was incorporated on January 24, 1995, as a for-profit corporation under the provisions of the Tennessee Business Corporation Act and was organized as a health maintenance organization pursuant to Title 56, Chapter 32 Tennessee Code Annotated for the purpose of providing managed health care services to residents of Tennessee. The HMO was issued a Certificate of Authority by the Department of Commerce and Insurance, State of Tennessee effective April 19, 1995, to transact business in the State of Tennessee under the name of Health Net HMO, Inc.

At its incorporation, the HMO was authorized to issue 2,000 shares of common stock, with each share to have a par value of five dollars. In February, 1995, the HMO received $1,000,000 from Health Net Management, Inc., formerly known as TCM, Inc., in exchange for ten shares of the HMO's common stock. Payment consisted of a $900,000 capital surplus note and $100,000 cash for paid-in capital.

Effective February 14, 1995, and prior to the commencement of business, the HMO accepted the assignment of "all agreements, contracts and undertakings" of Health Net HMO, Inc., a Tennessee not-for-profit corporation, formerly known as Total Care, Inc. which did business under the same name as the HMO. The surviving HMO agreed to "perform fully and timely all of the duties and responsibilities" of the not-for-profit corporation.

The HMO was granted a new Certificate of Authority in the name of "HealthSpring, Inc." on October 10, 2001. The HMO's charter was amended on September 21, 2001, approved by the Department of Commerce and Insurance, State of Tennessee on September 26, 2001, and filed with the Secretary of State, State of Tennessee on September 28, 2001, in order to effect the said name change. At the same time, the name of the immediate parent corporation was changed from Health Net Management, Inc. to HealthSpring Management, Inc.

Effective March 1, 2005, through a plan of acquisition approved by the Commissioner of Commerce and Insurance, State of Tennessee on February 17, 2005, New Quest Holdings, Inc. was approved to become the new ultimate parent of the HMO. During

2003, 35 percent of the 50 percent of outside ownership of HealthSpring Management, Inc., the HMO's immediate parent, had been acquired by the old ultimate parent corporation, NewQuest, LLC. The outside ownership was vested in Baptist Hospital, Inc., Saint Thomas HealthServices, Inc., Tenet HealthCare Corporation and TennQuest. Effective March 1, 2005, NewQuest Holdings, Inc. acquired the remaining 15 percent of outside ownership.

A new ultimate parent corporation named HealthSpring, Inc. was incorporated as a Delaware Corporation in October, 2004, and owns 100 percent of NewQuest, Inc. The new ultimate parent corporation had been formed to complete the recapitalization of the HMO's direct parent, NewQuest, LLC on March 1, 2005.

Prior to the recapitalization, NewQuest, LLC was owned 43.9 percent by officers and employees, 38.2 percent by non-management directors of NewQuest, LLC and 17.9 percent by outside investors. After the recapitalization, ownership was 55.1 percent investment funds affiliated with GTCR Golder Rauner II, L.L.C. (GTCR), 28.7 percent executive officers and employees and 16.2 percent outside investors.

The details of the March 1, 2005, recapitalization of the parent as exhibited in HealthSpring, Inc.'s 10-K filed April 3, 2006, for the period December 31, 2005, are as follows:

> "On March 1, 2005, in connection with the recapitalization , we sold and issued an aggregate of (a) 30,445,218 shares of our common stock, par valued $.01 per share to the GTCR Funds, members of our predecessor, and certain other investors at a purchase price of $0.20 per share, or for an aggregate purchase price of $6,089,043; and (b) 227,154 shares of our preferred stock, par value $.01 per share, or for an aggregate purchase price of $227,154,000. We also issued 1,286,250 shares of restricted common stock on March 1, 2005, to certain of our employees pursuant to restricted stock purchase agreements at a purchase price of $0.20 per share, or an aggregate purchase price of $257,250."
>
> "As part of the recapitalization, the parent also took on approximately $200,000,000 debt under its senior credit facility and senior subordinated notes to fund cash payments to members of NewQuest, L.L.C. and pay expenses relating to the recapitalization."

The parent company, now known as HealthSpring, Inc. made its initial public offering (IPO) on February 8, 2006. The details of the IPO as exhibited in the HealthSpring, Inc. 10-K are as follows:

> "We sold 10.6 million shares of common stock and the GTCR Funds sold 11.02 million shares of common stock at a price of $19.50 per share, resulting in an aggregate offering price of approximately $421.6 million."

"The parent's portion of the offering and approximately $1.1 million in available cash was used to repay all outstanding debt."

HealthSpring, Inc. announced an additional public offering of 11,600,000 shares of the Company's common stock at $18.98 per share on October 10, 2006. This offering included 11,030,433 shares sold by GTCR. The Manager of the purchase was a group of several securities dealers. The Company did not receive any proceeds from the sale of shares in this offering. As a result of the referenced sale, GTCR investment funds now own 4.7% of the Company's outstanding shares of common stock.

A summary of the HMO's paid in funding provided by the parent corporation since the prior examination is as follows:

Statement Date	Paid in surplus	Paid in capital
December 31, 2001	$0	$0
December 31, 2002	$1,250,000	$0
December 31, 2003	$322,892	$0
December 31, 2004	($134,013)	$0
December 31, 2005	$62,144,383	$0
December 31, 2006	$12,000,000	$0
March 31, 2007	$0	$0
Total	$75,583,262	$0

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the HMO since the previous examination, according to annual and quarterly statements filed with the Department of Commerce and Insurance, State of Tennessee.

Date	Net Premium	Net Investment Income	Medical & Hospital Expenses	Claims & Admin. Expenses	Net Income (Loss)	Net Assets	Net Worth
6/30/01	65,512,170	585,391	53,921,257	8,177,570	3,984,221	22,785,660	7,758,767
12/31/01	137,520,725	1,034,328	111,509,953	17,609,243	8,736,039	32,572,685	10,797,903
12/31/02	204,026,882	702,196	169,883,181	33,244,795	568,300	51,095,890	7,045,632
12/31/03	264,123,539	474,465	214,670,665	48,510,601	771,411	52,079,593	8,715,586
12/31/04	287,005,225	678,646	232,491,653	53,851,010	868,197	36,523,346	8,789,313
12/31/05	391,411,514	1,660,161	313,061,150	73,551,670	4,291,446	56,029,139	16,203,983
12/31/06	622,280,871	5,408,723	519,600,750	96,459,746	4,260,654	145,004,898	31,767,252
3/31/07	176,761,398	2,149,303	149,292,974	24,976,914	3,024,106	226,096,417	27,896,239

CHARTER AND BYLAWS

Charter:

The original Charter of the HMO dated January 13, 1995, was filed and recorded with the Secretary of State, State of Tennessee on January 24, 1995, after having been approved by the Department of Commerce and Insurance, State of Tennessee on January 18, 1995. Said Charter establishes the HMO as a for-profit corporation. It does not state that the HMO has a perpetual existence. The objects and purposes for which the said HMO is organized, and the natures of its powers and of the business to be carried on by it, are as follows:

(1) The name of the HMO is Health Net HMO, Inc.

(2) The purpose of the HMO is to do business as a health maintenance organization pursuant to Title 56, Chapter 32 Tennessee Code Annotated.

(3) The HMO is authorized to issue two thousand (2,000) shares of common stock, with each share to have a par value of five dollars ($5.00). These shares together shall have unlimited voting rights and full and equal rights to share in the profits of the HMO and its net assets upon dissolution.

(4) The street address of the initial registered office of the HMO is 44 Vantage Way, Nashville, County of Davidson, Tennessee 37228, and the initial registered agent for the corporation at that office is John R. Hackworth.

(5) The name and address of the incorporator is:

K. L. Ross
44 Vantage Way
Suite 300
Nashville, Tennessee 37228

(6) The street address of the principal office of the corporation is 44 Vantage Way, Nashville, Tennessee 37228.

(7) The HMO is for profit.

(8) The HMO elects to have preemptive rights.

(9) Nothing herein shall exempt an officer or director of the HMO from the

provisions of Title 56 Tennessee Code Annotated.

(10) To the extent allowed by the laws of the State of Tennessee, no present or future director of the HMO (or his or her estate, heirs and personal representatives) shall be liable to the HMO or its shareholders for monetary damages for breach of fiduciary duty as a director of the HMO. Any liability of a director (or his or her estate, heirs and personal representatives) shall be further eliminated or limited to the fullest extent allowed by the laws of the State of Tennessee, as may hereafter be adopted or amended.

(11) With respect to claims or liabilities arising out of service as a director or officer of the HMO, the HMO shall indemnify and advance expenses to each present and future director and officer (and his or her estate, heirs and personal representatives) to the fullest extent allowed by the laws of the State of Tennessee, both as now in effect and as hereafter adopted or amended.

The Charter was amended September 21, 2001, at which time the name of the HMO was changed from Health Net HMO, Inc. to HealthSpring, Inc. The Articles of Amendment were filed and recorded with the Secretary of State, State of Tennessee on September 28, 2001, after having been approved by the Department of Commerce and Insurance, State of Tennessee on September 26, 2001.

A Charter Amendment changing the name of the HMO from HealthSpring, Inc. to HealthSpring of Tennessee, Inc. was filed with the Secretary of State on September 20, 2005.

Bylaws:

The Amended Bylaws of the HMO in effect at March 31, 2007, were approved by a majority of the Board entitled to vote on October 5, 2004, in order to create a Consumer Advisory Committee in relation to the Illinois operations. This action implemented a mechanism to afford the enrollees an opportunity to participate in an advisory capacity in matters of policy and operations as required by Illinois state regulations. The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

The original Bylaws were adopted March 17, 1995. Such Bylaws may be amended, altered, repealed or restated, and new Bylaws adopted by the affirmative vote of a majority of the stock represented at such meeting, or by the affirmative vote of a majority of the members of the Board who are present at any regular or special meeting. The Board may additionally amend the Bylaws without a meeting with the approval of a majority vote of the entire Board.

The Bylaws state that the Company may have offices, either within or without the State of Tennessee, as the Board may designate. The principal office of the HMO shall be that which is designated as such in its Charter.

An annual meeting of shareholders shall be held on the last Friday in April of each and every year, if not a legal holiday. If a legal holiday, the meeting shall be on the next succeeding business day which is not a legal holiday. The Board may by resolution fix the date of the annual meeting on any day within 60 days next succeeding the foregoing date. Special meetings of the shareholders may be called by the Board, the President or holders of at least ten percent of all the votes.

A Board of nine members shall be elected by the shareholders at the annual meeting. However; these Bylaws may be amended from time to time by the shareholders or by the Board to increase or decrease the number of Directors within the limits provided by law. Regular meetings of the Board of Directors may be held without notice at such time and place designated by the Board. Special meetings may be called by the President or any three Directors.

The Officers of the HMO shall be chosen by the Board and include President, Secretary, Treasurer and such other officers as may be appointed. The same individual may simultaneously hold more than one office except for the office of President and Secretary.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the HMO managed under the direction of the Board of Directors. Board members are elected by the shareholders. As of March 31, 2007, the Board of Directors of the HMO was composed of the following:

Name	Address	Position
Herbert Allen Fritch	Franklin, Tennessee	Chief Executive Officer of the HMO and HealthSpring, Inc.
Gregory James Allen	Nashville, Tennessee	Chief Operating Officer of the HMO
Gerald Verne Coil	Franklin, Tennessee	Corporate Secretary of the HMO
Mitchell Lynn Darnall	Nashville, Tennessee	Chief Financial Officer of the HMO
Randy Karl Fike	Chicago, Illinois	President, Illinois Division of the HMO
Kevin Michael McNamara	Franklin, Tennessee	Chief Financial Officer of HealthSpring, Inc.
Matthew Shawn Morris	Nashville, Tennessee	President of the HMO

As of March 31, 2007, the following persons held office in the HMO:

Herbert Allen Fritch	Chief Executive Officer
Matthew Shawn Morris	President
Gerald Verne Coil	Secretary
Gregory James Allen	Chief Operating Officer
Mitchell Lynn Darnall	Chief Financial Officer
Hardy Leigh Sorkin, M.D.	Medical Director
Teresa Reardon Jamieson Jordan	Assistant Secretary
Randy Karl Fike	President, Illinois Division
Edward Joseph Maszak	Chief Financial Officer, Illinois Division

The administrative and executive functions of the HMO are performed by staff provided by HealthSpring Management, Inc. under recitals of a management agreement. The relationship with the mentioned firm is discussed under the heading "Agreements with Parent, Subsidiaries and Affiliates".

Control:

The HMO is wholly-owned by HealthSpring Management, Inc. which is a wholly-owned subsidiary of NewQuest, LLC. NewQuest, LLC is wholly-owned by NewQuest, Inc., which is wholly-owned by HealthSpring, Inc.

A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

Minutes of meetings of the shareholders and Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

Officers and directors of the HMO are covered by a policy with named insureds, HealthSpring, Inc., HealthSpring of Tennessee, Inc. and HealthSpring of USA, LLC. The following is a schedule of the enumerated coverages at March 31, 2007:

Type of Coverage	Coverage Limits
1. Employee Theft Coverage	$1,000,000
2. Premises Coverage	$1,000,000
3. In Transit Coverage	$1,000,000
4. Forgery Coverage	$1,000,000

5. Computer Fraud Coverage $1,000,000
6. Funds Transfer Fraud Coverage $1,000,000
7. Money Orders & Counterfeit Fraud Coverage $1,000,000
8. Credit Card Fraud Coverage $1,000,000
9. Client Coverage $1,000,000
10. Expense Coverage $ 250,000

Retention on the policy is $100,000. Coverage is underwritten by Federal Insurance Company which is licensed in Tennessee as a Foreign Property and Casualty Insurer.

The HMO's fidelity bond coverage meets the suggested minimum as exhibited in the NAIC Financial Condition Examiners Handbook and complies with Tenn. Code Ann. § 56-32-206 (b). The HMO has no employees.

TERRITORY AND PLAN OF OPERATION

As of March 31, 2007, the HMO was licensed to transact business in the States of Tennessee, Illinois and Mississippi. The Certificates of Authority for those jurisdictions was reviewed and found to be in order.

The Company's service area in Tennessee consists of the following counties:

Bedford	Dickson	Marshall	Sumner
Bradley	Fayette	Maury	Tipton
Cannon	Grundy	Montgomery	Trousdale
Cheatham	Hamilton	Robertson	Warren
Coffee	Hickman	Rutherford	Williamson
Davidson	Macon	Shelby	Wilson
Dekalb	Marion	Smith	

The Company's service area in Illinois consists of the following counties:

Cooke	DuPage	Kendall	McHenry
DeKalb	Kane	Lake	Will

The Company's service area in Mississippi consists of the following counties:

Desoto	Hancock	Jackson	Stone
George	Harrison	Pearl River	Tunica

The HMO was formed for the purpose of providing managed care services to residents of Tennessee. At March 31, 2007, the HMO was licensed in three states, Illinois, Mississippi and Tennessee. The HMO's commercial product is sold only in Tennessee. The HMO's Medicare Advantage product is sold in all three states in which it is licensed.

During 2006, the HMO provided Medicare Part D coverage in Tennessee, Illinois and Mississippi only. In addition, under a waiver from the Centers for Medicare and Medicaid Services (CMS), during 2007 the HMO began providing Medicare Part D coverage in the other 47 states.

As reported in its March 31, 2007 quarterly statement, the HMO had written direct premium as follows:

State	Accident & Health	Medicare Title XVIII
Alabama	$0	$3,726,782
Alaska	0	2,176
Arizona	0	7,965
Arkansas	0	42,051
California	0	25,494
Colorado	0	24,657
Connecticut	0	23,490
Delaware	0	24,376
District of Columbia	0	30,439
Florida	0	31,846
Georgia	0	89,959
Hawaii	0	76,572
Idaho	0	37,472
Illinois	0	24,075,932
Indiana	0	231,916
Iowa	0	97,996
Kansas	0	90,560
Kentucky	0	229,768
Louisiana	0	844,257
Maine	0	43,905
Maryland	0	117,317
Massachusetts	0	88,766
Michigan	0	86,790
Minnesota	0	125,784
Mississippi	0	4,212,288
Missouri	0	101,636
Montana	0	29,469
Nebraska	0	57,084
Nevada	0	3,877
New Hampshire	0	30,750
New Jersey	0	50,065
New Mexico	0	3,949
New York	0	806,838
North Carolina	0	543,796
North Dakota	0	15,173
Ohio	0	126,259
Oklahoma	0	216,338
Oregon	0	68,056

State	Accident & Health	Medicare Title XVIII
Pennsylvania	0	283,459
Rhode Island	0	9,113
South Carolina	0	52,059
South Dakota	0	20,664
Tennessee	13,557,881	118,628,615
Texas	0	6,848,734
Utah	0	39,149
Vermont	0	4,101
Virginia	0	238,056
Washington	0	191,233
West Virginia	0	79,671
Wisconsin	0	352,401
Wyoming	0	13,993
Puerto Rico	0	421
Total	$13,557,881	$163,203,517

The HMO contracts with healthcare providers on a discounted fee-for-service, capitated or per diem basis. Pharmacy costs are contracted on a discount from average wholesale price through a pharmacy benefit management company. Supplemental benefits are contracted with specialty vendors on a capitated basis. Examples of supplemental benefits are vision and behavioral health. As of the examination date, pharmacy benefits were contracted through Argus Health Systems, Inc. and behavioral benefits were contracted through United Behavioral Health.

Enrollment History:

Year	Total members	Group	Federal Employees	Title XVIII Medicare
2001	39,685	22,223	0	17,462
2002	63,041	30,637	1,708	30,696
2003	58,440	31,733	935	25,772
2004	62,001	32,139	0	29,862
2005	77,524	29,859	0	47,665
2006	82,538	29,341	0	53,197
3/31/2007	64,665	15,640	0	49,025

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the Department of Commerce and Insurance, State of Tennessee, a market conduct review was made in conjunction with this examination. The following items were addressed:

Filing and Approval of Policy Forms:

The HMO is aware of the filing responsibility for various forms, agreements, etc., as well as "hold harmless" requirements for provider contracts pursuant to Tenn. Code Ann. § 56-32-205(c). Inquiries were made to the compliance area of the Division of Insurance – Actuarial Section and no specific concerns were noted. The various other filings with the Actuarial Section made by the HMO during the examination period were reviewed and no deficiencies were noted.

Underwriting:

The HMO has posted its Group and Individual Underwriting Forms on its website (www.myhealthspring.com). The HMO maintains basic underwriting eligibility requirements for commercial groups and medicare advantage customers.

Advertising:

The advertising program for Medicare business consists of direct mail, television spots, newspaper ads, group luncheons as well as the HMO website (www.myhealthspring.com). The HMO uses general media advertising to support annual open enrollments of its HMO products. Open enrollment activities include meetings with enrollees, paycheck stuffers, posters, articles in company newspapers, etc. The advertising file was reviewed and appears to be in compliance with applicable statutes and regulations.

Claims Review:

The majority of the HMO's business is Medicare products which are regulated by CMS. The commercial HMO products are subject to Title 56, Chapter 32 Tennessee Code Annotated. A sample of commercial claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the HMO's liability.

Prompt Payment - Tenn. Code Ann. § 56-7-109

At the Department's request, the HMO stratified the commercial claim population for the year 2006 into clean claims by month in order to measure timeliness of payment. Tenn. Code Ann. § 56-7-109 requires payment within 21 days for electronic clean claims and 30 days for paper clean claims. The results of this commercial medical claim stratification indicate that the HMO was in compliance with Tenn. Code Ann. § 56-7-109 on commercial HMO medical claims. It is noted that the referenced claim population does not include pharmacy claims or behavioral claims, which are administered by third parties on a capitated basis. However, the HMO provided reports issued by independent auditors for its behavioral health provider, and by the Centers for Medicare and Medicaid Services for its pharmacy administrator, which concluded that those claims are also being paid in compliance with Tenn. Code Ann. § 56-7-109. There were no adverse findings in the CMS audit reports with regards to claim payments.

Privacy Policy:

The HMO has a written privacy statement that is supplied to its members annually in compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-72.

Policyholder Complaints:

Inquiries made to the various sections within the Division of Insurance indicated no specific concerns with the HMO during the period under examination. Medicare complaints are directed to CMS. The HMO's commercial complaint register was reviewed. No unusual patterns were noted.

The HMO has a grievance process in place which appears to comply with Tenn. Code Ann. 56-32-210(c)(5) which stipulates that review of each grievance by a grievance committee, "shall be held within ten (10) working days, such extension not to exceed an additional ten (10) working days."

EXCESS LOSS AGREEMENT

Effective January 1, 2007, the HMO entered into an Excess Loss Insurance Contract with Standard Security Life Insurance Company of New York. The agreement was reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, insolvency and termination. The Excess Loss Coverage to be provided under the above agreement is summarized as follows:

Type of Contract:	Excess Loss Insurance
Business Insured:	Members enrolled for each membership category and covered under the Policyholder's Evidence of Coverage issued for Commercial Health Maintenance Organization (HMO) and Point of Service (POS) plans.
Term:	January 1, 2007 through December 31, 2007
Retentions and Limits:	The first $250,000 of Loss or Losses Incurred by each Covered Person(s) during the year Maximum annual reimbursement of $1,000,000 for each Covered Person(s) Maximum lifetime reimbursement of $2,000,000 for each Covered Person(s)

Premium: $1.12 for each Commercial HMO and POS Covered Person(s) per month.

The Excess Loss Insurance Contract was executed on May 9, 2007.

Standard Security Life Insurance Company of New York is licensed in Tennessee as a Foreign Life Insurer.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The HMO has no employees. All business functions are performed by HealthSpring Management, Inc. under recitals of a management agreement discussed under the caption, "Agreements with Parent, Subsidiaries and Affiliates." Personnel participate in HealthSpring Management, Inc's employee benefit Plans.

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the Department of Commerce and Insurance, State of Tennessee, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

Year	Medical Expenses Incurred	Net Premiums Earned	Loss Ratio
2001	$111,509,953	137,520,725	81.1%
2002	169,883,181	204,026,882	83.3%
2003	214,670,665	264,123,539	81.3%
2004	232,491,653	287,005,225	81.0%
2005	313,061,150	391,411,514	80.0%
2006	519,808,960	622,280,871	83.5%
3/31/2007	149,344,159	176,761,398	84.5%
Total	$1,710,769,721	$2,083,130,154	82.1%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with annual statements for the years 2001, 2002, 2003, 2004, 2005, 2006, and with the March 31, 2007, quarterly statement.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the HMO at the date of examination.

The HMO files a Risk Based Capital Report; however, HMOs domiciled in Tennessee are not subject to the Risk Based Capital Requirement.

The HMO's Independent Auditors' Report is issued annually by the accounting firm of KPMG LLP.

Books and records of the Company are kept at the home office location:

44 Vantage Way, Suite 300
Nashville, Tennessee 37228

The June 30, 2006 Quarterly Statement filed with the Department of Commerce and Insurance exhibited an underwriting loss of $13,829,812, which resulted in the total capital and surplus of the HMO falling to ($1,763,373). At that point in time, the HMO was not in compliance with Tenn. Code Ann. § 56-32-212(a)(2) and was insolvent.

In order to restore the solvency of the HMO, a receivable from the HMO's parent which was a non-admitted asset at June 30, 2006, was settled, and a capital infusion was made from the parent corporation. The intercompany receivable in the amount of $3,832,896 was settled on July 25, 2006. The HMO's parent made a capital contribution of $12,000,000 on August 7, 2006. These two transactions restored capital and surplus levels to $14,069,523, which is in excess of that required by Tenn. Code Ann. § 56-32-212. The statutorily required net worth at June 30, 2006, was $9,621,173.

Company executives met with officials of the Division of Insurance on August 10, 2006, in order to discuss operating results and assure the Division of Insurance that steps had been instituted to restore the HMO to surplus compliance.

Effective August 7, 2006, the HMO completed a Safekeeping Agreement with AmSouth Bank as requested by the Department of Commerce and Insurance, State of Tennessee in order to have all their securities held by a bank pursuant to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46. The HMO then moved $12,600,000 worth of bonds from Goldman Sachs (brokerage firm) to AmSouth.

The HMO did not change the name on its bank accounts to HealthSpring of Tennessee, Inc. until August, 2006, even though the corporate name on the account was the same as the new parent corporation. When the bank accounts were changed, the accounts used by the Illinois Division were incorrectly changed to "HealthSpring of Illinois". They were not changed to the correct name, HealthSpring of Tennessee – Illinois Division, until July 2007. The assets held in these accounts totaled $6,633,283.

The HMO's 2006 Annual Statement as it was originally filed reported certain items related to the recapitalization of the HMO's direct parent, NewQuest, LLC, through transactions with HealthSpring, Inc., which took place in 2005. The recapitalization resulted in the recognition of goodwill and certain identifiable intangible assets by HealthSpring, Inc. A portion of the goodwill and identifiable intangible assets was allocated and pushed down to the HMO through an increase to additional paid in capital. A deferred tax liability was also recorded as part of these transactions. The "pushdown" accounting is not allowable for statutory statements, as noted by SSAP No. 88 Paragraph 8.b.i. which states:

> "Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68 – Business Combinations and Goodwill."

A portion of SSAP No. 68 has been superseded by SSAP No. 88, paragraph 26.6, which states:

> "For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. under the statutory purchase method, the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted."

The HMO filed an amended 2006 Annual Statement on May 16, 2007 to remove the items related to the pushdown accounting.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at March 31, 2007:

Where Deposited and Description	Par Value	Statement Value	Market Value
Illinois			
U.S. Treasury Bond, Due 1/31/2008	$330,000	$328,835	$330,000
Mississippi			
FHLMC, 5.75%, due 3/15/2009	500,000	507,815	511,616
Tennessee			
FHLMC, 5.75%, due 3/15/2009	550,000	555,530	562,777

FHLMC, 5.25%, due 6/11/2010	2,700,000	2,717,468	2,793,382
Total deposits held for the benefit of all enrollees of the HMO	**$4,080,000**	**$4,109,648**	**$4,197,775**

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The HMO meets the definition of a holding company pursuant to Tenn. Code Ann. § 56-11-201(b)(5) which specifically defines a health maintenance organization holding company system.

The HMO entered into a Management Agreement with its parent, HealthSpring Management, Inc. formerly known as Health Net Management, Inc. effective July 1, 1996. Under this agreement, the parent performs all management, administrative and marketing services that are reasonably necessary for the HMO's financial stability, competent and efficient operations, and implementation of the policies enacted by the HMO's Board. These services include, but are not limited to, assuring the HMO's regulatory compliance, providing all necessary services to providers and enrollees (including claims processing), maintaining accounting, billing and collection systems, preparing interim and annual financial statements and investing the HMO's assets. The agreement provides for the parent to be paid an annual management fee based on the HMO's operating revenues plus two thirds of the annual surplus from operations over and above any funds required for the HMO's minimum capital requirements prescribed by law. The agreement was filed with the Department of Commerce and Insurance, State of Tennessee; however, no approval and date was stamped on the agreement. The original percentage of operating revenues was ten percent. This percentage has been amended over time as outlined below:

- Amendment effective January 1, 2002, increasing Management Fee to 15 percent approved by the Department of Commerce and Insurance, State of Tennessee on October 15, 2003.

- Amendment effective January 1, 2003, increasing Management Fee to 17 percent approved by the Department of Commerce and Insurance, State of Tennessee on November 4, 2003.

- Amendment effective January 1, 2004, increasing Management Fee to 18.5 percent on all Medicare product lines filed with the Life and Health Actuarial Section on October 20, 2004. This amendment was later filed as a Form D Filing with the Division of Insurance on August 10, 2006.

Other amendments of note to the referenced agreement during the period of examination are as follows:

- Amendment effective October 1, 2002; changing the name from Health Net Management, Inc. to HealthSpring Management, Inc. The agreement was filed and approved by the Department of Commerce and Insurance, State of Tennessee; however, no approval and date was stamped on the agreement.

- Amendment effective October 1, 2002, adding business in Texas. The agreement was filed and approved by the Department of Commerce and Insurance, State of Tennessee; however, no approval and date was stamped on the agreement. Texas business was subsequently transferred to a Texas based subsidiary of NewQuest, LLC.

- Amendment effective April 1, 2003, adding HealthSpring, USA as a party to the agreement. This amendment was later filed as a Form D Filing with the Division of Insurance on August 10, 2006.

- Amendment effective January 1, 2006, setting the Management Fee for Medicare Part D drug coverage at ten percent. This amendment was later filed as a Form D Filing with the Division of Insurance on August 10, 2006.

A Management Service Agreement effective June 1, 2004, between HealthSpring USA, LLC and HealthSpring of Tennessee, Inc. d.b.a. HealthSpring of Illinois f/k/a HealthSpring, Inc. which mirrors the 1996 agreement was filed as a Form D Filing with the Division of Insurance on August 10, 2006.

The HMO entered into a Tax Sharing Agreement with its ultimate parent, NewQuest Holdings, Inc. effective March 1, 2005. The agreement was filed as a Form D Filing with the Division of Insurance on August 10, 2006. Up until the year 2005, federal income tax returns were filed on an individual corporation basis.

The HMO filed the required Form B, Holding Company System Annual Registration Statement with the Division of Insurance on May 24, 2006. The registration statement was due by April 30, 2006, pursuant to Tenn. Code Ann § 56-11-205. The HMO filed the required Form C, Summary of Registration Statement with The Division of Insurance on June 28, 2006. This statement was due by April 30, 2006, pursuant to Tenn. Code Ann § 56-11-205. The HMO paid fines totaling $5900 due to these late filings.

PECUNIARY INTEREST - TENN. CODE § 56-3-103

Directors, Executive Officers and five percent Beneficial Owners of any class of voting securities of the HMO filed a questionnaire which disclosed "Transactions with Management and Others" during the most recent fiscal year which disclosed transactions or proposed transactions with the HMO involving more than $60,000.

Additionally, Tenn. Code Ann. § 56-32-221(a) states "Except as otherwise provided in this part, provisions of the insurance law, and provisions of hospital or medical service corporation laws are not applicable to any health maintenance organization granted a certificate of authority under this part."

COMMISSION EQUITY

The excess of loss agreement in effect at March 31, 2007, has a premium based upon a flat dollar amount per member per month; therefore, no commission equity could exist in ceded unearned premium. In this scenario, there would be no ceded unearned premium.

DIVIDENDS OR DISTRIBUTIONS

During the period under examination, the only dividend payment to shareholders was a $6,000,000 payment made during the first quarter of 2002. No approval of this dividend was granted by the Department of Commerce and Insurance prior to payment. The HMO had interpreted Tenn. Code Ann. § 56-11-206(b) not to apply as their initial interpretation was that this was not an extraordinary dividend since income reported on the December 31, 2001, statutory annual statement was $8,736,039.

The Department notified the HMO via letter dated July 26, 2002, that Tenn. Code Ann. § 56-11-205(e) required the reporting of dividends and other distributions made to shareholders within five business days following the declaration of such dividend and within ten days prior to payment. The said letter also advised that Tenn. Code Ann. § 56-11-206(b)(4) states, "A domestic insurer shall pay a dividend or make a distribution to its shareholders only from the insurer's earned surplus; provided, that such insurer may pay a dividend or make a distribution not from earned surplus if the Commissioner's approval is first received." The HMO exhibited negative earned surplus on the December 31, 2001, statutory annual statement which would necessitate the Commissioner's approval for the payment of a dividend.

The HMO advised by letter to the Department of Commerce and Insurance, State of Tennessee dated August 2, 2002, that after review, they agreed prior approval for the dividend payment in the amount of $6,000,000 made in the first quarter of 2002 was required. The HMO further stated in the said letter that a procedure had been set up by the HMO to adhere to requirements of Tenn. Code Ann. §§ 56-11-205 and 56-11-206.

LITIGATION

On September 8, 2006, the HMO reached a Settlement, Waiver and Release Agreement with Saint Thomas Hospital and Saint Thomas Health Services. The HealthSpring, Inc. 10-Q filed August 15, 2006, for the period ended June 30, 2006, listed the following:

"In early 2006, HealthSpring received a demand letter from a hospital provider in middle Tennessee claiming additional reimbursements under its provider contracts with the Company. The general nature of the purported claims related to "stop loss" provisions for hospital in-patient charges, changes in Medicare DRG classification that were incorrectly adjudicated, high dollar drug cases and certain out-patient charges. A substantial portion of the hospital's claims related to dates of service in 2004 and 2005."

An $800,000 reserve had been established in December, 2005. An additional $4,200,000 reserve was established in the quarter ending June 30, 2006; therefore, these reserves are reflected on the June 30, 2006, quarterly statement filed with the Department of Commerce and Insurance, State of Tennessee. The settlement agreement called for an aggregate payment of $5,274,000 with one-half payment at time of the Letter of Agreement relating to the negotiation of a New Facility Agreement and one-half payment upon execution of a New Facility Agreement.

As of March 31, 2007, the HMO was not currently involved in any legal proceeding which was deemed to be material.

SUBSEQUENT EVENTS

Effective May 24, 2007, the HMO completed a Custody Agreement with Regions Bank d/b/a Regions Morgan Keegan Trust as requested by the Department of Commerce and Insurance, State of Tennessee in order to have their securities held in the correct name under a custodial agreement. The HMO then transferred its securities, including $22,185,623 in short-term securities that had been held by Citibank to a Regions Bank account in the HMO's name. These securities had been on deposit with Citibank under the name HealthSpring Life and Health Insurance Company, Inc., which is an affiliate of the HMO.

The Custody Agreement was amended on September 12, 2007 at the request of the Department to include the standard of care required by Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46.

An amendment to the Management Service Agreement effective June 1, 2004, between HealthSpring USA, LLC and HealthSpring of Tennessee, Inc. d.b.a. HealthSpring of Illinois f/k/a HealthSpring, Inc. which adjusts the management fees effective July 1, 2007 was filed as a Form D Filing with the Division of Insurance on July 26, 2007. A Form D filing was made on April 28, 2008 which included an amendment to the Tax Sharing Agreement, which was to be effective on December 1, 2007 and an amendment to the original HMO Management Agreement made between HealthSpring Management, Inc. and HealthSpring of Tennessee, Inc. f/k/a HealthSpring, Inc., which was to be effective as of January 1, 2008. As stated in Tenn. Code Ann. § 56-11-206, such transactions may not be entered into unless the commissioner has been notified in writing at least 30 days prior to the effective date, and the commissioner has not disapproved the transaction. The above filings were made after their effective dates.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at March 31, 2007, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$12,323,177		$12,323,177
Cash ($49,277,526), cash equivalents ($36,327,807) and short-term investments ($117, 873,712)	203,479,045	22,185,643	181,293,402
Investment income due and accrued	593,618		593,618
Uncollected premiums and agents' balances in the course of collection	4,847,570		4,847,570
Net deferred tax asset	4,858,249	5,242	4,853,007
Receivables from parent, subsidiaries and affiliates	3,755,266	3,755,266	0
Health care and other amounts receivable	9,025,305	9,025,305	0
Aggregate write-ins for other than invested assets	238,353	238,353	0
Totals	$239,120,563	$35,209,789	$203,910,774

LIABILITIES, SURPLUS, AND OTHER FUNDS

	Covered	Uncovered	Total
Claims unpaid	$48,374,516	$3,147,489	$51,522,005
Accrued medical incentive pool and bonus amounts	2,946,966		2,946,966
Unpaid claim adjustment expenses	766,336		766,366
Aggregate health policy reserves	1,900,000		1,900,000
Premiums received in advance	76,159,861		76,159,861
General expenses due or accrued	531,508		531,508
Current federal income tax payable	126,457		126,457
Amounts due to parent, subsidiaries and affiliates	4,211,361		4,211,361
Liability for amounts held under uninsured plans	47,128,347		47,128,347
Aggregate write-ins for other liabilities	12,907,337		12,907,337
Total Liabilities	195,052,689	3,147,489	198,200,178
Common capital stock			$50
Gross paid in and contributed surplus			25,364,510
Surplus notes			900,000
Unassigned funds (surplus)			(20,553,964)
Total capital and surplus			5,710,596
Totals			$203,910,774

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months	0	192,414
Net premium income	$0	$176,761,398
Total revenues	0	$176,761,398
MEDICAL AND HOSPITAL		
Hospital/medical benefits	$7,770,203	$104,861,034
Other professional services	1,989,192	26,844,700
Outside referrals	0	0
Emergency room and out of area	232,967	3,143,951
Prescription drugs		14,198,677
Aggregate write-ins for other medical and hospital	0	0
Incentive pool, withhold adjustments and bonus amounts		244,612
Subtotal	9,992,362	149,292,974
LESS		
Net reinsurance recoveries	0	(51,185)
Total medical and hospital	9,992,362	149,344,159
Claims adjustment expenses	0	0
General administrative expenses	0	24,976,914
Increase in reserves for accident and health contracts	0	0
Total underwriting deductions	9,992,362	174,321,073
Total underwriting gain or loss	0	2,440,325
Net Investment income earned	0	2,149,303
Net realized capital gains or losses	0	0
Net investment gains or losses	0	2,149,303
Net income or (loss) before income taxes		4,589,628
Federal income taxes incurred		1,565,522
Net income		$3,024,106

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 prior year		$31,767,252
Net income	$3,024,106	
Change in net deferred income tax	629,238	
Change in non-admitted assets	(29,710,000)	
Cumulative effect of changes in accounting principles	0	
Dividend to stockholders	0	
Change in surplus as regards policyholders for the year		(26,056,656)
Surplus as regards policyholders, March 31, 2007		$5,710,596

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders	2001	2002	2003	2004	2005	2006	3/31/2007
Prior Period	$3,758,712	$10,797,903	$7,045,632	$8,715,586	$8,789,313	$16,203,983	$31,767,252
Net Income	8,736,039	568,300	771,411	868,197	924,554	4,260,653	3,024,106
Net unrealized capital gains and (losses)	0	(10,929)	129,060	(129,060)	0	0	0
Change in net deferred income tax	0	833,454	0	0	12,487,690	3,221,726	629,238
Change in non-admitted assets	(1,753,239)	(107,938)	(405,340)	(331,277)	(71,508,849)	(3,919,110)	(29,710,000)
Cumulative effect of changes in accounting principles	0	0	0	0	0	0	0
Surplus adjustments: paid in	0	1,250,000	322,892	(134,013)	62,144,383	12,000,000	0
Dividends to stockholders	0	(6,000,000)	0	0	0	0	0
Aggregate Write ins for gains or (losses) in surplus	56,391	(285,158)	851,931	(200,120)	0	0	0
Surplus as regards policyholders Current Period	**$10,797,903**	**$7,045,632**	**8,715,586**	**8,789,313**	**$16,203,983**	**$31,767,252**	**$5,710,596**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Item	Amount
Cash and short-term investments	**$181,293,402**

The above amount reflects a reduction of $22,185,643 from the amount stated in the quarterly statement. This amount includes $22,185,623 which was on deposit at March 31, 2007 with Citibank under the name HealthSpring Life and Health Insurance Company, Inc., which is an affiliate of the HMO. Subsequent to the date of this examination, on May 24, 2007, this amount was transferred to an account at Regions Morgan Keegan Trust, in the name of the HMO. The remaining amount of $20 is due to a mathematical error in the quarterly statement.

Unassigned funds (surplus)	**($20,553,964)**

The amount of this item is $22,185,643 less than the amount reflected in the HMO's quarterly statement which results in a decrease to total net worth due to non-admitted assets. The decrease is the result of the changes in the above item.

Net worth	**$5,710,596**

The HMO's net worth as established by this examination is $5,710,596, which is $22,185,643 less than the amount reflected in the HMO's quarterly statement. The above net worth does not comply with the amount required pursuant to Tenn. Code Ann. § 56-32-212. At March 31, 2007, the required net worth under the referenced statute is $13,084,213.

Effective May 24, 2007, the HMO completed a Custody Agreement with AmSouth Bank as requested by the Department of Commerce and Insurance, State of Tennessee in order to have their securities held in the correct name under a custodial agreement pursuant to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46. The HMO then transferred the short-term securities that had been held by Citibank to AmSouth.

If the assets held by Citibank had been held in the correct name and under a proper custodial agreement at March 31, 2007, the HMO would have exhibited common capital stock, gross paid-in and contributed surplus, surplus notes and unassigned funds (surplus) in the amount of $27,896,219, which would have complied with Tenn. Code Ann. § 56-32-212.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

Item	Surplus Increase	Surplus Decrease
Cash and short-term investments		$22,185,643
Totals	$0	$22,185,643
Net change in surplus		$22,185,643

COMMENTS AND RECOMMENDATIONS

Comments:

- The HMO advised by letter to the Department of Commerce and Insurance, State of Tennessee dated August 2, 2002, that after review, they agreed prior approval for the dividend payment in the amount of $6,000,000 made in the first quarter of 2002 was required. The notification requirement had been voiced by the Insurance Division in its letter to the HMO dated July 26, 2002. The HMO further stated in its August 2nd letter that a procedure had been set up by the HMO to adhere to notification requirements of Tennessee statutes. No dividends to its parent have been paid since the referenced dividend.

- On September 8, 2006, the HMO reached a Settlement, Waiver and Release Agreement with Saint Thomas Hospital and Saint Thomas Health Services. An $800,000 reserve had been established in December, 2005. An additional $4,200,000 reserve was established in the quarter ending June 30, 2006. The settlement agreement called for an aggregate payment of $5,274,000 with one-half payment at time of the Letter of Agreement relating to the negotiation of a New Facility Agreement and one-half payment upon execution of a New Facility Agreement.

- Effective December 29, 2005, the HMO changed its name to HealthSpring of Tennessee, Inc. in filings with the Division of Insurance. A name change filing had been made with the Tennessee Secretary of State in September, 2005. The new ultimate parent corporation was now named HealthSpring, Inc.

- The HMO did not change the name on its bank accounts to HealthSpring of Tennessee, Inc. until August, 2006, even though the corporate name on the account was the same as the new parent corporation. When the bank accounts were changed, the accounts used by the Illinois Division were incorrectly changed to "HealthSpring of Illinois". They were not changed to the correct name, HealthSpring of Tennessee – Illinois Division, until July 2007. The assets held in these accounts totaled $6,633,283.

- The HMO reported $6,870,460 as a short-term investment which is an AmSouth Platinum Commercial Money Market account. This money market is not included on any of the SVO Money Market Fund lists. Therefore it does not meet the requirements of Tenn. Code Ann. § 56-3-303 (a)(17). However, this investment does qualify under Tenn. Code Ann. § 56-3-303 (a)(15) and has been accepted for purposes of this examination. Money market investments which do not meet the requirements of Tenn. Code Ann. § 56-3-303 (a)(17) should be classified as common stock, as directed by the SVO Purposes and Procedures Manual, which states that "Mutual funds, including money market funds, are typically classified as common stock and reported in Schedule D - Part 2 – Section 2 of the NAIC Financial Statement Blank".

Recommendations:

- Assets totaling $22,185,623 consisting of short-term securities were non-admitted pursuant to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46. These assets were not being held in the HMO's correct name under a proper custodial agreement.

  Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46 allows securities to be held as follows:

  (a) An insurance company may hold its securities in definitive certificates.

  (b) An insurance company may hold its securities pursuant to its participation in the book entry system of the Federal Reserve through a member bank of the Federal Reserve System which, as a custodian, can transact and maintain book entry securities for the insurance company.

  1. This subparagraph shall not be interpreted so as to preclude an insurance company from participation in the Federal Reserve book entry system under a custodial agreement with a state-chartered bank which has redeposited securities with a member bank for participation in the Federal Reserve book entry program.

  (c) An insurance company may hold its securities pursuant to its participation in depository systems of clearing corporations through a custodian bank.

  Effective May 24, 2007, the HMO completed a Custody Agreement with AmSouth Bank d/b/a Regions Morgan Keegan Trust as requested by the Department of Commerce and Insurance, State of Tennessee in order to have their securities held in the correct name under a custodial agreement.

  The Custody Agreement was amended on September 12, 2007 at the request of the Department to include the standard of care required by Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46.

  The new safekeeping arrangement allows admission of assets which had previously been held by Citibank and non-admitted for statutory requirements; however, net worth established by this examination is $5,710,596, which is less than the minimum $13,084,213 required by Tenn. Code Ann. § 56-32-212(a)(2). If the assets held by Citibank had been held in the correct name and under a proper custodial agreement at March 31, 2007, the HMO would have exhibited a net worth of $27,896,219, which would have complied with Tenn. Code Ann. § 56-32-212.

It is recommended that the HMO continue to have all of its securities held under a custodial agreement that complies with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46.

- Tenn. Code Ann. § 56-11-206(a)(2) requires that the Commissioner be notified in writing of the intent to enter into transactions such as management agreements and service contracts thirty (30) days prior thereto. The Company had filed various amendments to its Management Agreement as a Form D filing with the Department of Commerce and Insurance on August 10, 2006; however, filing did not fall into the above referenced time window. The said agreements are outlined under the caption "AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES". Additional agreements that have not been filed for prior approval are noted under the caption "SUBSEQUENT EVENTS".

  It is recommended that the HMO comply with Tenn. Code Ann. § 56-11-206(a)(2) by notifying the Commissioner in writing of the intent to enter into transactions such as management agreements and service contracts thirty (30) days prior thereto.

- The HMO filed the required Form B, Holding Company System Annual Registration Statement with the Division of Insurance on May 24, 2006. The registration statement was due by April 30, 2006, pursuant to Tenn. Code Ann § 56-11-205. The HMO filed the required Form C, Summary of Registration Statement with the Division of Insurance on June 28, 2006. This statement was due by April 30, 2006, pursuant to Tenn. Code Ann § 56-11-205.

  It is recommended that the HMO make all of its filings in a timely manner as required by Tenn. Code Ann § 56-11-205.

- The June 30, 2006 Quarterly Statement filed with the Department of Commerce and Insurance exhibited an underwriting loss of $13,829,812 which resulted in the total capital and surplus of the HMO falling to ($1,763,373). At that point in time, the HMO was not in compliance with Tenn. Code Ann. § 56-32-212 and was insolvent. A capital infusion from the parent corporation was required to restore solvency and meet the required net worth of $9,621,173 required by Tenn. Code Ann. § 56-32-212. Further discussion is included under the caption "ACCOUNT AND RECORDS".

  It is recommended that the HMO comply with Tenn. Code Ann. § 56-32-212 at all times by maintaining the minimum net worth.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of HealthSpring, Inc. of Nashville, Tennessee.

In such manner, it was determined that, as of March 31, 2007, the HMO had admitted assets of $203,910,774 and liabilities, exclusive of capital, of $198,200,178. Thus, there existed for the additional protection of the policyholders/enrollees, the amount of $5,710,596 in the form of common capital stock, gross paid-in and contributed surplus, surplus notes and unassigned funds (surplus).

The above net worth does not comply with the amount required pursuant to Tenn. Code Ann. § 56-32-212. At March 31, 2007, the required net worth under the referenced statute is $13,084,213.

Effective May 24, 2007, the HMO completed a Custody Agreement with AmSouth Bank as requested by the Department of Commerce and Insurance, State of Tennessee in order to have their securities held in the correct name under a custodial agreement pursuant to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46. The HMO then transferred the short-term securities that had been held by Citibank to AmSouth.

If the assets held by Citibank had been held in the correct name and under a proper custodial agreement at March 31, 2007, the HMO would have exhibited common capital stock, gross paid-in and contributed surplus, surplus notes and unassigned funds (surplus) in the amount of $27,896,219, which would have complied with Tenn. Code Ann. § 56-32-212. These findings are detailed under the captions "SUBSEQUENT EVENTS" and "COMMENTS AND RECOMMENDATIONS".

The courteous cooperation of the officers and employees of the HMO extended during the course of the examination is hereby acknowledged. In addition to the undersigned, Keith M. Patterson, Insurance Examiner for the State of Tennessee, participated in this examination.

Respectfully submitted,

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Rebecca E. Walker

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Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of HealthSpring of Tennessee, Inc. dated September 23, 2008, and made as of March 31, 2007, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 23rd day of

September, 2008

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

HELEN W. DORSEY STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART

HealthSpring, Inc.

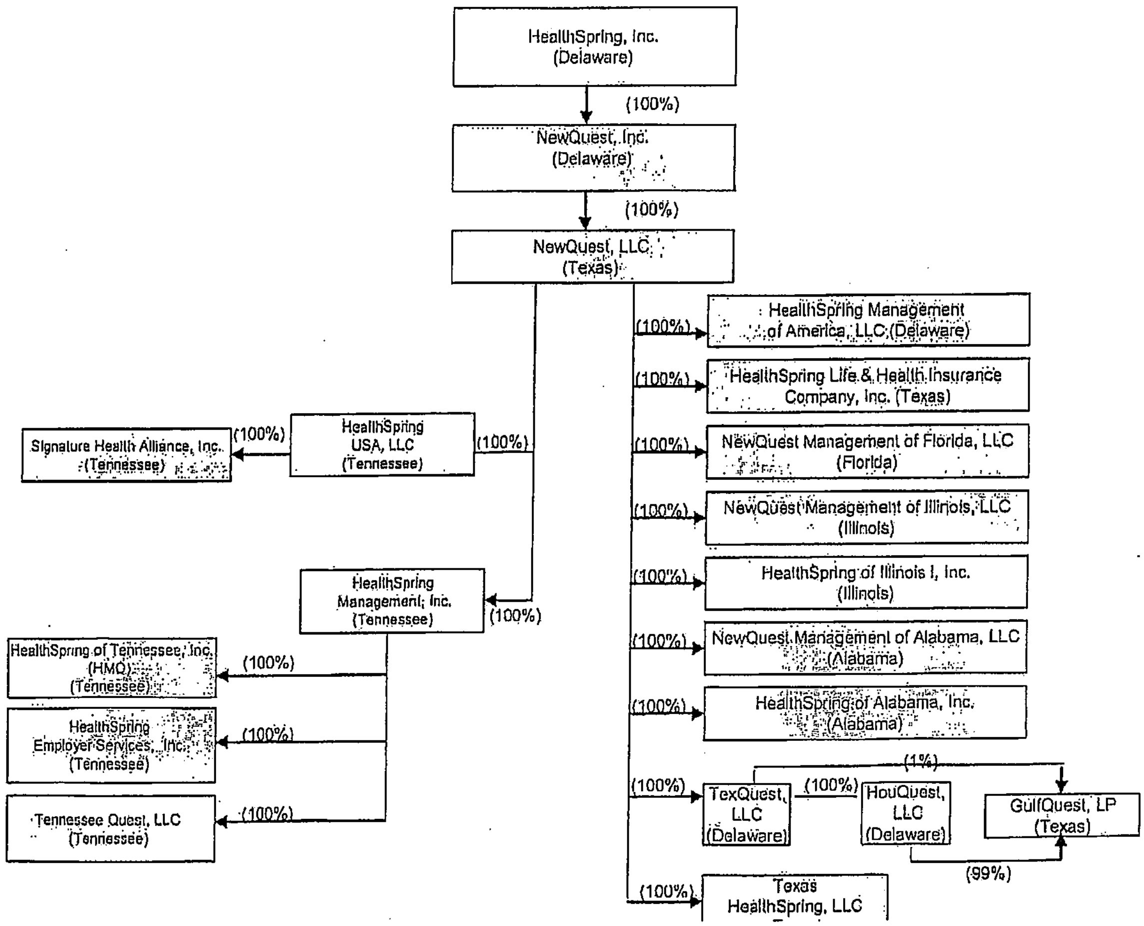

EXHIBIT B

HEALTHSPRING

September 26, 2008

Mr. Philip Blustein, CFE
Insurance Examinations Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RECEIVED
SEP 26 2008
Dept. Of Commerce & Insurance
Company Examinations

Dear Mr. Blustein:

HealthSpring of Tennessee, Inc. (the Health Plan) acknowledges receipt of the Report on Examination of the Health Plan as of March 31, 2007 (the Report). The following are the responses of the Health Plan to each of the individual findings and comments listed in the Report:

1. The Health Plan acknowledges that at March 31, 2007, cash in the amount of $22,185,643 was being held in a bank account under the name and direction of a related party. The cash in question relates to the National PDP line of business entered into by the Health Plan in January 2007. Upon recognition of this issue, the Health Plan immediately informed the Tennessee Department of Commerce and Insurance (the Department) of the matter and began the process of establishing a separate bank account under the direction of the Health Plan in which these funds would be held. The Health Plan would like to note, however, that at all times these funds were available to pay claims of the National PDP line of business, and, in fact, claims were being paid from the account in question. As noted in the Report on Examination, the funds were transferred into the newly established Health Plan account in May 2007.

2. The Health Plan acknowledges that in the first quarter of 2002 a dividend of $6,000,000 was made without the proper authorization of the Department. As noted in the Report on Examination, the Health Plan notified the Department in August 2002 that procedures had been put in place to adhere to notification requirements of Tennessee statutes as they relate to dividend payments. As of the date of this communication, September 26, 2008, no additional dividends have been made by the Health Plan without proper approval of the Department.

3. The Health Plan acknowledges and agrees with the comment of the Department related to the Settlement, Waiver and Release Agreement with Saint Thomas Hospital and Saint Thomas Health Services in 2006.

4. The Health Plan acknowledges and agrees with the comment of the Department related to the name change of the Health Plan effective December 29, 2005.

5. The Health Plan acknowledges and agrees with the comments of the Department related to delay in changing names on bank accounts subject to the name change of the Health Plan in 2005. Today, all cash and investments of the Health Plan are properly held in accounts including the name "HealthSpring of Tennessee, Inc."

6. The Health Plan does not agree with the interpretation of the Department related to the misclassification of the funds held in a money market account as a short-term investment. The Health Plan believes that there is a definitional and actual difference between money market accounts and money market funds, and that the cash deposited in the money market account at March 31, 2007 was properly classified as a short-term investment. The Health Plan does, however, recognize the position of the Department. Subsequent to March 31, 2007 and prior to notification of this finding, the Health Plan closed the account in question and currently has no cash held in a money market account. As such, the classification comment should no longer be an issue in the statutory statement filings of the Health Plan.

Please do not hesitate to contact me with any questions or concerns you may have regarding this or any other matter.

Sincerely,

Mitch Darnall

Mitch Darnall
Chief Financial Officer

c: Matthew S. Morris
Teresa Jordan