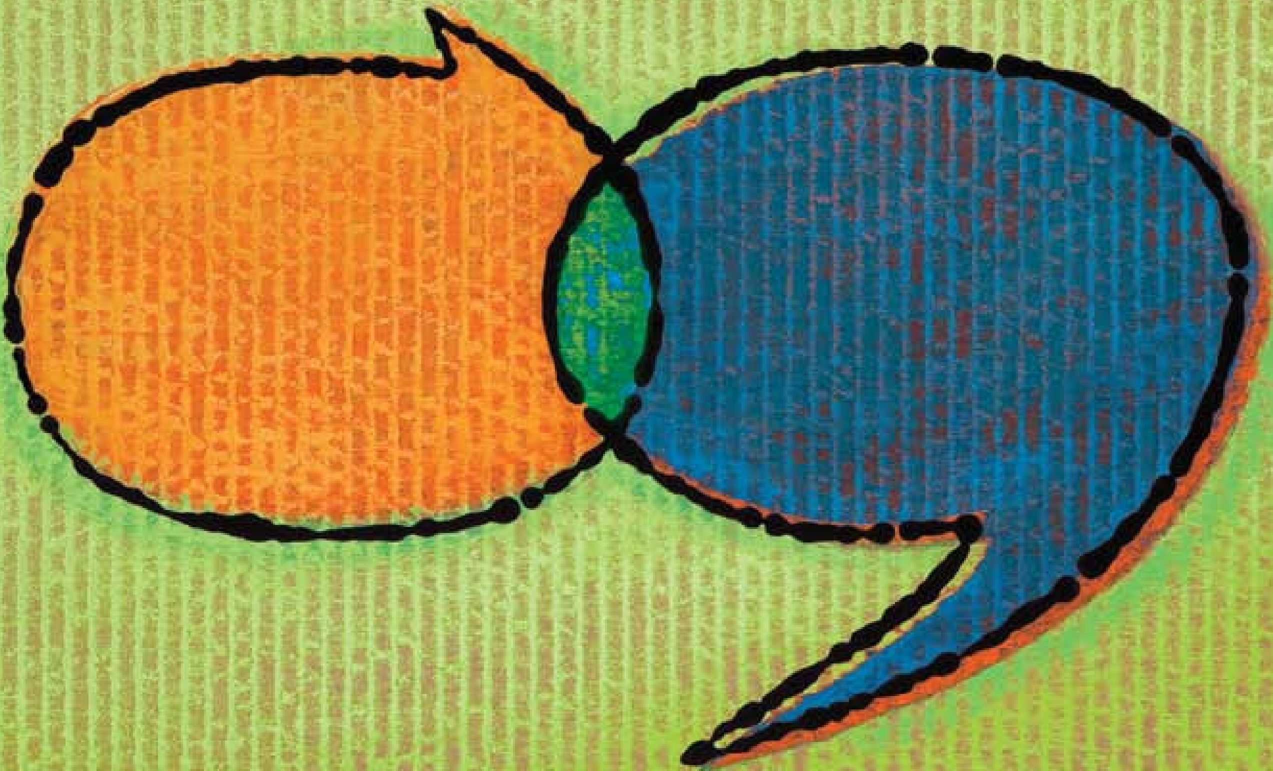

financials

2009 ANNUAL REPORT

The Lifetime Healthcare Companies

David H. Klein
president and
chief executive officer

Emil D. Duda
senior executive
vice president and
chief financial officer

The management of Excellus Health Plan, Inc., is responsible for preparing the statutory basis financial statements and other financial information in this Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of admitted assets, liabilities, reserve and unassigned funds, results of operations, and cash flows of Excellus Health Plan, Inc., in accordance with the basis of accounting practices prescribed or permitted by the New York State Insurance Department ("statutory basis"). The financial statements include amounts that are based on management's best estimates and judgments.

The statutory basis financial statements of Excellus Health Plan, Inc., have been audited by Deloitte & Touche LLP, whose report appears in this Annual Report.

Excellus Health Plan, Inc., maintains a system of internal controls that provides reasonable assurance that its records reflect its transactions in all material respects and that significant misuse or loss of assets is prevented. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should be related to the benefits to be derived. Management believes that the costs of internal control systems do not exceed the benefits obtained and are adequate to accomplish its objectives on a continuous basis. Excellus Health Plan, Inc., maintains a strong internal auditing program that independently assesses the effectiveness of internal controls and takes appropriate actions to respond to these recommendations.

The Board of Directors, acting through its Audit Committee composed solely of nonemployee directors, is responsible for determining that management fulfills its responsibilities in the preparation of the statutory basis financial statements and the maintenance of internal controls. In fulfilling its responsibility, the Audit Committee recommends independent auditors to the Board of Directors for appointment. The Committee also reviews the statutory basis financial statements and adequacy of internal controls. The Audit Committee meets regularly with management, Corporate Internal Audit and the independent auditors. Both the independent auditors and Corporate Audit have full and free access to the Audit Committee, without management representatives present, to discuss the scope and results of their audits and their views on the adequacy of internal controls and the quality of financial reporting.

It is the business philosophy of Excellus Health Plan, Inc., and its affiliates and subsidiaries to obey the law and to require that its employees conduct their activities according to the highest standards of business ethics. Management reinforces this philosophy by numerous actions, including issuing a Code of Business Conduct and Compliance Program to support compliance with the Company's policies.

Excellus Health Plan, Inc.
Management Discussion and Analysis

For the Years Ended December 31, 2009 and 2008

Financial Statements

The financial statements included in this annual report are the statutory basis financial statements of Excellus Health Plan, Inc. (the Company). They have been prepared using accounting practices prescribed or permitted by the New York State Insurance Department for insurance companies. These principles are required to be used for regulatory purposes and differ from generally accepted accounting principles, as described in Note 1 to the statutory basis financial statements.

Summary

The Company's net income for 2009 was $47 million, representing 1.0% of premiums earned, as compared to a net loss for 2008 of $54 million, which amounted to (1.1%) of premiums earned. The net income for 2009 is the result of investment income of $75 million, partially offset by a $6 million underwriting loss and income tax expense of $22 million.

Revenue

The Company had total premiums and premium equivalents on self-funded business of $5,884 million for 2009, a decrease of $79 million or 1.3%. Total insured revenue as reported was $4,893 million for 2009 representing a decrease of $92 million or 1.8%, compared with a decline of 2.8% in 2008.

The decrease in premium revenue is primarily attributable to enrollment declines resulting from current economic conditions and the continued migration to lower-cost product options. These declines were partially offset by premium rate increases in response to growth in underlying medical costs.

Expenses

Claims expense of $4,331 million in 2009 was down 3.2% from 2008 and is reflective of the aforementioned enrollment declines and benefit buy-downs, offset partially by higher claim trends. Excluding the effects of adjustments in estimates related to prior years, the medical loss ratio for 2009 of 90.2% equaled that of 2008.

Health care expense trends in 2009 continued to exceed the rate of inflation. For our Community and Experience Rated commercial group business, claim trends in 2009 increased from 7.5% early in the year to almost 9.0% late in the year. The increase from the utilization component of 3.2% was driven primarily by outpatient and prescription drug costs as inpatient services continue to shift to outpatient and as prescription drug use continues to rise. The overall unit cost trend of 5.3% was driven primarily by both inpatient and outpatient unit cost increases of about 9.0% and 7.5%, respectively.

The Company's operating expenses of $568 million increased by $39 million over 2008. This 7.3% increase is attributable to (1) an increase in New York State Insurance Department assessments of $35 million, (2) restructuring costs in the form of an early retirement incentive of $18 million, and (3) an increase of non-capitalizable costs associated with the Company's multi-year initiative to streamline and simplify its complex operations of $10 million, offset by a reduction in operating expenses of approximately $24 million resulting primarily from a continuation and full year effect of the prior year's administrative cost-cutting initiatives.

Income Taxes

The Company is subject to federal corporate income taxes but exempt from state and local taxes in New York. Statutory accounting principles provide that income tax expense includes only the current portion payable. Deferred tax assets resulting from temporary differences are limited in recognition and are included as a direct change in unassigned funds. The Company is subject to an effective federal tax rate of 20%, the corporate alternative minimum tax (AMT) rate, rather than the regular corporate tax rate of 35% as a result of its use of AMT tax credits. The Company's income tax expense for 2009 was $22 million compared to $1 million for 2008. This $21 million increase is attributable to the increase in income before taxes for 2009.

Investments

The Company's cash and investments, excluding real estate, increased by $111 million, or 7.5%, from $1,482 million at December 31, 2008, to $1,593 million at December 31, 2009. This increase, which includes subsidiary operating results, is due primarily to unrealized gains, before tax effect of $85 million, and realized gains of $31 million, both of which are due to the improvement in the investment markets in 2009. Cash was also utilized in 2009 for purchases of furniture and equipment and the development of capitalized software.

As of December 31, 2009, the investment portfolio consisted of 11.1% investment in subsidiaries, 21.2% common stock, 8.9% U.S. and U.S. Agency bonds (excluding mortgage-backed securities), 22.8% mortgage-backed securities, 36.4% other bonds (including convertible bonds) and (0.4%) cash and cash equivalents, which includes routine operating cash balances. The Company must comply with various laws and regulatory requirements on permitted investments. The Company's internal investment policy for bonds allows only investment-grade acquisitions. The Company does not make investments in income-producing real estate.

Net interest and dividend income increased $3 million or 7.1% to $44 million in 2009 primarily due to slightly higher investment yields associated with the Company's debt securities. The Company realized investment gains of $31 million in 2009 compared to $70 million of investment losses in 2008, due primarily to the overall improvement in the financial markets in 2009. The unrealized appreciation/(depreciation) on investments in unassigned funds includes the effect of market value changes in investments in common stock and subsidiary operating results. The Company's unrealized appreciation on its debt securities, which amounted to $45 million at December 31, 2009, is not reflected in unassigned funds because of statutory reporting requirements to carry debt securities at amortized cost.

Liquidity and Capital Resources

At December 31, 2009, total cash, cash equivalents, and investments exceeded total liabilities by $357 million, demonstrating the Company's strong ability to pay its obligations as they come due. Net cash flows from operating activities increased $41.5 million, from $11.8 million in 2008 to $53.3 million in 2009. This increase resulted primarily from higher net income, decreases in claims payable resulting from membership declines, and the effect of changes in the Company's receivable and payable balances with CMS related to the Medicare Advantage and Medicare Part D programs.

Net cash used in investing activities increased $52 million in 2009 primarily as a result of decreases in sales and maturities of investments.

Net cash used for financing activities increased by $10 million due to the payment in full of the Company's outstanding senior notes.

Customer concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute the Company's customer base. At December 31, 2009, the Company had a receivable of $34 million due from the State of New York representing premium payments due under the Medicaid and Family Health Plus programs. The Company regularly monitors and evaluates such balances and records only the amounts deemed probable of realization.

Reserves and unassigned funds of $965 million at December 31, 2009, decreased $7 million from December 31, 2008. The decrease reflects the recording of an additional minimum liability for the Company's defined benefit pension plans and increases in the Company's nonadmitted assets in 2009, offset by net income and the increase in unrealized gains on investments for 2009. The Company is required by New York law to maintain a minimum level of reserves. Additionally the BlueCross BlueShield Association has reserve requirements, based on the nature of the Company's business, which must be maintained. The Company exceeded all reserve requirements at December 31, 2009. The Company is rated A– (strong) by Standard & Poor's and B++ (good) by A.M. Best.

Other Matters

During 2009, the U.S. Congress passed various versions of health care reform bills which, if enacted could significantly impact the health care industry. The content of these bills varies greatly and includes proposals to create a new government-run health plan that would compete with the Company and other private health plans; the potential creation of federal or state-level exchanges that could serve as a distribution mechanism for certain segments of the health care market; and proposals to impose new and potentially significant taxes and fees specific to private health care insurers and/or certain benefit plan designs. These bills are the subject of ongoing legislative debate. Because of the unsettled nature of these initiatives, it is unclear as to whether any of these proposals will become law and uncertain as to the ultimate impact these changes will have on the Company's business.

Independent Auditor's Report

To the Board of Directors of
Excellus Health Plan, Inc.
Rochester, New York

We have audited the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis of Excellus Health Plan, Inc. (the "Company") as of December 31, 2009 and 2008, and the related statements of operations—statutory basis, changes in reserve and unassigned funds—statutory basis, and cash flows—statutory basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, and such practices differ from accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Excellus Health Plan, Inc., as of December 31, 2009 or 2008, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and reserve and unassigned funds of Excellus Health Plan, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, NY
March 12, 2010

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND RESERVE AND UNASSIGNED FUNDS—STATUTORY BASIS

(amounts in thousands)
As of December 31, 2009 and 2008

	2009	2008
Admitted assets:		
Cash and cash equivalents	$ (6,215)	$ 66,741
Investments	1,598,832	1,414,774
ACCOUNTS RECEIVABLE:		
Premiums	175,930	170,702
Health care	331,912	300,277
Due from parent, subsidiaries and affiliates	3,074	17,239
Interest	7,751	7,015
Other	1,222	1,390
Total accounts receivable	**519,889**	**496,623**
Real estate and equipment—net	45,604	47,359
Deferred tax assets	42,316	35,818
Total admitted assets	**$2,200,426**	**$ 2,061,315**
Liabilities, reserve and unassigned funds:		
Claims payable	$ 545,401	$ 559,045
Unearned premiums and policy reserves	128,651	85,377
Accounts payable and other liabilities	292,285	304,395
Due to parent and affiliates	537	
Pension and postretirement benefits obligations	262,999	120,991
Debt	5,500	19,642
Total liabilities	**1,235,373**	**1,089,450**
RESERVE AND UNASSIGNED FUNDS:		
Statutory reserve	611,017	622,373
Unassigned funds	354,036	349,492
Total reserve and unassigned funds	**965,053**	**971,865**
Total liabilities, reserve and unassigned funds	**$2,200,426**	**$ 2,061,315**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF OPERATIONS—STATUTORY BASIS

(amounts in thousands)
For the years ended December 31, 2009 and 2008

	2009	2008
Premiums earned	$ 4,892,916	$ 4,985,066
Claims expense	4,331,394	4,476,470
Premiums earned over claims expense	**561,522**	**508,596**
Operating expenses	568,103	529,411
Underwriting loss	**(6,581)**	**(20,815)**
Interest expense	546	1,285
INVESTMENT INCOME (LOSS):		
Interest and dividends earned—net of investment expenses	44,359	41,418
Realized gain (loss) on investments—net	31,027	(70,438)
Total investment income (loss)	**75,386**	**(29,020)**
Other expense	(8)	(1,935)
Income (Loss) before income taxes	**68,251**	**(53,055)**
Income taxes	21,685	1,038
Net income (loss)	**$ 46,566**	**$ (54,093)**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF CHANGES IN RESERVE AND UNASSIGNED FUNDS—STATUTORY BASIS

(amounts in thousands)
For the years ended December 31, 2009 and 2008

	Reserve required by statute	Unassigned funds
BALANCE—January 1, 2008	**$ 627,554**	**$ 589,458**
Net (loss)		(54,093)
Decrease in statutory reserve	(5,181)	5,181
DECREASE (INCREASE) IN NONADMITTED ASSETS:		
Investments		(30,328)
Premium receivables		(627)
Health care receivables		1,045
Due from parent and affiliates		(15,979)
Other receivables		(5,097)
Real estate, furniture, software and equipment		(24,492)
Deferred taxes		(67,230)
Change in deferred taxes		28,940
Unrealized depreciation on investments		(77,286)
BALANCE—December 31, 2008	**$ 622,373**	**$ 349,492**
Net income		46,566
Decrease in statutory reserve	(11,356)	11,356
DECREASE (INCREASE) IN NONADMITTED ASSETS:		
Investments		(2,173)
Premium receivables		(152)
Health care receivables		(3,190)
Due from parent and affiliates		(929)
Other receivables		5,834
Real estate, furniture, software and equipment		(17,629)
Deferred taxes		(16,658)
Change in deferred taxes		6,036
Change in additional pension liability		(82,423)
Unrealized appreciation on investments		57,906
BALANCE—December 31, 2009	**$ 611,017**	**$ 354,036**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF CASH FLOWS—STATUTORY BASIS

(amounts in thousands)
For the years ended December 31, 2009 and 2008

	2009	2008
Operating Activities:		
Premiums and other considerations received	$ 4,926,029	$ 4,956,137
Claims expenses paid	(4,364,585)	(4,487,754)
Operating expenses paid	(549,288)	(507,223)
Net cash provided by (used in) underwriting activities	**12,156**	**(38,840)**
Interest and dividends received (net of investment expenses)	47,115	51,013
Federal income taxes paid	(6,010)	(417)
Net cash provided by operating activities	**53,261**	**11,756**
Investing Activities:		
Proceeds from investments sold, matured or repaid:		
Bonds	803,707	781,338
Stocks	50,542	165,548
Real estate and equipment		461
Other		46
Cost of investments acquired:		
Bonds	(830,620)	(781,115)
Stocks	(77,217)	(191,511)
Subsidiaries	(20,500)	(11,000)
Real estate, software, furniture and equipment	(30,170)	(31,947)
Due to investment brokers	(8,000)	8,000
Net cash used in investing activities	**(112,258)**	**(60,180)**
Financing activities—Principal payments on debt	(14,142)	(3,810)
OTHER CASH PROVIDED (USED)	183	(182)
Net decrease in cash and cash equivalents	**(72,956)**	**(52,416)**
Cash and cash equivalents—Beginning of year	**66,741**	**119,157**
Cash and cash equivalents—End of year	**$ (6,215)**	**$ 66,741**
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 46,566	$ (54,093)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	14,266	9,043
Amortization of bond premium	4,037	10,170
Realized (gains) losses on investments	(31,027)	70,438
Realized loss on fixed assets	8	1,976
Increase in accounts receivable	(21,850)	(50,177)
(Decrease) increase in claims payable	(13,644)	9,741
Increase (decrease) in unearned premiums	43,274	(5,246)
(Decrease) increase in accounts payable and other liabilities	(4,110)	15,421
Decrease in due from parent	537	(134)
Increase in pension and other postretirement benefits obligations	15,204	4,617
Net cash provided by operating activities	**$ 53,261**	**$ 11,756**

See notes to statutory basis financial statements.

(Dollar amounts in thousands)

1. DESCRIPTION OF ORGANIZATION, BUSINESS, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Excellus Health Plan, Inc. (the "Company"), is organized under Article 43 of the New York State Insurance Law and provides health and medical insurance coverage to subscribers in Upstate New York. The Company conducts most of its business under the following trade names: Excellus BlueCross BlueShield, Excellus BlueCross BlueShield, Rochester Region, Excellus BlueCross BlueShield, Central New York Region, Excellus BlueCross BlueShield, Central New York Southern Tier Region, Excellus BlueCross BlueShield, Utica Region, and Univera Healthcare. Lifetime Healthcare, Inc. (the "Parent"), is the sole corporate member of the Company.

The Company is also affiliated with the following entities:

Subsidiary/Affiliate	Nature of Affiliation
MedAmerica, Inc., and Subsidiaries ("MedAmerica")	100% owned by the Company
Excellus Acquisition, Inc., and Subsidiaries ("Excellus Acquisition")	100% owned by the Company
Excellus Ventures, Inc., and Subsidiaries	100% of voting shares owned by Lifetime Healthcare, Inc., and 100% of nonvoting shares owned by the Company
North Star Home Health Management, Inc., and Subsidiaries ("Lifetime Care")	The Company appoints a majority of the members of the Board of Directors
Genesee Valley Group Health Association ("Lifetime Health Medical Group")	The Company is the sole corporate member

Basis of Presentation and Summary of Significant Accounting Principles and Methods—The Company's financial statements have been prepared on the basis of accounting practices prescribed or permitted by the New York State Insurance Department ("Statutory Basis") and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP).

The New York Superintendent of Insurance (the "Superintendent") requires insurance companies domiciled in New York to prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP). Updates to this manual, including new Statements of Statutory Accounting Principles (SSAP), are adopted unless otherwise specified by the Superintendent. Accounting practices and procedures included in NAIC SAP are subject to any exceptions required by the Superintendent. The Superintendent has required the following exception from NAIC SAP which pertains to the Company: leases approved for capitalization by the Superintendent prior to January 1, 2001, are admitted whereas the NAIC SAP requires all leases be treated as operating leases. In addition, the Superintendent has required the Company to record a $5,500 liability associated with the Company's guarantee of an affiliate's obligation (refer to Note 8). The Superintendent also has the right to permit other specific practices that may deviate from prescribed practices.

A reconciliation of the Company's unassigned funds between NAIC SAP and practices prescribed and permitted by the State of New York that affect reserves and unassigned funds at December 31, 2009 and 2008, is shown below:

	2009	2008
Total reserves and unassigned funds—as reported	$965,053	$971,865
State-prescribed practices—Community Health Foundation liability	5,500	5,500
Total reserves and unassigned funds in conformity with NAIC SAP	**$970,553**	**$977,365**

Accounting practices as prescribed or permitted under statutory authority which may vary from GAAP:

Investments in Debt Securities—Debt securities are stated at amortized cost. For inflation indexed bonds, the inflation adjustment since the date of acquisition is included in amortized cost and in unrealized gains/losses in unassigned funds. When the fair value of the debt security is lower than its cost, and such a decline is determined to be other than temporary, the cost of the investment is written down to fair value and the amount of the write-down is charged to net income as a realized loss. For loan-backed and structured securities, consideration is given to the Company's ability and intent to hold to maturity for interest related impairments. For GAAP purposes, debt securities are stated at fair value and the interest income on inflation indexed bonds is recognized using an estimated effective yield and the retrospective interest method. Other-than-temporary impairments due to credit are recognized as a realized loss and measured as the difference between amortized cost and the present value of projected cash flows discounted at the security's effective rate. The non-credit portion of an other-than-temporary impairment is recognized in other comprehensive income unless the Company intends to sell the security, in which case, that portion of the write-down would be recognized as a realized loss.

Investments in Subsidiaries—Investments in insurance subsidiaries are stated at the statutory net equity of the subsidiaries. Investments in noninsurance subsidiaries which report on a GAAP basis are stated at the GAAP net equity of those subsidiaries. The net change in the Company's investments in subsidiaries is included in unassigned funds. For GAAP purposes, investments in subsidiaries are eliminated after the consolidation of such subsidiaries.

Nonadmitted Assets—NAIC SAP, New York State Insurance Law and New York State Insurance Department regulations do not allow certain assets to be included in statutory financial statements. Such assets include receivables over 90 days past due; prepaid expenses; furniture, fixtures, and purchased software; amounts due from affiliates in deficit positions; an intangible asset arising from pension accounting; prepaid pension cost; deferred tax assets to the extent they do not reverse or are realizable within one year and exceed 10% of statutory capital and surplus, offset by existing deferred tax liabilities; and provider advances that do not meet specific conditions of setoff, reconciliation, and settlement terms or are in excess of the payable to the provider for incurred claims. The net change in nonadmitted assets is charged or credited directly to unassigned funds. Nonadmitted assets are not a relevant concept under GAAP.

Health Care Receivables—Health care receivables are comprised primarily of pharmaceutical rebate receivables, loans and advances to providers, and amounts receivable under government insured programs. These receivables are accounted for in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans.* Health care receivables do not have specific guidance under GAAP.

Income Taxes—The Company is subject to federal income tax under Internal Revenue Code provisions applicable to stock property and casualty insurance companies, with certain special provisions. The Company and its wholly owned subsidiaries are included in the consolidated federal tax return of Lifetime Healthcare, Inc. Income tax expense is based upon income reported for tax purposes on a separate company basis. Deferred tax assets and liabilities are recognized for temporary differences between statutory accounting and tax basis of assets and liabilities. Deferred tax assets are admitted to a limited extent based on reversal and realizability within one year, not to exceed 10% of statutory capital and surplus, plus the offset of remaining deferred tax assets against existing deferred tax liabilities. The change in deferred tax assets and liabilities is recognized as a separate component of gains/losses in unassigned funds. For GAAP purposes, deferred taxes are recognized for temporary differences between the financial reporting and tax basis of assets and liabilities and are included in income tax expense in the results of operations. In addition, effects of net operating loss carryforwards are not reported for statutory purposes while such items are reported for GAAP purposes.

Mortgages—Real estate encumbrances are netted against the related real estate under NAIC SAP. For GAAP purposes they are reported as liabilities.

Pension and Other Postretirement Benefits Obligation—The Company offers pension benefits to its employees and postretirement benefits to retirees and their spouses similar to benefits offered to active employees. Under NAIC SAP, the pension and postretirement benefits accrual is based on only the vested obligation to employees and retirees and the amount of unfunded benefits are disclosed in the notes to the financial statements. For GAAP purposes, nonvested obligations are included and the unfunded status of the Company's pension and postretirement plans is reflected as a liability on its statement of financial position.

Leases—NAIC SAP provides that all leases are treated as operating leases. New York conforms to NAIC SAP unless specific approval by the Superintendent was granted prior to January 1, 2001. For GAAP purposes, leases meeting certain criteria are treated as capital leases.

Uninsured Plans—Amounts received and paid on behalf of uninsured plans are not reported as premiums earned or claims expense. Administrative fee revenues for servicing the uninsured plans are recognized in the period in which the related services are performed based upon the fee charged to the uninsured plan and are deducted from the Company's operating expenses. For GAAP purposes, amounts received and paid on behalf of uninsured administrative service contract plans are included in premiums earned and claims expense as services are performed.

Other Comprehensive Income—Other comprehensive income and its components are not presented in the statutory basis financial statements, which are required by GAAP.

The differences between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material.

Policies as prescribed or permitted under statutory authority which conform to GAAP include:

Revenue Recognition—Premium revenues are derived from risk-based health insurance arrangements for which the Company assumes the economic risk of funding its customers' health care services and related administrative costs. The Company recognizes premium revenues in the period in which eligible individuals are entitled to receive health care services. The Company records health care premium payments received from its customers in advance of the service period as unearned premiums. For retrospectively rated customers, rate stabilization reserves, representing accumulated premiums that exceed amounts owed by customers based upon actual claim experience and paid based on contractual requirements, are reflected in policy reserves.

Centers for Medicare and Medicaid Services (CMS)—CMS deploys a risk adjustment model for its Medicare Advantage premium which pays more for members whose medical history would indicate higher expected medical costs. Under this risk adjustment methodology, the Company collects member medical histories and submits them to CMS. The health status data comes mostly from hospital inpatient, hospital outpatient and physician claims submissions. That electronic claims data is augmented with an in-depth review of medical charts on a subset of members. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS.

CMS Medicare Advantage premium and the premium under the Medicare Part D program, which includes CMS premium, member premium, and low-income premium subsidy for the Company's insurance risk coverage is recognized ratably over the period in which the eligible individuals are entitled to receive health care services and prescription drug benefits. Medicare Advantage premium revenue is reported at estimated net realizable amounts and includes estimated retroactive revenue adjustments associated with current and anticipated future audits and reviews. CMS is currently conducting an audit to validate the coding practices of and supporting documentation maintained by the Company's health care providers.

Net premium income from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of premium earned are 16% and 14% for the years ended December 31, 2009 and 2008, respectively.

Restricted Cash—The Company had a restricted cash balance of $2,891 and $2,628 as of December 31, 2009 and 2008, respectively. These funds are restricted for payment of Federal Employee Program claims.

Investments in Equity Securities—Common and preferred stocks are valued using Procedures for Valuing Common Stocks and Warrants of the Securities Valuation Office (SVO) of the NAIC, which approximates fair value. The carrying value of investments sold is determined on a first-in, first-out basis. The net unrealized holding gain or loss on common and preferred stocks is included in unassigned funds.

When the fair value of such an investment is lower than its cost, and such a decline is determined to be other than temporary, the cost of the investment is written down to fair value and the amount of the write-down is charged to net income as a realized loss.

Real Estate and Equipment—Real estate, which includes land, buildings, and equipment, is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over a range of 25–40 years for buildings and periods ranging from three to five years for equipment. At December 31, 2009 and 2008, amounts included in real estate and equipment are as follows:

	2009	2008
Real estate	$107,098	$106,550
Software and equipment	149,040	120,460
Total	**$256,138**	**$227,010**
Less accumulated depreciation	$143,777	$130,523
Less nonadmitted assets	66,757	49,128
Real estate and equipment—net	**$45,604**	**$47,359**

Depreciation expense was $14,266 and $9,043 for the years ended December 31, 2009 and 2008, respectively.

On an ongoing basis, the Company assesses whether its real estate and equipment are impaired. During 2008, the Company vacated an office building in Syracuse and recognized an impairment charge of $1,143. No impairment loss was recognized in 2009.

The real estate amount is net of a capital lease obligation with a balance of $2,133 and $2,265 as of December 31, 2009 and 2008, respectively. Capital lease payments, which are indexed to the Consumer Price Index, are due in monthly installments of $10 through 2027.

Claims Payable—These amounts, which include the liability for reported claims and claims incurred but not reported, have been estimated using certain actuarial assumptions and methods and are based upon statistics developed from prior claims experience. These amounts also include estimated retrospective settlements with hospitals and an amount for estimated expenses related to processing unpaid claims.

Management believes that the claims payable liability at December 31, 2009 and 2008, is appropriately established in the aggregate and is adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by those dates. The establishment of appropriate liabilities is an inherently uncertain process. Such liabilities are necessarily based on estimates and the ultimate net cost may vary from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in current operations.

Premium Deficiency Reserve—Premium deficiency reserves and the related expenses, as defined by SSAP No. 54, *Individual and Group Accident and Health Contracts*, as well as actuarial practice guidelines, are recognized when it is probable that expected future health care expenses, claim adjustment expenses and administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in claims expense in the accompanying statements of income—statutory basis in the period in which the change in estimate is identified.

Concentrations of Credit Risk—Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute the Company's customer base. At December 31, 2009, the Company had a receivable of $34,238 due from the State of New York, representing premium payments due under the Medicaid and Family Health Plus programs. The Company regularly monitors and evaluates such balances and records only the amounts deemed probable of realization.

Use of Estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events—Subsequent events have been evaluated by the Company through March 12, 2010, the date the financial statements were available to be issued.

New and Pending Accounting Standards—SSAP No. 43R, *Loan-Backed and Structured Securities*, was adopted in September 2009, substantively updating SSAP No. 43 and superseding SSAP 98. The statement establishes new criteria for the recognition of other-than-temporary impairments (OTTI) on loan-backed and structured securities and also requires additional financial statement disclosure. The new criteria require OTTI to be recognized if either a non-interest-related loss is deemed to have occurred or if the Company has the intention to sell a security whose fair value is less than its amortized cost basis.

2. INVESTMENTS

The carrying value and estimated fair values of investments at December 31, 2009 and 2008, were as follows:

2009	Fair Value Valuation Category	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	1	$ 142,143	$ 3,978	$ 879	$ 145,242
Mortgage-backed securities	2	362,760	17,024	5,870	373,914
Other debt securities	2	580,469	33,433	2,964	610,938
Total debt securities		**1,085,372**	**$54,435**	**$ 9,713**	**$1,130,094**
Common and preferred stocks (cost: $296,065)	1	333,745			
Common stocks (cost: $1,130)	3	3,485			
Subsidiaries	N/A	176,230			
Total		**$1,598,832**			
2008					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	1	$ 170,625	$ 6,920	$ 2,278	$ 175,267
Mortgage-backed securities	2	409,153	9,431	25,750	392,834
Other debt securities	2	450,350	9,223	32,242	427,331
Total debt securities		**1,030,128**	**$25,574**	**$60,270**	**$ 995,432**
Common and preferred stocks (cost: $269,852)	1	230,133			
Common stocks (cost: $1,150)	3	2,590			
Preferred stocks (cost: $2,019)	3	1,299			
Subsidiaries	N/A	150,624			
Total		**$1,414,774**			

The Company elected to early adopt SSAP No. 100, *Fair Value Measures—Nonsubstantive Modifications to Statutory Accounting Guidance* (SAP 100), effective December 31, 2009. Utilizing SAP 100, the fair values of the assets carried at fair value have been classified according to the following value hierarchy: Level 1 reflects quoted prices in active markets for identical assets; Level 2 reflects valuation based on other inputs that are observable or derived principally from observable inputs; Level 3 reflects valuation based on unobservable inputs that reflect the Company's assumptions rather than market participant assumptions.

During the year ended December 31, 2009, the changes in the fair value of the assets carried at fair value measured using significant unobservable inputs (Level 3) were comprised of the following:

	Preferred Stock	Common Stock
Beginning balance—January 1, 2009	$1,299	$2,590
Total gains or losses:		
Unrealized gain		895
Net realized loss	(1,299)	
Balance—December 31, 2009	**$ —**	**$3,485**

The carrying value and estimated fair value of debt securities at December 31, 2009, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 22,781	$ 23,195
Due after one year through five years	283,504	297,106
Due after five years through 10 years	202,455	209,052
Due after 10 years	213,872	226,827
Mortgage-backed securities	362,760	373,914
Total	**$1,085,372**	**$1,130,094**

Proceeds from the sales and maturities of investments during 2009 and 2008 were $854,249 and $946,886, respectively. The gross realized gains and losses on sales of investments were as follows:

	2009	2008
Realized gains	$ 47,456	$ 33,780
Realized losses	(16,429)	(104,218)
Total—net	**$ 31,027**	**$ (70,438)**

Investment securities in an unrealized loss position as of December 31, 2009 and 2008, are summarized as follows:

	Less than 12 months		More than 12 months		Total	
2009	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 40,629	$ (879)	$ —	$ —	$ 40,629	$ (879)
Mortgage-backed securities	32,066	(386)	49,298	(5,484)	81,364	(5,870)
Other debt securities	101,076	(1,548)	25,974	(1,416)	127,050	(2,964)
Common and preferred stocks			22,638	(4,262)	22,638	(4,262)
Total	**$173,771**	**$ (2,813)**	**$ 97,910**	**$(11,162)**	**$271,681**	**$(13,975)**
2008						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 55,901	$ (1,831)	$ 5,291	$ (447)	$ 61,192	$ (2,278)
Mortgage-backed securities	80,535	(12,943)	48,651	(12,807)	129,186	(25,750)
Other debt securities	233,879	(25,736)	45,819	(6,506)	279,698	(32,242)
Common and preferred stocks	94,853	(42,525)	1,299	(741)	96,152	(43,266)
Total	**$465,168**	**$(83,035)**	**$ 101,060**	**$(20,501)**	**$566,228**	**$(103,536)**

The Company holds a diversified portfolio of investments in the general investment categories shown above. In the fixed income category there are debt securities in an unrealized loss position. Most of these positions are not considered other-than-temporarily impaired since the unrealized loss is due to changes in the overall level of interest rates, excessive liquidity premiums or excessive changes in credit spreads, or in the case of convertible bonds, due to changes in the fair value of the underlying stock. The Company has a policy which considers historic interest rate volatility and the target and actual duration of its investments in debt securities to initially identify potentially other-than-temporarily impaired fixed income securities. Securities identified as potentially other-than-temporarily impaired are then reviewed with the Company's investment managers for potential inability to collect amounts due according to contractual terms (credit impairment). Additionally, the credit ratings, ratings history and outlook are reviewed and any intent to sell by the investment manager is considered. In 2009, for residential mortgage backed securities, the Company also considered the intrinsic values published by the NAIC. Such securities, which are not credit impaired and for which the investment manager and the Company do not have an intent to sell, are not considered to be other-than-temporarily impaired. The Company recognized impairment losses of $2,061 and $9,278 in 2009 and 2008, respectively, for all debt securities. Impairment losses are included in realized loss on investments in the accompanying statement of operations—statutory basis.

The Company has investments in mortgage backed securities, including some collateralized by non-prime mortgages. Most of the securities collateralized by non-prime mortgages are what are generally known as "Alt-A" mortgages and a smaller amount are known as sub-prime mortgages. The total of investments backed by non-prime mortgages is 1% of total investments and all but one such investment remain highly rated and liquid. The Company's impairment losses for debt securities included $2,061 and $3,646 in 2009 and 2008, respectively, for mortgage backed securities. As required by SSAP No. 43(R), the table below reflects the individual securities that comprise the 2009 impairment losses for mortgage backed securities. These securities were impaired on the basis that the present value of cash flows expected to be collected is less than the amortized cost basis of the security.

Security	Amortized Cost Pre-OTTI	Current Period Impairment	Amortized Cost after Current Period Impairment	Fair Market Value
Banc of America MBS 5.75%	$ 1,630	$ (779)	$ 851	$ 1,032
CWalt 2005-57CB MBS 5.5%	1,721	(885)	836	836
CMO CHL Mtg Pass Thru TR 2006	1,337	(397)	940	894
	$ 4,688	**$(2,061)**	**$ 2,627**	**$ 2,762**

In the equity securities category, there is one security with a fair value of $22,638 in an unrealized loss position at December 31, 2009, of $4,262, which is 16% of cost. Management believes this temporary impairment is due to the factors affecting the market and the economy generally since the Company has essentially no positions in actively traded individual company stocks. The Company consults with its investment advisor and considers its ability to hold to recovery when evaluating possible other-than-temporary impairments. The Company recognized impairment losses of $2,039 and $-0- in 2009 and 2008, respectively, for all equity securities.

3. TRANSACTIONS WITH RELATED PARTIES

Lifetime Health Medical Group—This affiliate provides certain health care facilities and services to the Company on a capitated basis to members of various lines of business of the Company. Comprehensive medical and physician services are also provided by this affiliate on a fee-for-service basis. Amounts paid to Lifetime Health Medical Group for these services totaled $94,884 and $112,488 in 2009 and 2008, respectively.

The Company provides administrative services to Lifetime Health Medical Group. Administrative services reimbursement totaled $6,911 and $6,131 in 2009 and 2008, respectively. The Company owns certain properties occupied by Lifetime Health Medical Group. Annual rental charges for these facilities under the lease agreement were $2,491 and $2,524 for the years ended December 31, 2009 and 2008, respectively.

The net receivable from this affiliate at December 31, 2009 and 2008, is a nonadmitted asset under New York State Insurance Department regulations due to the net deficit position of the affiliate. As such, it is not reported in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

Lifetime Care—This affiliate provides home health, hospice, and alternative care services. Such services provided to subscribers of the Company in 2009 and 2008, approximated $15,650 and $13,620, respectively.

Certain salary and benefit costs are allocated to Lifetime Care by the Company based on actual amounts incurred and/or continuing cost studies. In addition, Lifetime Care reimburses the Company for other operating costs incurred on its behalf. The total reimbursements for the years ended December 31, 2009 and 2008, were $5,126 and $5,730 for these costs and expenses, respectively.

The net receivable from this affiliate was $1,809 and $1,930 at December 31, 2009 and 2008, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

MedAmerica—The Company is reimbursed by MedAmerica for the full amount of operating expenses paid on its behalf. Total reimbursements for the years ended December 31, 2009 and 2008, were $8,909 and $8,979, respectively. The amount due from this subsidiary was $551 and $702 at December 31, 2009 and 2008, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company contributed additional capital to MedAmerica of $20,500 and $11,000 in 2009 and 2008, respectively.

Univera Community Health—The Company is one of three members of Univera Community Health, Inc. (UCH), a prepaid health services plan which primarily provides prepaid comprehensive health care to enrolled Medicaid, Family Health Plus, and Child Health Plus populations in western New York. UCH is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Company is compensated for administrative services by UCH, which amounted to approximately $12,636 and $12,335 for the years ended December 31, 2009 and 2008, respectively. The Company had a receivable from UCH, of $1,393 and $976 at December 31, 2009 and 2008, respectively, which is included in health care receivables in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

Workers' Compensation Trust (the "Trust")—The Company participates in a self-insured workers' compensation trust. The Trust consists of Lifetime Healthcare, Inc., Excellus Health Plan, Inc., Lifetime Health Medical Group, Excellus Acquisition, Inc., and Lifetime Care. The Company is deemed to be jointly and severally liable for all workers' compensation obligations incurred by the Trust. The total liability for future benefits payable incurred by the Trust is $10,517 and $10,873 at December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the Company's workers' compensation liability amounted to $3,801 and $3,711, respectively, and is included within accounts payable and other liabilities on the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company does not believe it will have to fulfill an obligation in excess of what is recorded at December 31, 2009.

Excellus Acquisition, Inc. ("EAI")—EAI provides certain retirement plan and flexible spending account services, as well as brokering various insurance products for the Company. The cost of such services totaled $4,153 and $3,334 in 2009 and 2008, respectively. The amount due to EAI of $92 and $-0- at December 31, 2009 and 2008, respectively, is included in due to affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. In addition, the Company is reimbursed by EAI for the full amount of operating expenses paid on its behalf. Total reimbursements for the years ended December 31, 2009 and 2008, were $3,569 and $9,043, respectively. The amount due from this subsidiary was $601 and $864 at December 31, 2009 and 2008, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

Other Transactions—The Company allocates various administrative and operating expenses to certain of its affiliates. These allocations are generally based upon continuing cost studies or actual amounts incurred. The Company also collects and/or processes cash receipts on behalf of certain of its affiliates. The net amount receivable from these affiliates as a result of these transactions was $113 and $193 as of December 31, 2009 and 2008, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

4. CLAIMS PAYABLE

Activity in the claims payable liability at December 31, 2009 and 2008, which includes the liability for claim adjustment expenses, is summarized as follows:

	2009	2008
Balance at January 1	$ 559,045	$ 549,304
Less: Liability for claim adjustment expenses	(26,660)	(22,859)
Less: Claims-related health care receivables	(228,414)	(211,190)
Beginning claims liability	**303,971**	**315,255**
Incurred related to:		
Current year	4,412,032	4,496,025
Prior years	(80,638)	(19,555)
Total incurred	**4,331,394**	**4,476,470**
Paid related to:		
Current year	4,027,677	4,074,795
Prior years	336,908	412,959
Total paid	**4,364,585**	**4,487,754**
Ending claims liability	270,780	303,971
Plus: Liability for claim adjustment expenses	22,941	26,660
Plus: Claims-related health care receivables	251,680	228,414
Balance at December 31	**$ 545,401**	**$ 559,045**

As a result of changes in estimates of insured events in prior years, the provision for claims payable and claims expenses decreased by $80,638 and $19,555 in 2009 and 2008, respectively. This was primarily due to lower than anticipated health care cost trends for prior periods in 2009 and 2008, as well as lower than expected utilization trends and the revision of estimates for off-system payment liabilities to reflect new information in 2009.

There was no premium deficiency reserve, included in claims payable, in either 2009 or 2008.

5. INCOME TAXES

The Company joins with its parent, Lifetime Healthcare, Inc., and its other eligible domestic subsidiaries (Excellus Acquisition, Inc., and subsidiaries, Beacon Network Services, Inc., MedAmerica, Inc., and subsidiaries, and Excellus Ventures, Inc. and subsidiaries) in the filing of a consolidated federal income tax return and is party to a federal income tax allocation agreement. Under the tax allocation agreement, the Company pays to or receives from the Parent the amount, if any, by which the group's federal income tax liability was affected by inclusion of the Company in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed, with adjustments, as if the Company filed a separate return. Amounts due (to)/from the Parent are ($445) and $12,573 as of December 31, 2009 and 2008, respectively.

The Company evaluates the recoverability of the deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax assets to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; and (5) the length of time that carryovers can be utilized.

The components of the net deferred tax assets as of December 31, 2009 and 2008 are as follows:

	2009			2008		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	$342,546	$ —	$342,546	$288,492	$ 15,939	$304,431
Gross deferred tax liabilities	(10,162)	(14,012)	(24,174)	(9,215)		(9,215)
Net deferred tax assets before admissibility test	**332,384**	**(14,012)**	**318,372**	**279,277**	**15,939**	**295,216**
Nonadmitted portion of deferred tax assets	(276,056)		(276,056)	(243,459)	(15,939)	(259,398)
Net admitted deferred tax assets	**$ 56,328**	**$ (14,012)**	**$ 42,316**	**$ 35,818**	**$ —**	**$ 35,818**

Deferred tax assets are admitted to a limited extent based on reversal and management's expectation of realizability within one year, not to exceed 10% of adjusted statutory capital and surplus, plus the offset of remaining deferred tax assets against existing deferred tax liabilities.

SSAP No. 10(R), *Income Taxes—Revised, Temporary Replacement of SSAP No. 10* (SSAP 10(R)), issued in November 2009, permits qualifying reporting entities to elect to admit additional deferred tax assets by extending admissibility to those amounts expected to reverse or be realized within three years, not to exceed 15% of adjusted statutory capital and surplus. This election is available to qualifying reporting entities through December 31, 2010, at which time, absent a continuance of SSAP 10(R), the previous deferred tax asset admission guidance of SSAP 10 will be reinstated. At December 31, 2009, the Company has not elected to admit the additional deferred tax assets permitted by SSAP 10(R). The Company has not yet made a decision on its election for any period in 2010.

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10(R) paragraph 10, as of December 31, 2009 and 2008, are as follows:

	2009 Ordinary	**2008 Ordinary**
Federal income taxes recoverable through loss carryback (10.a.)	$27,874	$31,432
Adjusted gross DTA expected to be realized in one year (10.b.i)	38,616	13,601
Total admitted DTA	**$66,490**	**$45,033**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2009 and 2008, are as follows:

	2009	2008	Change	Character
Deferred tax assets:				
Alternative minimum tax carryforwards	$122,836	$136,266	$(13,430)	Ordinary
Investments	5,731	7,354	(1,623)	Ordinary
Unrealized losses		13,645	(13,645)	Capital
Bad debt	11,893	12,840	(947)	Ordinary
Real estate and fixed assets	21,071	13,509	7,562	Ordinary
Nonadmitted assets	5,807	8,127	(2,320)	Ordinary
Claims payable	13,289	15,737	(2,448)	Ordinary
Accrued expenses	69,892	52,479	17,413	Ordinary
Pension and postretirement benefit obligations	92,027	42,180	49,847	Ordinary
Other		2,294	(2,294)	Capital
Total deferred tax assets	**342,546**	**304,431**	**38,115**	
Nonadmitted deferred tax assets	(276,056)	(259,398)	(16,658)	
Admitted deferred tax assets	**66,490**	**45,033**	**21,457**	
Deferred tax liabilities—investments	(24,174)	(9,215)	(14,959)	Capital
Net admitted deferred tax assets	**$ 42,316**	**$ 35,818**	**$ 6,498**	

The Company utilized (generated) AMT credit carryforwards of $13,430 and $(4,045) in 2009 and 2008, respectively.

The changes in net deferred income tax for the years ended December 31, 2009 and 2008, are comprised of the following:

	2009	2008
Change in deferred tax assets	$ 38,115	$ 45,896
Change in deferred tax liabilities	(14,959)	16,222
Change in net deferred tax assets	**23,156**	**62,118**
Change in deferred taxes on:		
Unrealized investment gains (losses)	27,262	(33,178)
Additional minimum pension liability	(44,382)	
	(17,120)	**(33,178)**
Net change in deferred taxes	**$ 6,036**	**$ 28,940**

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income before income taxes. The significant items causing this difference are the use of AMT credit carryforwards and the change in net deferred tax assets which are recognized in unassigned funds for NAIC SAP purposes.

6. RESERVE AND UNASSIGNED FUNDS

New York State Insurance Law requires that a statutory reserve be established and increased each calendar year by 1% of net premium income unless otherwise waived by the Superintendent. At the end of any calendar year, this reserve shall not exceed 12.5% of net premium income for the year. As of December 31, 2009 and 2008, the Company was in compliance with these requirements.

The Company is required by the Blue Cross and Blue Shield Association to maintain reserves as determined using the Risk-Based Capital Formula promulgated by the NAIC. As of December 31, 2009 and 2008, the Company was in compliance with these requirements.

7. PENSION AND POSTRETIREMENT BENEFITS OBLIGATION

Defined Benefit Plans

The Company sponsors noncontributory defined benefit pension plans covering substantially all of its employees who have completed one year of service with the Company. Participants become vested after completing five years of service. Benefits are based on credited years of service and the participant's annual compensation over a defined service period. The Company has a funding policy for its qualified plan for amounts not less than the amount required under the Pension Protection Act based on statutory expense for the year. Plan assets consist primarily of common stocks, investment grade corporate bonds, U.S. government obligations, mutual funds, hedge funds and other alternative investments, and cash. Effective January 1, 2008, retirement benefits for employees of the Lifetime Health Medical Group ceased to accrue.

Postretirement Benefits Other Than Pension

The Company provides postretirement health, dental, and life insurance benefits to eligible retired employees and their spouses. Eligible employees generally must have been hired before December 31, 2004, attain age 55 and complete 10 years of service after age 45 to be eligible for these benefits. Cost-sharing provisions apply to some employees based on length of service.

The Company uses a September 30 measurement date for its pension and postretirement benefit plans.

Plan Status

A summary of assets, obligations and assumptions of the pension, and postretirement benefit other than pension as of and for the years ended December 31, 2009 and 2008, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 400,978	$ 432,559	$ 42,630	$ 52,417
Service cost	22,138	22,988	4,262	3,903
Interest cost	30,478	27,698	3,636	3,168
Actuarial (gain) loss	132,821	(64,035)	31,107	(6,909)
Special termination benefits	13,096		4,790	
Participant contributions			326	89
Curtailments		(6,411)		
Benefits paid	(22,116)	(11,821)	(5,227)	(3,487)
Plan amendments				(6,551)
Benefit obligation at end of year	**$ 577,395**	**$ 400,978**	**$ 81,524**	**$ 42,630**
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 282,628	$ 322,795	$ —	$ —
Actual return on plan assets	(14,262)	(47,201)		
Employer contributions	34,034	19,388	4,901	3,398
Participants' contributions			326	89
Benefits and expenses paid	(22,692)	(12,354)	(5,227)	(3,487)
Fair value of plan assets at end of year	**279,708**	**282,628**	**—**	**—**
Funded status	(297,687)	(118,350)	(81,524)	(42,630)
Unamortized prior service costs	(1,064)	(1,388)	9,257	9,791
Unrecognized net loss	(218,906)	(45,684)	(33,415)	(2,708)
	(219,970)	**(47,072)**	**(24,158)**	**7,083**
Net amount recognized	**$ 77,717**	**$ 71,278**	**$ 57,366**	**$ 49,713**
Amounts recognized in the statement of admitted assets, liabilities, and reserve and unassigned funds consist of:				
Intangible asset	$ (1,112)	$ —	$ —	$ —
Accrued liability	205,633	71,278	57,366	49,713
Unassigned funds	(126,804)			
	$ 77,717	**$ 71,278**	**$ 57,366**	**$ 49,713**
Obligation for nonvested employees at most recent valuation date	**$ 15,716**	**$ 9,692**	**$ 29,291**	**$ 19,458**
Accumulated benefit obligation	**$ 8,943**	**$ 6,058**		

The projected benefit obligation exceeded the fair value of plan assets at December 31, 2009 and 2008, for each of the defined benefit pension plans. The accumulated benefit obligation for all defined benefit pension plans was $471,638 and $327,738 at December 31, 2009 and 2008, respectively. At December 31, 2009, for defined benefit plans with accumulated benefit obligations in excess of plan assets, the aggregate pension accumulated benefit obligation was $471,638 and the aggregate pension assets were $279,708. At December 31, 2008, for defined benefit plans with accumulated benefit obligations in excess of plan assets, the aggregate pension accumulated benefit obligation was $48,877 and the aggregate pension assets were $-0-.

Plan Costs

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost—including plan administration costs	$ 22,711	$ 23,717	$ 4,262	$ 3,903
Interest cost	30,478	27,698	3,636	3,168
Expected return on plan assets	(29,379)	(29,132)		
Amortization of unrecognized transition obligation or transition asset		(39)		
Special termination benefits	13,096		4,790	
Amortization of net (gain) loss	3,242	(2,811)	400	219
Amortization of prior service cost	325	317	(534)	(222)
Settlement/curtailment recognition		382		
Total net periodic benefit cost	**$ 40,473**	**$ 20,132**	**$ 12,554**	**$ 7,068**
Charge for additional minimum pension liability included in unassigned funds	**$126,804**	**$ —**		

The Company recognized net periodic pension and other postretirement benefit costs of $50,625 and $24,384 and allocated $2,402 and $2,816 to affiliates participating in the plans in 2009 and 2008, respectively. The Company, as plan sponsor, recognized the entire liability related to the defined benefit pension plans and recorded amounts due from affiliates for the cumulative periodic pension benefit costs allocated, net of reimbursements received.

The Company offered a limited early retirement program during November 2008. As this offer occurred during the 2009 measurement year, the special termination benefits cost for the employees who elected to participate of $17,886 was included in the Company's net periodic pension benefit cost in 2009.

Plan Investment Strategy

The weighted average asset allocations of the Company's pension plans, at December 31, 2009 and 2008, by asset category are as follows:

Asset Category	2009	2008
Cash and cash equivalents	9 %	4 %
Domestic equity securities	38	41
International equity securities	11	11
Fixed income securities	19	17
Real estate	9	13
Hedge funds and other	14	14
Total	**100 %**	**100 %**

The pension plan maintains a diversified portfolio of assets. The strategy for investment allocation reflects the goal of maximizing the long-term risk adjusted return of the plan consistent with the long-term time horizon of the pension plan's obligations and the long-term assumed rate of return expected. Recommendations are obtained from an investment consulting firm based on historic performance of various asset classes, expected future performance, relative risks, and availability of investment managers for selected classes. The current target allocation percentages are domestic equities 45%, international equities 10%, fixed income securities 15%, real estate 10%, hedge funds and other alternative investments 20%. The long-term rate of return assumption is 9%. The assumption was determined based on expected return of the pension plan portfolio using independent forecasts of a 10-year future performance, historical returns of the pension plan's investments for the past 15 years, using both market value and actuarially smoothed bases, and historical returns from similar asset classes from independent sources for the past 30 years.

Plan Assumptions

The assumptions used in determining the actuarial present value of the benefit obligations and the net periodic benefit cost at December 31, 2009 and 2008, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Weighted-average assumptions used to determine the benefit obligation at year-end:				
Discount rate	5.74%	7.50%	5.25%	7.50%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	3.5% to 6.5%	3.5% to 6.5%
Weighted-average assumptions used to determine the net periodic benefit cost for the year:				
Discount rate	7.50%	6.50%	7.50%	6.25%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	3.5% to 6.5%	3.5% to 6.5%
Expected long-term rate of return on plan assets	9.0%	9.0%	not applicable	not applicable
Health care cost trend assumptions at year-end:				
Health care cost trend rate assumed for the next year	not applicable	not applicable	10%/8%	10%
Rate to which the cost trend rate is assumed to decline	not applicable	not applicable	5%	5%
Number of years to reach ultimate trend rate	not applicable	not applicable	4	5

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a one-percentage-point change in assumed health care cost trend rates is as follows:

	One-percentage-point	
	Increase	Decrease
Effect on total service and interest cost components	$1,119	$ (938)
Effect on postretirement benefit obligation	7,096	(6,064)

Cash Flows

Contributions

The Company expects to make contributions to its pension and other postretirement benefit plans in 2010 of approximately $38,600.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2010	$ 16,019	$ 6,680
2011	17,193	7,070
2012	18,590	6,857
2013	20,288	6,856
2014	22,513	6,633
2015–2019	151,051	28,140

Defined Contribution Plan

The Company sponsors a defined contribution 401(k) plan. The plan allows employees to participate by contributing a portion of their compensation subject to the annual contribution limit imposed by Internal Revenue Code. The plan provides for employer matching at different levels. The matching contributions to this plan totaled $2,207 and $2,369 in 2009 and 2008 respectively.

8. DEBT

The Company's debt as of December 31, 2009 and 2008 consists of the following:

	2009	2008
Senior notes, unsecured, interest due semi-annually at 7.75%, principal which was repaid in full during 2009.	$ —	$13,455
Other obligations	5,500	5,753
Accrued interest		434
Total	**$ 5,500**	**$19,642**

During 2009 the Company discharged the senior notes in full, including a make-whole premium of $1,076, which has been included in investment expense.

At December 31, 2009, the Company had $175,000 of unused borrowing capacity in noncommitted credit facilities at various variable rate options determined at the time of borrowing. Renewals of these credit facilities are subject to annual reviews.

Cash paid for interest during 2009 and 2008 was approximately $2,057 and $1,614, respectively.

Guarantees—Included in other obligations is $5,500 related to Community Health Foundation of Western and Central New York, Inc. (the "Foundation"). The Foundation was created in conjunction with the mergers of Univera Healthcare operations with the Company and Lifetime Health Medical Group in 2001. The obligation requires Lifetime Health Medical Group to make annual payments of $5,500 through 2012. The Company has provided a guarantee to the Foundation of Lifetime Health Medical Group's obligation. Under the terms of the guarantee, the Company is to use its best efforts to ensure that Lifetime Health Medical Group meets its obligation to the Foundation. If Lifetime Health Medical Group fails to make the required payments, the Company will make payments as guarantor. The guarantee agreement also grants the Company's board of directors the discretion to withhold payment to the Foundation if the payment as guarantor would cause the Company to be out of compliance with its statutory reserve requirement. In that event, no payment is due under the guarantee agreement.

The Company provided a guarantee of the payment of an unsecured bank borrowing obtained by Lifetime Health Medical Group, an affiliate. The loan had an outstanding balance of $2,000 and $7,500 at December 31, 2009, and December 31, 2008, respectively, which was subsequently reduced to $1,640 effective January 31, 2010. The loan is due January 31, 2011.

The Company has guaranteed the payment of the direct policyholder obligations of MedAmerica, which amounted to $713,672 and $594,190 at December 31, 2009 and 2008, respectively. Management believes that any possible payments relative to this guarantee are remote and would not have a material impact on the Company's liquidity or surplus.

9. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A & H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

ASO Plans—The gain from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans for the years ended December 31, 2009 and 2008, was as follows:

	2009	2008
a. Contribution margin for administrative expenses (including administrative fees) in excess of actual expenses	$ (1)	$ 3,599
b. Total claim payment volume	$451,846	$412,393

ASC Plans—The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans as of December 31, 2009 and 2008, was as follows:

	2009	2008
a. Gross reimbursement for medical cost incurred	$438,232	$451,503
b. Gross administrative fees accrued/reimbursed	26,640	29,133
c. Gross expenses incurred (claims and administrative)	(467,324)	(479,424)
d. Contribution margin	**$ (2,452)**	**$ 1,212**

Medicare Cost Based Reimbursement Contract—Revenue from the Company's Medicare cost based reimbursement contract, for the years ended 2009 and 2008, consisted of $9,989 and $12,875, respectively, for medical and hospital related services and $793 and $757, respectively, for administrative expenses.

Medicare Part D Pharmacy Benefits Contract—Under the Medicare Part D program, the Company receives cost reimbursements in the form of Catastrophic Reinsurance Subsidies and Low-Income Member Cost-Sharing Subsidies. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly, there is no insurance risk to the Company. For the years ended 2009 and 2008, the Company recognized, respectively, $16,038 and $19,531 in Catastrophic Reinsurance Subsidies and $17,751 and $22,842 in Low Income Member Cost-Sharing Subsidies.

10. PHARMACEUTICAL REBATE RECEIVABLES

Pharmacy rebates receivables are estimated based on the most current available data from the Company's claim processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit manager (PBM). These receivables are recorded when reasonably estimated or billed by the PBM in accordance with pharmacy rebate contract provisions. The Company has excluded receivables that do not meet the admissibility criteria from the statement of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

The components of pharmaceutical rebates receivable, by quarter, were as follows:

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Actual Rebates Received Within 91–180 Days of Billing	Actual Rebates Received (Refunded) More Than 180 Days After Billing
December 31, 2009	$ 19,701	$ —	$ —	$ —	$ —
September 30, 2009	20,647	17,764	7,642		
June 30, 2009	20,559	20,396	17,310	3,086	
March 31, 2009	19,238	19,235	17,236	1,999	
December 31, 2008	20,076	20,587	19,440	137	108
September 30, 2008	18,846	18,846	16,773	2,026	47
June 30, 2008	18,299	18,433	16,395	1,740	164
March 31, 2008	17,010	17,687	15,873	1,580	(443)
December 31, 2007	19,987	20,081	17,166	2,494	327
September 30, 2007	19,211	19,401	17,707	1,667	(163)
June 30, 2007	18,643	18,871	17,022	699	922
March 31, 2007	16,889	16,996	15,117	125	1,647

11. COMMITMENTS

The Company leases office space and equipment under certain noncancelable lease agreements. As of December 31, 2009, the annual lease commitment is as follows:

2010	2011	2012	2013	2014	Thereafter
$9,889	$6,408	$4,305	$3,026	$2,567	$6,596

Rent expense under operating leases totaled $11,275 and $11,052 in 2009 and 2008, respectively.

12. CONTINGENCIES

Litigation—The Company has been sued for breach of contract by two former shareholders of R.M.S.C.O. Inc., which was acquired by the Company in 1999. The plaintiffs assert that the Company breached certain covenants and failed to pay amounts allegedly due under the terms of the stock purchase agreement. Management believes this action is without merit. Management believes that an unfavorable outcome from this action would not have a material impact on the Company's liquidity or surplus.

From time to time the Company is involved in other pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the results of operations, liquidity, or surplus of the Company.

13. ADJUSTMENTS FROM AMOUNTS REFLECTED IN THE FINANCIAL STATEMENTS FILED WITH THE INSURANCE DEPARTMENT OF THE STATE OF NEW YORK TO THE ACCOMPANYING STATUTORY BASIS FINANCIAL STATEMENTS

An adjustment associated with the application of SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, was identified by the Company prior to the issuance of the 2008 statutory basis financial statements but subsequent to the filing of its 2008 Annual Statement with the Insurance Department of the State of New York. A reconciliation of the adjusted amounts as of and for the year ended December 31 is as follows:

	2008		
	As Reported in the Annual Statement	**Adjustment**	**As Reported in the Accompanying Financial Statement**
Financial statement line item:			
Total admitted assets	$1,947,399	$113,916	$2,061,315
Total liabilities	1,089,450		1,089,450
Total capital and surplus	857,949	113,916	971,865

Excellus BlueCross BlueShield

Univera Healthcare

Beacon Network Services

EBS-RMSCO

Lifetime Care Home Health and Hospice

Lifetime Health Medical Group

MedAmerica

Sibley Nursing Personnel Services

Support Services Alliance (SSA)

The Lifetime Healthcare Companies

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