AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
AmeriHealth Mercy Health Plan:

We have audited the accompanying consolidated financial statements of AmeriHealth Mercy Health Plan and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in partners' equity, and cash flows for the year ended December 31, 2012 (Successor), the one-month period ended December 31, 2011 (Successor), and the eleven-month period ended November 30, 2011 (Predecessor), and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of AmeriHealth Mercy Health Plan and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the year ended December 31, 2012 (Successor), the one-month period ended December 31, 2011 (Successor), and the eleven-month period ended November 30, 2011 (Predecessor) in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, PA
April 3, 2013

AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	197,586	114,954
Investment securities		120,214	89,347
Restricted investment securities		17,995	16,037
Premium receivables		140,032	105,148
Pharmacy rebates receivable		23,658	20,315
Other receivables		10,237	16,442
Due from affiliates		11,052	1,972
Prepaid expenses and other current assets		2,493	1,035
Deferred income taxes		2,151	3,363
Total current assets		525,418	368,613
Property and equipment, net		20,148	20,331
Restricted investment securities		528	532
Note receivable		5,250	5,250
Investment in nonconsolidated joint ventures		23,165	—
Goodwill		53,649	53,649
Intangible assets, net		84,673	95,971
Other assets		6,677	2,172
Total assets	$	719,508	546,518
Liabilities and Partners' Equity			
Current liabilities:			
Accrued medical expenses	$	239,161	179,694
Accounts payable and accrued expenses		67,012	52,342
Hospital assessment payable		8,814	6,276
Due to affiliates		29,257	7,988
Unearned premium revenue		14,497	14,792
Line of credit borrowings		10,000	—
Current portion of long-term debt		2,178	2,272
Total current liabilities		370,919	263,364
Long-term debt		8,647	9,214
Deferred income taxes		14,111	18,121
Purchase price payable		16,244	19,035
Due to affiliates		46,505	—
Other liabilities		7,700	8,198
Total liabilities		464,126	317,932
Commitments and contingencies (notes 19 and 20)			
Partners' equity:			
Paid-in-capital		235,992	222,992
Retained earnings		14,616	6,626
Accumulated other comprehensive income (loss)		2,689	(1,032)
Total equity attributed to AmeriHealth Mercy Health Plan and Subsidiaries		253,297	228,586
Noncontrolling interest		2,085	—
Total partners' equity		255,382	228,586
Total liabilities and partners' equity	$	719,508	546,518

See accompanying notes to consolidated financial statements.

AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands)

	Successor		Predecessor
	Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Revenue:			
Premiums	$ 1,821,262	119,072	1,292,790
Management services	68,242	6,332	77,000
Interest and dividend income	2,764	313	2,101
Realized investment gains (losses), net:			
Total other-than-temporary impairment losses	(157)	—	—
Other realized investment gains, net	2,144	966	1,633
Total realized investment gains, net	1,987	966	1,633
Total revenue	1,894,255	126,683	1,373,524
Expenses:			
Medical expenses:			
Purchased medical services, net	1,505,853	94,924	1,036,003
Capitated services	37,568	3,269	31,777
Hospital assessments	29,881	2,221	26,700
Total medical expenses, net	1,573,302	100,414	1,094,480
Administrative expenses:			
Purchased services – KMHP	84,885	5,606	65,696
Salaries and benefits	86,969	6,144	73,370
Other administrative and general	83,147	3,516	75,401
Gross receipts tax	36,858	2,274	26,040
Depreciation and amortization	14,756	1,272	4,423
Total administrative expenses	306,615	18,812	244,930
Other expenses:			
Interest expense	1,377	222	694
Loss from nonconsolidated joint ventures	4,763	—	—
Income before tax expense	8,198	7,235	33,420
Income tax expense, net	1,123	609	14,972
Net income	7,075	6,626	18,448
Less net loss attributable to noncontrolling interest	915	—	—
Net income attributable to AmeriHealth Mercy Health Plan and Subsidiaries	$ 7,990	6,626	18,448

See accompanying notes to consolidated financial statements.

AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Net income	$	7,075	6,626	18,448
Other comprehensive income (loss), net of tax:				
Net unrealized gain on investment securities arising during period		6,509	480	127
Less reclassification adjustment for net gains on investment securities included in net income		(1,987)	(966)	(1,633)
Net unrealized gain (loss) on investment securities		4,522	(486)	(1,506)
Pension liability adjustment		(801)	(546)	(3,080)
Other comprehensive income (loss)		3,721	(1,032)	(4,586)
Comprehensive income		10,796	5,594	13,862
Less comprehensive loss attributable to the noncontrolling interests		915	—	—
Comprehensive income attributable to AmeriHealth Mercy Health Plan and Subsidiaries	$	11,711	5,594	13,862

See accompanying notes to consolidated financial statements.

AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Statements of Changes in Partners' Equity

(In thousands)

		Predecessor		Successor				
		Retained earnings	Accumulated other comprehensive income	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
Balances at January 1, 2011 (Predecessor)	$	122,273	2,319	—	—	—	—	124,592
Net income		18,448	—	—	—	—	—	18,448
Other comprehensive loss		—	(4,586)	—	—	—	—	(4,586)
Comprehensive income (loss)		18,448	(4,586)	—	—	—	—	13,862
Partner distributions		(14,768)	—	—	—	—	—	(14,768)
Acquisition by BMH (note 1)		(125,953)	2,267	222,992	—	—	—	99,306
Balances at November 30, 2011 (Successor)		—	—	222,992	—	—	—	222,992
Net income		—	—	—	6,626	—	—	6,626
Other comprehensive loss		—	—	—	—	(1,032)	—	(1,032)
Comprehensive income (loss)		—	—	—	6,626	(1,032)	—	5,594
Balances at December 31, 2011 (Successor)		—	—	222,992	6,626	(1,032)	—	228,586
Net income		—	—	—	7,990	—	(915)	7,075
Other comprehensive income		—	—	—	—	3,721	—	3,721
Comprehensive income (loss)		—	—	—	7,990	3,721	(915)	10,796
Contributions		—	—	13,000	—	—	3,000	16,000
Balances at December 31, 2012 (Successor)	$	—	—	235,992	14,616	2,689	2,085	255,382

See accompanying notes to consolidated financial statements.

AMERIHEALTH MERCY HEALTH PLAN AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

		Successor		Predecessor
		Year ended December 31, 2012	**One month ended December 31, 2011**	**Eleven months ended November 30, 2011**
Cash flows from operating activities:				
Net income	$	7,075	6,626	18,448
Adjustments to reconcile net income to net cash provided by operating activities:				
Noncash items included in net income:				
Depreciation and amortization		14,756	1,272	4,423
Net realized gains on investments		(1,987)	(966)	(1,633)
Goodwill impairment		—	—	17,929
Net loss from nonconsolidated joint ventures		4,763	—	—
Other		554	62	536
Deferred income taxes		(4,714)	106	4,067
Changes in assets and liabilities:				
Premium receivables		(34,884)	4,374	29,354
Pharmacy rebates receivable		(3,343)	820	2,897
Other receivables		6,240	2,906	(5,056)
Due from affiliates		(9,080)	120	(1,154)
Prepaid expenses and other current assets		(1,458)	287	372
Other assets		(4,505)	(969)	1,813
Accrued medical expenses		59,467	(434)	(10,227)
Accounts payable and accrued expenses		17,427	(2,744)	531
Hospital assessment payable		2,538	2,223	(11,135)
Due to affiliates		774	(10,625)	(9,941)
Unearned premium revenue		(295)	466	(35,900)
Other liabilities		(118)	1,445	804
Total adjustments		46,135	(1,657)	(12,320)
Net cash provided by operating activities		53,210	4,969	6,128
Cash flows from investing activities:				
Capital expenditures		(3,261)	(1,304)	(752)
Investment in nonconsolidated joint ventures		(27,927)	—	—
Proceeds from sales and maturities of investment securities, available-for-sale		110,896	9,674	136,315
Purchase of investment securities, available-for-sale		(138,653)	(8,537)	(157,212)
Purchase price payment		(3,972)	—	—
Note receivable		—	—	4,000
Net cash used in investing activities		(62,917)	(167)	(17,649)
Cash flows from financing activities:				
Partner distributions		—	—	(14,768)
Cash contributed from Partners		13,000	—	—
Cash contributed by noncontrolling interest holder		3,000	—	—
Proceeds from borrowings under lines of credit		111,000	2,000	107,000
Repayment of borrowings under lines of credit		(101,000)	(11,987)	(100,000)
Principal payments on long-term debt		(661)	(44)	(839)
Proceeds from advances from affiliate		96,000	—	28,000
Repayment of advances from affiliate		(29,000)	—	(28,000)
Net cash provided by (used in) financing activities		92,339	(10,031)	(8,607)
Net increase (decrease) in cash and cash equivalents		82,632	(5,229)	(20,128)
Cash and cash equivalents at beginning of period		114,954	120,183	140,311
Cash and cash equivalents at end of period	$	197,586	114,954	120,183
Supplemental disclosure of cash flow information:				
Income taxes paid	$	(10,646)	—	(9,132)
Interest paid		(567)	(48)	(1,518)
Noncash acquisition-related items (refer to note 1):				
Intangible assets	$	—	96,931	—
Goodwill		—	53,649	—
Other adjustments		—	1,132	—

See accompanying notes to consolidated financial statements.

(1) Description of Business and Basis of Presentation

AmeriHealth Mercy Health Plan (AMHP or the Company) is a Pennsylvania partnership formed to develop and operate managed care businesses for Medicaid enrollees outside the Philadelphia metropolitan area. Effective April 10, 1996, AmeriHealth Integrated Case Management, Inc. (AICMI), an indirect wholly owned subsidiary of Independence Blue Cross (IBC), and Mercy Health Plan (MHP), a subsidiary of Mercy Health System, entered into a partnership agreement to form AMHP.

In connection with the 2011 transaction described below, AICMI contributed its 50% partnership interest in AMHP to IBC MH LLC, a wholly owned subsidiary of IBC (IBC MH), which contributed that interest to BMH LLC, also a wholly owned IBC subsidiary (BMH). BMH in turn contributed the partnership interest to BMH SubCo I LLC (SubCo I), a wholly owned subsidiary.

IBC then restructured its ownership interest in IBC MH through the internal sale of IBC MH to IBC and two other wholly owned IBC affiliates, following which IBC and the two other IBC affiliates made certain cash capital contributions to IBC MH, the proceeds of which were contributed to BMH. Next, pursuant to a Unit Purchase Agreement, Blue Cross and Blue Shield of Michigan (BCBSM) purchased a 38.74% interest in BMH, with the remaining 61.26% interest being held by IBC MH. (BCBSM and IBC MH are collectively referred to as the Members).

On November 30, 2011, BMH's subsidiary, BMH SubCo II LLC (SubCo II), pursuant to a Partnership Interest Purchase Agreement with MHP, purchased MHP's 50% partnership interest in the Company. As a result of this transaction, BMH owns 100% of the partnership interests in the Company through two wholly owned subsidiaries, SubCo I and SubCo II.

The Company's consolidated balance sheets as of December 31, 2012 and 2011 and related consolidated statements of income, comprehensive income, changes in partners' equity, and cash flows for the one month ended December 31, 2011 and year ended December 31, 2012 are referenced herein as the Successor financial statements. The period from January 1 through November 30, 2011 is reference herein as Predecessor.

The Successor financial statements are presented using the push down basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805-50-S99, *New Basis of Accounting (Push-down)*. The push-down basis of accounting can be used in a purchase business transaction in which the entity becomes wholly owned by another entity. Pursuant to this guidance, the portion of the BMH purchase consideration related to their 100% AMHP ownership acquisition at November 30, 2011 was estimated at $222,992 and reflected as a partner contribution.

The contribution was allocated to the estimated fair value of the net tangible and intangible assets based on the net present value of estimated future earnings and cash flows of AMHP. The excess of the purchase consideration pushed down over the net tangible and intangible assets resulted in goodwill in the amount of $53,649.

Pursuant to the Unit Purchase Agreement, a portion of the purchase consideration is payable to the Mercy Health Foundation (the Foundation) annually through 2018. In connection with the push down accounting discussed above, $23,007 of this obligation has been allocated to the Company and recorded as purchase price payable at November 30, 2011. A payment of $3,972 was made to the Foundation in December 2012. Interest expense relating to the purchase price payable totaled $875 for the year ended December 31, 2012.

(In thousands)

The following table summarizes the allocation of this purchase consideration to AMHP assets acquired and liabilities assumed as of the acquisition date. This allocation of the purchase price did not change subsequent to the acquisition date.

Allocation of purchase consideration:		
Current assets	$	380,821
Property and equipment		19,343
Intangible assets		96,931
Goodwill		53,649
Other assets		10,658
Total assets acquired		561,402
Current liabilities		278,899
Long-term debt		10,854
Purchase price payable		23,007
Other liabilities		25,650
Total liabilities assumed		338,410
Purchase consideration pushed down	$	222,992

On September 29, 1999, AMHP acquired all of the outstanding common stock of Select Health of South Carolina, Inc. (Select). Select provides prepaid managed care to Medicaid enrollees in the state of South Carolina. On June 5, 2006, AMHP formed AmeriHealth Mercy of Indiana, LLC (Indiana, LLC) for the purpose of providing Medicaid managed care services to enrollees in the state of Indiana under a delivery system agreement with MDwise, Inc. (MDwise). On January 31, 2008, AMHP Holdings Corporation (Holdings), a wholly owned subsidiary of AMHP, acquired 100% of the equity interests of Community Behavioral Healthcare Network of Pennsylvania, Inc. (CBHNP). CBHNP, and its wholly owned subsidiary CBHNP Services, Inc. (CSI), doing business as PerformCare, is a behavioral health managed care organization servicing commercial, Medicaid, and Medicare behavioral health members in Pennsylvania, South Carolina, Indiana, and New Jersey. On September 3, 2009, AMHP formed PerformRx, LLC (PerformRx) for the purpose of providing pharmacy benefit management (PBM) services to affiliated and unaffiliated Medicaid, Medicare, and commercial plan members. On October 5, 2010, AMHP formed AmeriHealth Mercy of Louisiana, Inc. (LaCare) for the purpose of providing Medicaid managed care services to enrollees in the state of Louisiana pursuant to a contract with the State of Louisiana’s Department of Health and Hospitals (DHH) effective February 1, 2012. On October 19, 2011, AMHP entered into a joint venture with Blue Cross and Blue Shield of Nebraska, a Nebraska mutual benefit nonprofit health care corporation, to form AmeriHealth Nebraska, Inc. (ANI). AMHP holds a 70% interest in ANI as a result of this transaction. ANI provides Medicaid managed care services to enrollees in the state of Nebraska effective July 1, 2012.

(In thousands)

(2) Business Concentration

Premium revenues by state program as a percentage of the Company's total premium revenues are as follows:

	Successor		Predecessor
	Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
DPW – AMHP and CBHNP/CSI	34%	39%	41%
DHHS – Select	37	44	43
OMPP – Indiana, LLC	13	17	16
DHH – LaCare	15	—	—
DHHS – Nebraska	1	—	—
	100%	100%	100%

One of the Company's largest customers is the Commonwealth of Pennsylvania, Department of Public Welfare (DPW) under the HealthChoices program. HealthChoices is the program through which DPW provides Medicaid services to eligible recipients. The HealthChoices contracts for the Company cover physical and behavioral health services for Medicaid eligible recipients residing in a 10 county region in south central Pennsylvania and a 7 county region in north central Pennsylvania. The Company also maintains Medicaid members for which the HealthChoices program does not currently extend. Within the contract period for DPW, premium rates are negotiated on an annual basis.

Vista Health Plan, Inc. (Vista) maintains the risk-based contract with DPW and subcontracts with AMHP to provide prepaid healthcare program services to eligible participants. Vista is a for-profit, managed-care company and is a wholly owned subsidiary of IBC. The term of the current agreement with DPW was effective on April 1, 2010 and extends the term of the previous agreement ended March 31, 2010 for five years and nine months with an option for DPW to renew for an additional three-year period. Effective October 1, 2012, Vista entered into an additional risk-based contract with DPW to provide prepaid managed care to Medicaid enrollees in northwestern Pennsylvania. Vista subcontracts such services to AMHP. The term of the agreement with DPW, effective on October 1, 2012, expires on October 1, 2015 with an option for DPW to renew for an additional two-year period. Both agreements are subject to earlier termination by either party on certain conditions.

CBHNP maintains a nonrisk-bearing administrative service agreement, expiring June 30, 2014, with Capital Area Behavioral Health Collaborative to administer behavioral healthcare services to Medicaid eligible recipients residing in a five county capital region in Pennsylvania under the HealthChoices program. This agreement automatically renews for an additional 12 months following the expiration date unless a renewal agreement is in place. CBHNP also maintains a nonrisk-bearing contract, expiring

June 30, 2013, with two counties in Pennsylvania to administer behavioral healthcare services to Medicaid eligible recipients residing in those two counties under the HealthChoices program.

CSI maintains risk-bearing contracts, expiring June 30, 2013, with several counties in Pennsylvania to administer behavioral healthcare services to Medicaid eligible recipients residing in those five counties under the HealthChoices program.

Select operates under a license issued by the State of South Carolina Department of Insurance (DOI). Select's contract with the State of South Carolina Department of Health and Human Services (DHHS) relating to the Medicaid Managed Care program expires on December 31, 2013.

MDwise maintains the risk-based contract with the State of Indiana's Office of Medicaid Policy and Planning (OMPP) and the Office of Children's Health Insurance Program (CHIP). MDwise is a not-for-profit managed care organization that administers a prepaid healthcare program for the benefit of Medicaid and CHIP enrollees in the State of Indiana under the OMPP's Hoosier Healthwise (Hoosier) program and establishes and administers a statewide network to deliver healthcare to individuals under the Healthy Indiana Plan (HIP) program. The term of this contract with OMPP expires on December 31, 2014 with an option to renew for two additional one-year periods.

Effective February 1, 2012, LaCare began operating under a license issued by the State of Louisiana DOI. LaCare's contract with the State of Louisiana DHH expires on January 31, 2015, with an option for DHH to renew for an additional two-year period.

Effective July 1, 2012, ANI began operating under a license issued by the State of Nebraska DOI. ANI's contract with the State of Nebraska DHHS expires on June 30, 2015.

Management expects to reach agreement for new contracts with the respective agencies although there can be no assurance that such an agreement can be reached. The discontinuation of involvement with these agencies would have a material adverse effect on the future operations of the Company.

During March 2010, the President of the United States signed the "Patient Protection and Affordable Care Act" and related "Reconciliation Act of 2010" into law. This legislation enhances access to coverage and modifies certain aspects of the healthcare system. Provisions of this legislation become effective at various dates over the next several years.

Due to the complexity of the legislation, including yet to be promulgated implementing regulations, lack of interpretive guidance and gradual implementation, the impact of this legislation on the Company's results of operations, financial position, or liquidity is still to be determined.

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers*, a consensus of the FASB Emerging Issues Task Force. This Update addresses the recognition and classification of an entity's share of the annual health insurance industry assessment (the fee) mandated by the "Patient Protection and Affordable Care Act" and its related "Reconciliation Act." The fee will be levied on health insurers for each calendar year beginning on or after January 1, 2014 and is not deductible for income tax purposes. For reporting entities subject to the fee, the amendments in ASU No. 2011-06 specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. It is yet undetermined how this premium-based assessment will be factored into the calculation of the Company's premium rates, if at all. Accordingly, adoption of this guidance and the enactment of this assessment as currently written could have a material impact on the Company's results of operations, financial position, or liquidity in future periods.

(3) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AMHP and its wholly owned subsidiaries including Select, Indiana, LLC, PerformRx, LaCare, and Holdings, including its wholly owned subsidiaries, CBHNP and CSI, as well as AMHP's consolidated joint venture ANI (collectively referred to as the Company). All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Cash and Cash Equivalents

The Company considers all highly liquid temporary investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents totaled $71,660 and $73,863 at December 31, 2012 and 2011, respectively.

(c) Restricted Cash

Restricted cash amounted to $1,306 and $4,002 at December 31, 2012 and 2011, respectively, which is included in other assets in the accompanying consolidated balance sheets.

(d) Investment Securities

The Company classifies its investment securities as available-for-sale. Available-for-sale securities are recorded at fair value. Realized investment gains and losses on the sale of investments are recognized on the specific-identification basis as of the trade date. Realized losses also include losses for fair value declines that are considered to be other than temporary. Changes in unrealized investment gains or losses on investment securities carried at fair value, net of applicable income taxes are reflected directly in partners' equity as a component of comprehensive income (loss) and, accordingly, have no effect on net income. Dividend and interest income are recognized when earned.

An invested asset is considered impaired when its fair value declines below cost. The Company accounts for impaired investments in accordance with ASC 320-10-65-1, *Investments – Debt and Equity Securities*, which states that a fixed maturity security is other than temporarily impaired if the present value of future cash flows expected to be collected from the security is less than the amortized cost of the security (i.e., a credit loss exists) or where the Company intends to sell or more likely than not will be required to sell the security prior to recovering the security's amortized cost basis. Equity securities are other than temporarily impaired when it becomes apparent that the Company will not recover its cost over a reasonable period of time. Factors considered in determining whether a credit loss exists and over what period of time the security is expected to recover include the length of time and the extent to which fair value has been below cost, adverse conditions specifically related to the security, the industry or the geographic area, the financial condition and near-term prospects of the issuer, analysis and guidance provided by rating agencies and analysts, and changes in fair value subsequent to the balance sheet date.

When the Company determines that an other-than-temporary impairment loss exists for an equity security or for a fixed maturity security that the Company intends to sell or more likely than not will be required to sell prior to recovering the security's amortized cost basis less any current-period credit loss, the cost basis of the security is written down to fair value, and the total amount of the impairment is included in operations as a realized investment loss.

When the Company determines that an other-than-temporary impairment loss exists for a fixed maturity security and the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security prior to recovering the security's amortized cost basis less any current-period credit loss, the portion of the total impairment that is attributable to the credit loss is recognized in operations as a realized investment loss, and the cost basis of the security is reduced by the amount of the credit-related impairment. The noncredit-related component of the impairment loss is included within other comprehensive income (loss). Subsequent recoveries in the fair value of other than temporarily impaired securities are recognized at disposition.

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date. Such sales are generally due to events occurring subsequent to the balance sheet date that result in a change in the Company's intent or requirement to sell an invested asset. The types of events that may result in a sale include significant changes in the economic facts and circumstances related to the invested asset, significant unforeseen changes in the Company's liquidity needs, or changes in tax laws or the regulatory environment.

(e) Fair Value of Financial Instruments

ASC 820-10, *Fair Value Measurements and Disclosures*, provides enhanced guidance for using fair value to measure assets and liabilities. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. ASC 820-10 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets. The highest possible level should be used to measure fair value.

ASC 820-10-35-51 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased and sets forth additional disclosure requirements. ASC 820-10-35-51 also includes guidance on identifying circumstances that indicate a transaction is not orderly.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments, including expanded disclosures about Level 3 measurements, were effective January 1, 2012 and were applied prospectively. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position, or liquidity.

(f) Pharmacy Rebates Receivable

The Company enters into contracts with certain drug manufacturers, which provide for rebates to the Company based on the utilization of prescription drugs by the Company's members and PBM members.

(g) Property and Equipment

As a result of the acquisition by BMH (note 1), property and equipment was recorded at estimated fair value at the date of acquisition. When property and equipment is retired or otherwise disposed of, cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in operations. Depreciation is computed on the straight-line method over the estimated useful life of the asset, which ranges from three to thirty-nine years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Capitalized costs associated with the development of software for internal use are amortized over the term of the related administrative services contract. Maintenance and repairs are charged to operations when incurred.

(h) Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in the purchase business combination discussed in note 1. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two of the impairment test (measurement) must be performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. The Company assessed the recoverability of goodwill and intangibles not subject to amortization and no impairment loss was required for the year ended December 31, 2012 or the one month ended December 31, 2011. During the eleven months ended November 30, 2011, an impairment loss of $17,929 was recorded on the goodwill resulting from the purchase of CBHNP, which is included within other administrative and

(Continued)

general expenses on the accompanying consolidated statement of income for the eleven months ended November 30, 2011.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This Update simplifies how entities test goodwill for impairment by including an option for entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on the subject reporting unit. The amendments in ASU No. 2011-08 were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position, or liquidity.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This Update is intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. AMHP early adopted this amendment on November 30, 2012 as permitted by the guidance. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position, or liquidity.

(i) Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value.

(j) Derivative Instruments

The Company accounts for all derivative instruments in accordance with ASC 815, *Derivatives and Hedging*. In accordance with ASC 815, the Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. Changes in the fair value of derivatives are recognized either in earnings or in partners' equity as a component of other comprehensive income (loss), depending on whether the derivative financial instrument qualifies for hedge accounting. As described in note 6, the Company has an interest rate swap with a third party. The Company has designated such interest rate swap as a nonhedge instrument.

Accordingly, the fair value of the interest rate swap is presented as a liability on the consolidated balance sheets with the change in fair value of the interest rate swap recorded within earnings.

By using hedging financial instruments to hedge exposures, the Company exposes itself to market and credit risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. Credit risk is the failure of the counterparty to perform under the terms of the contract. The Company minimizes credit risk in instruments by entering into transactions with high-quality counterparties.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This update intends to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments require entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope of the update would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments are effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position, or liquidity.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This Update intends to clarify that the scope of ASU No. 2011-11 applies to derivatives accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position, or liquidity.

(k) Premium Revenues

The Company records premium revenues based on membership records and premium rates for each membership category. Premiums are recognized as revenue in the month in which the Company is obligated to provide service to members. As further described in note 4, the Company receives additional premium revenues to address specific medical needs of certain plan members. These premium revenues include amounts based on the estimated level of medical costs incurred, historical trends, and other relevant information.

The respective state agencies make payments based on their estimates of membership case mix. To the extent that these premium payments differ from recorded revenue, the amount of the difference is recorded as either unearned premium revenue or premiums receivable until such time that the differences are resolved.

The license holder receives the member premium payments from the respective state agency, retains a portion for certain administrative costs as well as expenses to be paid on the Company's behalf pursuant to the contracts, and remits the net premiums to the Company. Certain counties remit the claim-related portion of the member premium payments from DPW to the Company when claims are paid to the providers.

The contracts with certain state agencies include revenue incentives if certain quality thresholds are met. Certain revenue incentives are also subject to the medical loss ratio falling within a predetermined threshold. These amounts are generally recognized as revenue in the period such thresholds are achieved and can be measured. Premium revenue incentives recognized were $6,857 for the year ended December 31, 2012, $1,690 for the one month ended December 31, 2011, and $3,446 for the eleven months ended November 30, 2011.

(l) Unearned Premium Revenue

Unearned premium revenue relates to premium payments received by the Company that will be recognized as earned in a subsequent period.

(m) Gross Receipts Tax

Pennsylvania managed care organizations (MCOs) are assessed a 5.9% and 6.06% state tax on the premium revenues received from DPW for 2012 and 2011, respectively, excluding certain state enrollment categories specified in the HealthChoices contract. The tax rate for 2011 included 0.16% for the Public Utility Realty Tax Act, which was collected from DPW in 2012. The premium revenues paid to MCOs are increased to account for the cost of the tax. Taxes incurred under this program are recorded as an administrative expense.

(n) Hospital Assessment Program

Premium revenues include capitation rate funds designated by DPW for distribution to local hospitals in order to promote continued access to quality care for members. The Company is required to pass 100% of these funds directly to designated hospitals pursuant to an agreement with the Hospital & Health System Association of Pennsylvania. The premium revenues earned under this program that were not received as of year-end are included in premium receivables on the accompanying consolidated balance sheets, with a corresponding liability for amounts due to providers.

(o) Management Services Revenue

The Company provides management and administrative services to other MCOs and insurance companies. The Company also provides PBM services to affiliated and nonaffiliated managed care plans specializing in Medicaid and Medicare Part D. Management services revenue comprises a base fee calculated on a per member per month basis and an incentive fee, which is generally based on performance standards as defined in the agreements. The Company recognizes base fees as revenue when earned in accordance with the respective contracts. Incentive fees are recognized in the period in which the criteria have been achieved and can be measured.

(p) Medical Expenses

Capitated services include reinsurance premiums and capitation payments for primary care physicians, laboratory, radiology, transportation, and vision. Purchased medical services include those paid on a fee-for-service basis based upon contracted rates with providers as well as prescription drug costs, net of rebates. Rebates are recognized when earned according to the contractual arrangements with the drug manufacturer. The Company maintains reinsurance for medical expenses with commercial carriers, which is more fully described in note 17.

Accrued medical expenses include medical expenses billed and not paid and an estimate for costs incurred but not reported, which is actuarially determined. In addition, processing costs are accrued based on an estimate of the costs to process these claims. Actuarial estimates are based upon authorized healthcare services, past claims payment experience, member census, and other factors. While the Company believes the accrual for medical expenses is adequate, actual results could differ from such estimates.

(q) Provider Contracting

The Company contracts with various healthcare providers, including hospitals, to provide medical services. These contracts vary in duration. The Company is dependent upon provider relationships in order to service its members.

(r) Income Taxes

AMHP is a Pennsylvania partnership. Accordingly, no income tax provision is included in the accompanying consolidated financial statements for AMHP. Instead, the results of operations of AMHP are reported on the respective income tax returns of the Members.

Indiana, LLC and PerformRx are single-member limited liability companies. Accordingly, no income tax provision is included in the accompanying consolidated financial statements for these companies. Instead, the results of operations of Indiana, LLC and PerformRx are reported on the respective income tax returns of the Partners.

Select is a South Carolina C Corporation, Holdings is a Pennsylvania C Corporation, LaCare is a Louisiana C Corporation, and ANI is a Nebraska C Corporation, which are all subject to federal and state income tax. As such, income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

(s) Comprehensive Income

Comprehensive income consists of net income, net unrealized investment gains or losses on investment securities, and a pension liability adjustment, and is presented as a separate statement immediately following the consolidated statement of operations pursuant to ASC 220, *Comprehensive Income*.

In June 2011, the FASB issued ASU No. 2011-05*, Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The new requirements eliminate the option that previously existed to present changes in other comprehensive income within the statement of shareholders' equity and require its presentation in either a single continuous statement of comprehensive income or in a separate statement immediately following the statement of income. For nonpublic entities, the new requirements were effective for fiscal years ending after December 15, 2012.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This Update intends to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this guidance will affect the presentation of the financial statements, but will not impact the Company's results of operations, financial position, or liquidity.

(t) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include accrued medical expenses, premium receivables, pharmacy rebates receivable, income taxes and the valuation of goodwill and intangible assets. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(u) Regulation

Select, CSI, LaCare and ANI are regulated by their respective DOI and prepare their statutory financial statements in accordance with accounting principles and practices prescribed and permitted by the respective states. Prescribed statutory accounting practices include state laws, regulations, and general administrative rules, as well as the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* and a variety of other NAIC publications.

Financial statements prepared for the DOI in accordance with statutory accounting practices differ from the financial statements prepared in accordance with GAAP. The principal differences are (1) certain assets, such as goodwill, intangibles, prepaid expenses, related-party receivables, office furniture, and leasehold improvements, are excluded from the statutory balance sheet; (2) certain deferred tax assets are not admitted; and (3) debt securities are carried at amortized cost, not fair value as required under GAAP.

Select's statutory surplus at December 31, 2012 and 2011 was $78,511 and $65,052, respectively.

CSI's statutory surplus at December 31, 2012 and 2011 was $11,155 and $11,230, respectively.

LaCare's statutory surplus at December 31, 2012 and 2011 was $30,104 and $5,654, respectively.

ANI's statutory surplus at December 31, 2012 was $7,164.

In connection with its certificate of authority issued by the South Carolina DOI, Select is required to maintain a minimum net worth of $750, of which $600 must be capital. Select is also required to maintain a security deposit of $300. At December 31, 2012 and 2011, Select is in compliance with these requirements.

In connection with its certificate of authority issued by the Pennsylvania DOI, CSI must maintain a risk-based capital (RBC) ratio of 2.0. Within certain ratio ranges, regulators have increasing authority to take action as the RBC ratio decreases. There are four levels of regulatory action, ranging from requiring insurers to submit a comprehensive plan to the state insurance commissioner to requiring the state insurance commissioner to place the insurer under regulatory control. At December 31, 2012 and 2011, CSI is in compliance with this requirement.

Under applicable Louisiana state laws and regulations, LaCare is required to maintain the greater of a minimum surplus of $3,000 determined in accordance with statutory accounting practices, or the minimum capital requirements as determined by the RBC calculation. LaCare is required by the State of Louisiana to maintain a minimum regulatory deposit of $1,000. LaCare is in compliance with these requirements as of December 31, 2012 and 2011.

Under applicable Nebraska state laws and regulations, ANI is required to maintain a minimum net worth equal to the greater of: (a) $1,000; or (b) two percent of annual premium as reported on the most recent annual statement filed on the first one hundred fifty million dollars of premium revenue and one percent of annual premium revenue on the premium revenue in excess of one hundred fifty million dollars. The Company is required by the State of Nebraska to maintain a minimum regulatory deposit of $300. The Company is in compliance with this requirement as of December 31, 2012.

(In thousands)

Under the Company's HealthChoices contracts with DPW, Vista must maintain a Statutory Accounting Principles basis (SAP-basis) equity equal to the highest of: (1) $1.5 million; (2) 5.5% of revenue earned by the licensed HMO during the most recent four calendar quarters; or (3) 5.5% of revenue earned by the licensed HMO during the current quarter multiplied by three. Vista also must maintain an RBC ratio of 2.0, which is designed to reflect the risk profile of Vista and is based on the combined results of AMHP and Keystone Mercy Health Plan (KMHP), an affiliate of the Company through common ownership.

(v) Reclassifications

Certain 2011 balances have been reclassified to conform to the 2012 presentation.

(4) Premium Receivables

Premium receivables consist of the following at December 31, 2012 and 2011:

		2012	2011
Maternity care receivable – DPW	$	5,741	2,749
High cost risk pool receivable – DPW		—	1,269
Rate increase receivable – DPW		27,323	8,182
Performance incentives – DPW		4,244	4,770
Member premiums receivable – DPW		35,254	31,588
Hospital assessment receivable – DPW		2,857	2,396
Maternity care receivable – South Carolina DHHS		5,212	6,603
Maternity care receivable – DHH		5,736	—
Maternity care receivable – OMPP		5,111	3,916
HIP member reimbursements receivable – OMPP		2,689	5,851
Maternity care receivable – Nebraska DHHS		2,360	—
Receivable from counties and agencies		36,742	33,063
Other		6,763	4,761
	$	140,032	105,148

Maternity care and high cost risk pool receivables represent estimated amounts earned under the respective contracts that provide for additional premium dollars to address the specific medical needs of certain plan members. The rate increase receivable represents the estimated amount of annual rate increase revenue earned under the respective state contract that was not received as of year-end. The performance incentives receivable represent incentive revenue earned for certain quality thresholds achieved under the respective state contract that was not received as of year-end. Member premiums receivable represent capitation premium revenues earned under the HealthChoices contract that were not received as of year-end. Because member premium payments from DPW are received by the Company one month subsequent to the month in which the Company is obligated to provide services to members, such amounts were collected by the Company from DPW in January of the subsequent year. Hospital assessment receivable represents amounts earned under the hospital assessment program that were not received as of year-end. HIP member reimbursements receivable represent amounts due to the Company relating to members that should be enrolled in the enhanced services plan or for which significant losses have been incurred. Receivable from counties and agencies represents member premiums due from the respective Pennsylvania counties and agencies relating to CBHNP's HealthChoices contracts.

(In thousands)

(5) Investment Securities

The following is a summary of unrestricted and restricted available-for-sale securities as of December 31, 2012 and 2011:

December 31, 2012		Cost/ amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Unrestricted:					
Equity securities:					
Large cap	$	5,296	528	76	5,748
Small cap		1,353	159	31	1,481
Equity mutual funds		28,300	2,297	—	30,597
Multimanagement funds		2,211	83	—	2,294
Debt securities:					
U.S. Treasury securities		13,220	57	54	13,223
Other U.S. government securities		10,806	24	3	10,827
Corporate debt securities		36,060	1,675	76	37,659
Mortgage-backed securities		16,184	308	3	16,489
Municipal bonds		1,892	5	1	1,896
Total unrestricted investment securities	$	115,322	5,136	244	120,214
Restricted:					
Mutual funds:					
Equity	$	11,460	928	—	12,388
Fixed income		5,483	121	3	5,601
Debt securities:					
U.S. Treasury securities		184	7	—	191
Municipal bonds		333	4	—	337
Money market funds		6	—	—	6
Total restricted investment securities	$	17,466	1,060	3	18,523

(In thousands)

December 31, 2011		Cost/ amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Unrestricted:					
Equity securities:					
Large cap	$	4,786	117	101	4,802
Small cap		1,411	47	17	1,441
Equity mutual funds		22,339	14	949	21,404
Multimanagement funds		2,246	—	6	2,240
Debt securities:					
U.S. Treasury securities		14,731	161	—	14,892
Other U.S. government securities		6,047	2	—	6,049
Corporate debt securities		24,262	583	23	24,822
Mortgage-backed securities		12,623	73	—	12,696
Municipal bonds		1,000	1	—	1,001
Total unrestricted investment securities	$	89,445	998	1,096	89,347
Restricted:					
Mutual funds:					
Equity	$	11,120	—	398	10,722
Fixed income		5,303	13	7	5,309
Debt securities:					
U.S. Treasury securities		186	2	—	188
Municipal bonds		342	2	—	344
Money market funds		6	—	—	6
Total restricted investment securities	$	16,957	17	405	16,569

Restricted securities of $528 and $532 at December 31, 2012 and 2011, respectively, are maintained by the Company to meet the deposit requirements described in note 3(t). As of December 31, 2012 and 2011, investment securities of $17,995 and $16,037, respectively, are restricted pursuant to the line of credit agreement with PNC Bank (PNC) as described in note 15(a).

(In thousands)

Contractual maturities of debt securities classified as available-for-sale were as follows at December 31, 2012:

	Unrestricted		Restricted	
	Cost/ amortized cost	**Fair value**	**Cost/ amortized cost**	**Fair value**
Due within 1 year	$ 2,608	2,612	—	—
Due after 1 year through 5 years	31,249	31,830	—	—
Due after 5 years through 10 years	17,642	18,139	517	528
Due after 10 years	10,479	11,024	—	—
	61,978	63,605	517	528
Mortgage-backed securities	16,184	16,489	—	—
Total debt securities	$ 78,162	80,094	517	528

Other realized investment gains, net include net realized gains on disposals of available-for-sale securities of $2,144 for the year ended December 31, 2012, $966 for the one month ended December 31, 2011, and $1,633 for the eleven months ended November 30, 2011. Proceeds from the sale or maturity of available-for-sale securities aggregate to $110,896 for the year ended December 31, 2012, $9,674 for the one month ended December 31, 2011, and $136,315 for the eleven months ended November 30, 2011, resulting in gross realized gains of $2,432 and gross realized losses of $288 for the year ended December 31, 2012, gross realized gains of $987 and gross realized losses of $21 for the one month ended December 31, 2011, and gross realized gains of $3,007 and gross realized losses of $1,374 for the eleven months ended November 30, 2011.

(In thousands)

The estimated fair value and unrealized loss for securities in a temporary unrealized loss position as of December 31, 2012 and 2011 are as follows:

December 31, 2012	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or longer Fair value	12 months or longer Unrealized losses	Total Fair value	Total Unrealized losses
Description of securities:						
Debt securities:						
U.S. Treasury securities	$ 2,260	54	—	—	2,260	54
Other U.S. government securities	1,990	3	—	—	1,990	3
Corporate debt securities	7,100	76	—	—	7,100	76
Mortgage-backed securities	943	3	—	—	943	3
Municipal bonds	255	1	—	—	255	1
Mutual funds:						
Fixed income	2,654	3	—	—	2,654	3
Equity securities:						
Large cap	1,225	76	—	—	1,225	76
Small cap	283	31	—	—	283	31
Total temporarily impaired securities	$ 16,710	247	—	—	16,710	247

December 31, 2011	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or longer Fair value	12 months or longer Unrealized losses	Total Fair value	Total Unrealized losses
Description of securities:						
Debt securities:						
Corporate debt securities	$ 2,404	23	—	—	2,404	23
Multimanagement funds	1,171	6	—	—	1,171	6
Mutual funds:						
Equity	32,127	1,347	—	—	32,127	1,347
Fixed income	2,506	7	—	—	2,506	7
Equity securities:						
Large cap	2,116	101	—	—	2,116	101
Small cap	434	17	—	—	434	17
Total temporarily impaired securities	$ 40,758	1,501	—	—	40,758	1,501

As a result of the acquisition by BMH (note 1), investment securities were recorded at estimated fair value at the date of acquisition. The unrealized losses on fixed maturity investments with continuous unrealized losses for less than 12 months were primarily due to a widening of credit spreads rather than a decline in credit quality.

There are 61 equity securities that are in an unrealized loss position at December 31, 2012. All of these securities have been in an unrealized loss position for less than 12 months. The Company believes, based on its analysis, that these securities are not other than temporarily impaired. However, depending on developments involving both the issuers and overall economic conditions, these investments may be written down in the consolidated statements of income in the future.

For the year ended December 31, 2012, an other-than-temporary impairment loss of $157 was recorded within the accompanying 2012 consolidated statement of income. There were no other-than-temporary impairment losses recognized during 2011. There were no noncredit-related impairment charges in 2012 or 2011. There were no credit losses for fixed income securities recognized during 2012 or 2011.

(6) Derivative Instruments and Hedging Activities

CBHNP has an interest rate swap with RBC Capital Markets in the form of a 2002 International Swaps and Derivatives (ISDA) Master Agreement. The ISDA agreement involves a notional amount of $2,000 in which the Company pays RBC Capital Markets a fixed rate of 6.12% and receives in exchange the 30-day London Interbank Offered Rate (LIBOR) floating rate through September 30, 2021. The floating rate is adjusted monthly. The 30-day LIBOR as of December 31, 2012 and 2011 was 0.31% and 0.30%, respectively.

Pursuant to ASC 815, the Company is required to estimate the net present value of future cash flows through the termination date based on the interest rates in effect as of year-end, resulting in a liability of $495 and $531 at December 31, 2012 and 2011, respectively, which is presented within accounts payable and accrued expenses on the accompanying consolidated balance sheets. The net gain (loss) recognized on the interest rate swap with RBC Capital Markets was $36 for the year ended December 31, 2012, ($165) for the one month ended December 31, 2011, and $34 for the eleven months ended November 30, 2011, which is recorded within interest expense on the accompanying consolidated statements of income.

(7) Nonconsolidated Joint Ventures

On December 19, 2011, AMHP entered into a joint venture with Diversified Health Services, Inc., a wholly owned subsidiary of Blue Cross and Blue Shield of Florida, Inc., to form Florida True Health, Inc. (FTH). AMHP holds a 50% interest in FTH as a result of this transaction. Effective July 9, 2012, FTH obtained authority to begin servicing members under a license issued by the Florida Office of Insurance Regulation. FTH’s contract with the State of Florida Agency for Health Care Administration expires on August 31, 2015. No members were enrolled with FTH until January 1, 2013. On March 22, 2013, AMHP made an additional contribution of $6,350 to FTH. Effective as of December 3, 2012, AMHP entered into a joint venture with Blue Cross of Northeastern Pennsylvania to form AmeriHealth Northeast, LLC (Northeast). AMHP holds a 50% interest in Northeast as a result of this transaction. Northeast will provide Medicaid managed care services to enrollees in Northeastern Pennsylvania effective March 1, 2013. On March 18, 2013, AMHP made an additional contribution of $4,500 to Northeast.

The Company uses the equity method of accounting for investments in joint ventures in which it has more than a minor ownership interest or more than a minor influence over the joint venture’s operations, but does not have a controlling interest and is not the primary beneficiary. At December 31, 2012, there was no difference between the amount at which the investments are carried and the amount of underlying equity in net assets.

(In thousands)

The following table summarizes the balance sheet and statement of operations for all equity method investees at December 31, 2012:

Current assets	$	18,498
Noncurrent assets		36,789
Total assets	$	55,287
Current liabilities	$	8,901
Noncurrent liabilities		56
Total liabilities		8,957
Equity		46,330
Liabilities and equity	$	55,287
Administrative expenses	$	(9,536)
Interest and dividend income		17
Loss before income tax expense		(9,519)
Income tax expense		7
Net loss	$	(9,526)

A reconciliation of income tax expense related to all equity method investees computed at the federal rate on loss before income tax expense to actual income tax expense is as follows:

Computed “expected” income tax benefit	(3,332)
Increase in income taxes resulting from:	
State tax, net of federal tax benefits	1
Nondeductible expenses and other	3,338
Income tax expense	7

On December 31, 2012, FTH acquired a 40% interest in Prestige Health Choice, LLC (Prestige), a provider service network that provides access to comprehensive medical services for Florida Medicaid beneficiaries. The total consideration paid for FTH’s investment in Prestige amounted to $34,750, which is included in noncurrent assets in the above summarized balance sheet. FTH has the option to purchase the remaining 60% share of Prestige.

(8) Fair Value Measurements

ASC 820-10 establishes a fair value hierarchy comprising three priority levels, which are as follows:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

The Company uses quoted values and other data provided by a nationally recognized independent pricing service as inputs into its process for determining fair values of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities not actively traded, the pricing service prepares estimates of fair value measurements for those securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Securities with fixed maturities other than U.S. Treasury securities generally do not trade in an active market. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities as provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair values of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The Company's equity securities trade on a major exchange in an active market. Accordingly, such equity securities are disclosed in Level 1.

Investments in entities that estimate fair value using the net asset value per share in a manner consistent with the measurement principles of ASC 946, *Financial Services – Investment Companies*, are classified in Level 2 or Level 3 of the fair value hierarchy pursuant to ASC 820-10-35-58, *Fair Value Measurement*. The fair value of the Company's investments in multimanagement funds has been estimated using the net asset value per share and are disclosed in Level 2 of the hierarchy according to this guidance.

(In thousands)

There were no transfers to or from Levels 1 and 2 of the fair value hierarchy during 2012 or 2011. The Company's policy is to recognize transfers between Levels as of the end of the reporting period.

The following is a summary of the fair value measurements of the Company's applicable assets and liabilities by level within the fair value hierarchy as of December 31, 2012 and 2011:

December 31, 2012	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total fair value
Unrestricted investment securities:				
Equity securities:				
Large cap	$ 5,748	—	—	5,748
Small cap	1,481	—	—	1,481
Equity mutual funds	30,597	—	—	30,597
Multimanagement funds	—	2,294	—	2,294
Debt securities:				
U.S. Treasury securities	13,223	—	—	13,223
Other U.S. government securities	—	10,827	—	10,827
Corporate debt securities	—	37,659	—	37,659
Mortgage-backed securities	—	16,489	—	16,489
Municipal bonds	—	1,896	—	1,896
Restricted investment securities:				
Mutual funds:				
Equity	12,388	—	—	12,388
Fixed income	5,601	—	—	5,601
Debt securities:				
U.S. Treasury securities	191	—	—	191
Municipal bond	—	337	—	337
Money market funds	6	—	—	6
Total assets	$ 69,235	69,502	—	138,737
Interest rate swap	$ —	495	—	495
Total liabilities	$ —	495	—	495

(In thousands)

December 31, 2011		Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total fair value
Unrestricted investment securities:					
Equity securities:					
Large cap	$	4,802	—	—	4,802
Small cap		1,441	—	—	1,441
Equity mutual funds		21,404	—	—	21,404
Multimanagement funds		—	2,240	—	2,240
Debt securities:					
U.S. Treasury securities		14,892	—	—	14,892
Other U.S. government securities		—	6,049	—	6,049
Corporate debt securities		—	24,822	—	24,822
Mortgage-backed securities		—	12,696	—	12,696
Municipal bonds		—	1,001	—	1,001
Restricted investment securities:					
Mutual funds:					
Equity		10,722	—	—	10,722
Fixed income		5,309	—	—	5,309
Debt securities:					
U.S. Treasury securities		188	—	—	188
Municipal bond		—	344	—	344
Money market funds		6	—	—	6
Total assets	$	58,764	47,152	—	105,916
Interest rate swap	$	—	531	—	531
Total liabilities	$	—	531	—	531

The fair value of other financial instruments, principally cash and cash equivalents, receivables, due from affiliates, prepaid expenses, and other current assets; and note receivable, accounts payable and accrued expenses, hospital assessment payable, due to affiliates, line of credit borrowings, unearned premium revenue, and obligations under capital leases, approximates their carrying value at December 31, 2012 and 2011 because of the short maturity of those items.

The estimated fair value of the long-term debt, excluding capital leases, is $10,537 and $11,041 as of December 31, 2012 and 2011, respectively.

(In thousands)

The following relates to investments held by the Company as of December 31, 2012 and 2011 for which the fair value is measured using net asset value per share:

December 31, 2012		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Attalus Multi Strategy Funds, Ltd.	$	565	—	Quarterly	92 days
Titan Masters International Fund		472		Quarterly	65 days
Archstone partners		1,257	—	Annual	365 days
Total multimanagement funds	$	2,294	—		

December 31, 2011		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Attalus Multi Strategy Funds, Ltd.	$	1,069	—	Quarterly	92 days
Archstone partners		1,171	—	Annual	365 days
Total multimanagement funds	$	2,240	—		

Multimanagement funds include investments in funds of hedge funds that pursue multiple strategies to diversify risk and reduce volatility.

(9) Note Receivable

In accordance with the terms of the delivery system agreement with MDwise, the Company advanced MDwise $11,000 during 2007 in return for a subordinated surplus note, with principal due upon expiration of the delivery system agreement (December 31, 2016). Written approval by the Indiana Insurance Commissioner is required prior to the payment of interest or principal. Interest is due and payable quarterly at a variable rate not to exceed 10.25% per annum. Interest income relating to the surplus note amounted to $141 for the year ended December 31, 2012 and $3 for the eleven months ended November 30, 2011. The outstanding principal balance was $5,250 at December 31, 2012 and 2011.

(In thousands)

(10) Property and Equipment

Property and equipment consist of the following as of December 31, 2012 and 2011:

		2012	2011
Land	$	1,234	1,234
Building		10,610	10,610
Equipment		2,330	1,164
Software		2,191	2,378
Furniture and fixtures		3,714	2,844
Leasehold improvements		2,403	1,673
Vehicles		—	7
Equipment under capital lease		533	533
		23,015	20,443
Less accumulated depreciation and amortization		2,867	112
Property and equipment, net	$	20,148	20,331

Depreciation and amortization expense charged to operations was $3,458 for the year ended December 31, 2012, $312 for the one month ended December 31, 2011, and $2,517 for the eleven months ended November 30, 2011. In 2012, the Company wrote off $703 of fully depreciated fixed assets that were no longer in service. Accumulated amortization of property and equipment under capital leases amounted to $255 and $22 at December 31, 2012 and 2011, respectively.

(In thousands)

(11) Goodwill and Intangible Assets

(a) Intangible Assets

Intangible assets consist of the following as of December 31, 2012 and 2011:

December 31, 2012	Useful life		Gross carrying value	Accumulated amortization	Net carrying value
Intangible assets resulting from acquisition by BMH subject to amortization:					
Membership – AMHP & Subsidiaries	3.5	$	15,130	4,683	10,447
Provider networks – AMHP & Subsidiaries	9.9		11,740	1,285	10,455
Licenses:					
AMHP & Subsidiaries	10.0		245	26	219
LaCare	10.0		26	3	23
Contracts:					
CBHNP	10.6		8,150	833	7,317
Passport Administrative Services Agreement (ASA)	18.8		6,510	375	6,135
Trade name – AMHP	1.0		2,720	2,720	—
Software – CBHNP	3.0		460	166	294
Customer relationships – PerformRx	9.0		18,000	2,167	15,833
Intangible assets resulting from acquisition by BMH not subject to amortization:					
Trade names – Subsidiaries of AMHP	—		33,950	—	33,950
Intangible assets, net		$	96,931	12,258	84,673

(In thousands)

December 31, 2011	Useful life	Gross carrying value	Accumulated amortization	Net carrying value
Intangible assets resulting from acquisition by BMH subject to amortization:				
Membership –				
AMHP & Subsidiaries	3.5	$ 15,130	360	14,770
Provider networks –				
AMHP & Subsidiaries	9.9	11,740	99	11,641
Licenses:				
AMHP & Subsidiaries	10.0	245	2	243
LaCare	10.0	26	—	26
Contracts:				
CBHNP	10.6	8,150	64	8,086
Passport ASA	18.8	6,510	29	6,481
Trade name – AMHP	1.0	2,720	227	2,493
Software – CBHNP	3.0	460	13	447
Customer relationships –				
PerformRx	9.0	18,000	166	17,834
Intangible assets resulting from acquisition by BMH not subject to amortization:				
Trade names – Subsidiaries of AMHP	—	33,950	—	33,950
Intangible assets, net		$ 96,931	960	95,971

Such intangible assets are amortized on a straight-line basis over the estimated useful life of each acquired intangible asset. Amortization expense relating to intangible assets charged to operations was $11,298 for the year ended December 31, 2012, $960 for the one month ended December 31, 2011, and $1,906 for the eleven months ended November 30, 2011. No impairment loss on intangible assets was recorded during 2012 or 2011.

(In thousands)

Estimated amortization expense relating to intangible assets for the succeeding five years is as follows:

2013	$	8,804
2014		8,792
2015		6,129
2016		4,328
2017		4,328

(b) Goodwill

The change in the carrying amount of goodwill for the year ended December 31, 2011 is as follows:

Balance at January 1, 2011	$	21,998
Impairment charge		(17,929)
Acquisition by BMH (note 1)		49,580
Balance at December 31, 2011	$	53,649

There was no change in the carrying amount of goodwill for the year ended December 31, 2012.

(12) Income Taxes

For the periods presented, the provision for income tax expense is summarized as follows:

		Successor		Predecessor
		Year ended December 31, 2012	**One month ended December 31, 2011**	**Eleven months ended November 30, 2011**
Current:				
Federal	$	5,223	941	8,550
State		1,074	57	1,401
Total current		6,297	998	9,951
Deferred:				
Federal		(5,171)	(357)	4,607
State		(3)	(32)	414
Total deferred		(5,174)	(389)	5,021
Income tax expense, net	$	1,123	609	14,972

(In thousands)

A reconciliation of income tax expense computed at the statutory federal rate on income before income taxes to actual income tax expense is as follows:

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Computed "expected" income tax expense	$	2,869	2,532	11,697
Less nontaxable entities		(4,065)	(1,914)	(5,387)
Increase in income taxes resulting from:				
State tax, net of federal tax benefits		763	5	1,336
Nondeductible expenses and other		1,556	(14)	7,326
Income tax expense, net	$	1,123	609	14,972

Deferred income taxes reflect the net effect of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

Significant components of deferred income taxes as of December 31, 2012 and 2011 are as follows:

		2012	2011
Deferred tax assets:			
Net operating loss carryforwards	$	6,747	221
Estimated claims incurred but not reported		1,397	2,716
Accrued expenses		890	758
Interest rate swap		200	215
Acquisition and start-up costs		2,723	2,173
Unrealized losses on securities available for sale		—	268
Other		576	972
Total deferred tax assets		12,533	7,323
Deferred tax liabilities:			
Accumulated depreciation		2,079	1,652
Intangible assets		16,524	18,256
Other		807	—

(In thousands)

		2012	2011
Unrealized gains on securities available for sale	$	2,109	—
Total deferred tax liabilities		21,519	19,908
Net deferred tax liabilities		(8,986)	(12,585)
Valuation allowance		2,974	2,173
Net deferred tax liabilities after valuation allowance	$	(11,960)	(14,758)

At December 31, 2012, Select has NOL carryforwards for income tax purposes of $287, which are available to offset future federal and state taxable income, if any, through 2019. The U.S. Internal Revenue Code and related income tax regulations impose certain restrictions on the use of NOL carryforwards after an ownership change caused by a purchase transaction. The annual limitation on the use of the NOLs by Select is approximately $58 per year. Louisiana and Nebraska have NOL carryforwards for income tax purposes of $5,486 and $974, respectively, which are available to offset future federal and state taxable income, if any, through 2032.

During 2008, the Internal Revenue Service (IRS) initiated an examination of Select for tax years 2005 – 2007. In January 2009, the IRS assessed certain timing adjustments to the amounts reflected by Select on the 2006 and 2007 tax returns. In April 2011, the Company agreed to a settlement with the IRS relating to audits for tax years 2006 and 2007. As a result of the IRS audit, it was agreed that Select record and file as an insurance company. In September 2011, amended insurance company tax returns were filed for tax years 2008 and 2009 and an original insurance company return was filed for 2010, which are all currently under examination with the IRS. The anticipated cumulative adjusted current federal and state tax refund resulting from the current IRS examination for tax years 2008 through 2010 is approximately $745. The anticipated amount is based on conservative calculations that fall within the more likely than not standard under ASC 740.

The Company's policy is to account for interest on tax liabilities as a component of interest expense and penalties as a component of other administrative and general on the consolidated statements of income. Interest recorded within the accompanying consolidated statement of income was $79 for the eleven months ended November 30, 2011. Federal tax years 2008 through 2012 are open for examination as of December 31, 2012.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the projections for future taxable income and the reversal of taxable temporary differences, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 31, 2012. The amount of the deferred tax asset considered realizable, however, could be subsequently reduced if estimates of future taxable income during the carryforward period are reduced. At December 31, 2011, the Company established a valuation allowance of $2,173 related to capitalized start-up costs. As of December 31, 2012, such valuation allowance was increased to $2,974 as a result of net operating loss carryforwards.

(In thousands)

The tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2012 and 2011 consists of the following:

	Successor		Predecessor
	Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Net unrealized gain (loss) on investment securities arising during period	$ 2,286	—	(247)
Less reclassification adjustment for gains on investment securities included in net income	(370)	—	(468)
Net unrealized gain (loss) on investment securities	1,916	—	(715)
Acquisition by BMH (note 1)	—	—	(193)
Other comprehensive income (loss)	$ 1,916	—	(908)

(13) Transactions with Affiliates

KMHP provides management and administrative services to the Company under subcontracts and/or consulting arrangements including claims processing, enrollment services, utilization management, finance, and information services. Total charges from KMHP for services under these subcontracts and/or consulting arrangements were $84,885 for the year ended December 31, 2012, $5,606 for the one month ended December 31, 2011, and $65,793 for the eleven months ended November 30, 2011, and are included in purchased services – KMHP on the accompanying consolidated statements of income.

The Company provides PBM services to KMHP under a PBM agreement. Revenue recognized for services provided under this agreement amounted to $10,039 for the year ended December 31, 2012, $2,061 for the one month ended December 31, 2011, and $8,747 for the eleven months ended November 30, 2011, and are included in management services on the accompanying consolidated statements of income. Pharmacy rebates billed and collected on behalf of KMHP's members by PerformRx are remitted to KMHP on a quarterly basis and reflected as a reduction of pharmacy expense.

In the ordinary course of business, the Company and KMHP advance monies to each other depending on specific cash needs. There is no stated interest rate on such advances and amounts are payable on demand.

(In thousands)

As of December 31, 2012, $67,000 is included in due to affiliates related to an advance from KMHP to the Company.

The Company also provides PBM services to IBC under an agreement. Certain services, including rebate management, were discontinued as of January 1, 2012. Revenue recognized for services provided under this agreement amounted to $358 for the year ended December 31, 2012, $82 for the one month ended December 31, 2011, and $740 for the eleven months ended November 30, 2011, and is included in management services on the accompanying consolidated statements of income. Pharmacy rebates billed and collected on behalf of IBC's members by PerformRx were remitted to IBC on a quarterly basis.

The Company's employees receive healthcare benefits under plans maintained by IBC. Amounts incurred related to these benefit plans totaled $9,609 for the year ended December 31, 2012, $1,015 for the one month ended December 31, 2011, and $10,749 for the eleven months ended November 30, 2011, and are included in salaries and benefits on the accompanying consolidated statements of income.

Vista provides family planning services for certain members in Pennsylvania. In addition, Vista provides certain administrative services. These costs were expensed as follows:

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Purchased medical services, net	$	3,589	205	3,309
Other administrative and general		9	1	20

At December 31, 2012 and 2011, the Company had the following amounts due from/to affiliates:

Due from affiliates		2012	2011
Vista	$	2,468	1,537
Integrated		435	435
FTH		8,149	—
	$	11,052	1,972

Due to affiliates		2012	2011
KMHP	$	72,009	7,521
IBC		3,753	467
	$	75,762	7,988

(In thousands)

Distributions paid to the former Partners based on their distributive share of the Company's consolidated net income pursuant to the Partnership Agreement totaled $7,768 for the eleven months ended November 30, 2011. On November 30, 2011, an additional distribution was paid to the Partners in the amount of $7,000, of which AICMI's distributive share in the amount of $3,500 was contributed to the purchase consideration pursuant to the Partnership Interest Purchase Agreement (note 1).

In December 2012, AMHP received capital contributions in the amount of $6,500 each from SubCo I and SubCo II.

(14) Accrued Medical Expenses and Hospital Assessment Payable

Activity in accrued medical expenses and hospital assessment payable is summarized as follows:

		Successor		Predecessor
		Year ended December 31, 2012	**One month ended December 31, 2011**	**Eleven months ended November 30, 2011**
Balance, beginning of period	$	185,980	183,882	205,244
Less: Nonrisk-bearing behavioral healthcare services, beginning of period		(22,136)	(23,452)	(20,445)
		163,844	160,430	184,799
Incurred related to:				
Current year		1,607,226	100,414	1,140,006
Prior year		(33,924)	—	(45,526)
Total incurred		1,573,302	100,414	1,094,480
Paid related to:				
Current year		1,385,807	25,551	988,190
Prior year		126,249	71,459	130,659
Total paid		1,512,056	97,010	1,118,849
		225,090	163,834	160,430
Add: Nonrisk-bearing behavioral healthcare services, end of period		22,885	22,136	23,452
Balance, end of period	$	247,975	185,970	183,882

Reserves for incurred claims attributable to insured events of prior periods decreased by $33,924 from $185,970 in 2011 to $152,046 in 2012 and decreased by $45,526 from $205,244 in 2010 to $159,718 at November 30, 2011 as a result of the payment of less claims than anticipated and the reestimation of unpaid claims. These adjustments are generally the result of ongoing analysis and recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

(15) Credit Facilities

(a) Lines of Credit

The Company maintains a revolving line of credit agreement with PNC in the amount of $10,000 that is collateralized by investment securities held in an account maintained by PNC. Trading of securities pledged as collateral is permitted by PNC in acceptable replacement collateral as defined in the line of credit agreement. The Company has the intent to renew the line of credit, which expires on June 23, 2013. At the Company's election, interest is calculated at a rate per annum equal to the Base Rate (the highest of (a) the Prime Rate, (b) the sum of the Federal Funds Open Rate plus 50 basis points, or (c) the sum of the daily LIBOR plus 100 basis points) plus 80 basis points or the LIBOR plus 80 basis points. Interest expense relating to the line of credit totaled $109 for the year ended December 31, 2012, $20 for the one month ended December 31, 2011, and $92 for the eleven months ended November 30, 2011. As of December 31, 2012 and 2011, accrued interest was $7 and $20, respectively, which was calculated based on the Prime Rate plus 80 basis points (4.05% at December 31, 2012 and 2011). The principal balance outstanding on this line of credit was $10,000 as of December 31, 2012. No principal balance was outstanding on this line of credit as of December 31, 2011.

The Company maintains a $2,000 demand line of credit with Susquehanna Bank, which bears interest at the bank's prime rate plus 0.50% (3.75% at December 31, 2012 and 2011). This line of credit expires June 30, 2013. Interest expense relating to the line of credit totaled $11 for the one month ended December 31, 2011 and $58 for the eleven months ended November 30, 2011. No principal balance was outstanding on this line of credit as of December 31, 2012 or 2011.

The Company maintains a demand line of credit with Fulton Bank in the amount of $1,000. Such line of credit bears interest not less than 4.50% annually (4.50% at December 31, 2012 and 2011) and expires May 1, 2013. Interest expense relating to this line of credit totaled $26 for the one month ended December 31, 2011 and $16 for the eleven months ended November 30, 2011. No principal balance was outstanding on this line of credit as of December 31, 2012 or 2011.

(b) Letters of Credit

The Company maintains demand letters of credit with Susquehanna Bank in the amount of $7,536 and $7,037 as of December 31, 2012 and 2011, respectively, to satisfy the insolvency requirements for two of the risk-bearing HealthChoices contracts described in note 2. Interest is calculated at the bank's prime rate plus 2% if drawn upon and bears a 1.3% service fee payable on an annual basis. These letters of credit expire on June 30, 2013. No balance was outstanding on these letters of credit as of December 31, 2012 or 2011.

The Company maintains letters of credit with Fulton Bank aggregating $6,141 and $6,384 at December 31, 2012 and 2011, respectively, to satisfy the requirements of the bond purchase agreements described in note 16(a). Interest is calculated at the bank's prime rate plus 2% and bears an annual fee of 1%. No balance was outstanding on these letters of credit as of December 31, 2012 or 2011.

(In thousands)

(16) Long-Term Debt

Long-term debt at December 31, 2012 and 2011 consists of the following:

		2012	2011
Mortgage note payable bearing fixed interest at 5.95% in monthly installments of $4, including interest, final payment of $10 due November 2028	$	1,555	1,610
Note payable, bearing interest at LIBOR plus 1.25% (4.00% at December 31, 2012), in monthly installments of $15 beginning June 1, 2010, including interest, final payment of $15 due May 2029		3,024	3,208
Bond payable bearing interest at a "Weekly Rate" (1.65% at December 31, 2012), which may fluctuate as the bonds are remarketed and is not to exceed 15% per annum		3,045	3,170
Bond payable bearing interest at a "Weekly Rate" (1.65% at December 31, 2012), which may fluctuate as the bonds are remarketed and is not to exceed 15% per annum		3,010	3,125
Capital lease obligations (note 19)		191	373
Total long-term debt		10,825	11,486
Less current portion		2,178	2,272
Long-term debt, net of current portion	$	8,647	9,214

In November 2008, the Company entered into a twenty-year mortgage note payable with Fulton Financial Advisors (FFA) for $1,765 relating to a Harrisburg office building. The mortgage note is payable in monthly principal installments plus interest at 5.95% through November 2013 at which time the fixed interest rate may be adjusted at the discretion of FFA. If the adjusted interest rate is contested by the Company, interest will be calculated at the LIBOR plus 2.85% for the remainder of the note. FFA has the right and option to demand payment in full at each five-year anniversary date. The Company has the option of prepaying the mortgage, which would require the Company to pay a prepayment fee of 2% of principal while the fixed interest rate is in effect, as defined in the loan agreement. The aggregate letters of credit required for building related debt in accordance with the loan agreement and bond indentures is satisfied by the letters of credit described in note 15(b).

In May 2009, the Company entered into a twenty-year note payable with FFA for $3,500 relating to the capitalization of CSI. The note is payable in monthly principal installments plus interest at LIBOR plus 1.25% through May 2029. FFA has the right and option to demand payment in full at each five-year anniversary date. The Company has the option of prepaying the note, which would not require the Company to pay a prepayment fee. Under this note, the Company has certain financial covenants. At December 31, 2012 and 2011, the Company was in compliance with its financial covenants.

(In thousands)

As described in note 1, the Company acquired CBHNP on January 31, 2008. As part of the acquisition, the Company assumed CBHNP's outstanding debt, which is as follows:

(a) Bonds Payable

On March 2, 2006, CBHNP entered into a bond purchase agreement with FFA due in 2026. The resulting taxable variable rate demand revenue bonds, 2006 Series for $5,120, were used to partially finance the construction of the Harrisburg office building. Under the agreement, CBHNP is obligated to make payments to the trustee, FFA, in amounts and at the times sufficient to pay, when due, the principal of any premium and interest on the bonds. Amounts outstanding under this agreement were $3,045 and $3,170 at December 31, 2012 and 2011, respectively.

On February 8, 2007, CBHNP entered into an additional bond purchase agreement with FFA due in 2027. The resulting taxable variable rate demand revenue bonds, 2007 Series for $5,100, were also used to finance the construction of the Harrisburg office building. Under the agreement, CBHNP is obligated to make payments to the trustee, FFA, in amounts and at the times sufficient to pay, when due, the principal of any premium and interest on the bonds. Amounts outstanding under this agreement were $3,010 and $3,125 at December 31, 2012 and 2011, respectively.

Under the bond purchase agreements, CBHNP has certain financial covenants. At December 31, 2012 and 2011, CBHNP was in compliance with its financial covenants.

The maturities of the long-term debt (excluding capital lease obligations included in note 19) subsequent to December 31, 2012 are as follows:

2013	$	2,059
2014		3,059
2015		295
2016		315
2017		335
2018 and beyond		4,571
Total	$	10,634

(17) Reinsurance

Certain subsidiaries of the Company maintain reinsurance (stop-loss) coverage for hospital medical expense with commercial insurance carriers. Under Select's agreement, Select was reimbursed for 90% of the inpatient hospital and pharmacy costs exceeding $300 per member per year and the maximum reinsurance recovery on a per member basis was $2,000 per lifetime for inpatient hospital costs and $250 per year for pharmacy costs through March 31, 2012. Effective April 1, 2012, Select no longer maintains reinsurance coverage with a commercial insurance carrier. Under Indiana, LLC's policy relating to the

Hoosier program, Indiana, LLC is reimbursed for inpatient hospital costs exceeding $200 per member per year, with a maximum reinsurance recovery on a per member basis of $2,000 per lifetime. Under Indiana, LLC's policy relating to the HIP program, Indiana, LLC was reimbursed for inpatient hospital and home health costs exceeding $100 per member per contract period, with a maximum reinsurance recovery of $600 on a per member basis through December 31, 2011. Effective January 1, 2012, Indiana, LLC no longer maintains reinsurance coverage with a commercial insurance carrier for the HIP program. Under CBHNP's policy, CBHNP is reimbursed for inpatient hospital costs exceeding $75 per member per year, with a maximum reinsurance recovery on a per member basis of $250 per year. Under LaCare's agreement, effective April 1, 2012, LaCare is reimbursed for 90% of the inpatient hospital and pharmacy costs exceeding $400 per member per year, with a maximum reinsurance recovery on a per member basis of $2,000 per contract period for inpatient hospital costs and $300 per contract period for pharmacy costs. Under ANI's agreement, effective July 1, 2012, ANI is reimbursed for 90% of the inpatient hospital costs exceeding $200 per member per contract period, with a maximum reinsurance recovery on a per member basis of $2,000 per contract period. The reinsurance coverage does not relieve the Company of its primary obligation to the policy members. Reinsurance premiums were $3,180 for the year ended December 31, 2012, $286 for the one month ended December 31, 2011, and $3,250 for the eleven months ended November 30, 2011, and are included in capitated services in the accompanying consolidated statements of income. Reinsurance recoveries amounted to $712 for the year ended December 31, 2012, $251 for the one month ended December 31, 2011, and $2,271 for the eleven months ended November 30, 2011, and are included in purchased medical services, net in the accompanying consolidated statements of income.

(18) Employee Benefit Plans

The Company's employees are eligible to participate in the AmeriHealth Mercy Family of Companies 401(k) Plan (401(k) Plan), a defined contribution plan covering substantially all employees of the Company and KMHP. The Company matches employee contributions with an amount equal to 100% of such contribution up to 1% of the eligible employee's salary, plus 50% of such contribution on the next 5% of the eligible employee's salary. On December 5, 2012, the Company amended the 401(k) Plan effective January 1, 2013, to provide an additional 3% employer match on employee contributions for eligible participants whose date of hire or rehire is on or after January 1, 2013. The Company's expense for the 401(k) Plan was $1,727 for the year ended December 31, 2012, $111 for the one month ended December 31, 2011, and $1,433 for the eleven months ended November 30, 2011, and is included in salaries and benefits on the accompanying consolidated statements of income.

Certain employees of the Company participate in the Pension Plan of the AmeriHealth Mercy Family of Companies (the Plan), a noncontributory defined benefit pension plan that provides retirement benefits to employees of the Company based upon certain eligibility requirements as defined in the plan document. For eligible employees hired prior to January 1, 2001, pension benefits are based on participant's average earnings and length of service. For eligible employees hired after January 1, 2001, pension benefits are calculated based on a percentage of the participant's base salary determined by years of service. On December 5, 2012, the Company amended the Plan effective January 1, 2013. Pursuant to this amendment, any employee with a hire or rehire date on or after January 1, 2013 will not become an active participant in the Plan. The Company uses a December 31 measurement date for its pension plan.

(In thousands)

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at December 31, 2012 and 2011:

		2012	2011
Projected benefit obligation at December 31	$	17,435	14,285
Fair value of plan assets at December 31		11,821	9,744
Funded status	$	(5,614)	(4,541)

The following table sets forth the plan's employer contribution and benefits paid for the years ended December 31, 2012 and 2011:

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Employer contribution	$	973	158	1,449
Benefits paid		(58)	(3)	(33)

The Company's net periodic benefit cost was $1,191 for the year ended December 31, 2012, $123 for the one month ended December 31, 2011, and $1,365 for the eleven months ended November 30, 2011.

Amounts recognized in the balance sheets consist of:

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Accrued pension benefit cost	$	(5,614)	(4,541)	(4,398)
Accumulated other comprehensive income (loss)		1,347	546	—
Net amount recognized	$	(4,267)	(3,995)	(4,398)

A net actuarial loss of $801 and $546 was recognized in accumulated other comprehensive income (loss) during the year ended December 31, 2012 and one month ended December 31, 2011.

(Continued)

(In thousands)

Amortization of net actuarial losses included in accumulated other comprehensive income (loss) in the amount of $38 is expected to be recognized as a component of net periodic benefit cost in 2013.

The accumulated benefit obligation for the plan was $14,577 and $11,893 at December 31, 2012 and 2011, respectively.

		Successor		Predecessor
		Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Increase in pension liability included in other comprehensive income (loss)	$	801	546	3,080

Weighted average assumptions used to determine benefit obligations at December 31, 2012 and 2011:

	Successor		Predecessor
	Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Discount rate	4.20%	5.00%	5.30%
Rate of compensation increase	4.00	4.00	4.00

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2012 and 2011 are as follows:

	Successor		Predecessor
	Year ended December 31, 2012	One month ended December 31, 2011	Eleven months ended November 30, 2011
Discount rate	5.00%	5.30%	5.75%
Expected return on plan assets	7.25	7.50	8.50
Rate of compensation increase	4.00	4.00	4.00

The expected return on pension plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

(In thousands)

The Company does not expect to contribute to the Plan in 2013. No Plan assets are expected to be returned to the Company in 2013.

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

2013	$	125
2014		157
2015		179
2016		247
2017		305
2018 – 2022		2,978

The primary investment objective for the pension plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality, and diversification guidelines and restrictions approved by the pension committee established under the plan documents. The pension asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies, with the goal to enhance the expected return of the pension portfolio while maintaining acceptable levels of risk. The target asset allocation for the portfolio is as follows:

Asset category:	
Domestic fixed income mutual funds	30.0%
International equity mutual funds	20.0
Domestic equity mutual funds	28.0
Equity securities	10.0
Alternative investments	11.5
Cash and cash equivalents	0.5

The Plan's weighted average asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

	2012	**2011**
Asset category:		
Domestic fixed income mutual funds	30.5%	27.5%
International equity mutual funds	11.7	17.2
Domestic equity mutual funds	35.9	23.6
Equity securities	9.6	12.4
Alternative investments	11.3	18.2
Cash and cash equivalents	1.0	1.1

(In thousands)

The following investments represent 5% or more of the Plan's total net assets at December 31, 2012 and 2011:

		2012
Vanguard Total Stock Market Portfolio Institutional Fund	$	2,578
PIMCO Funds		1,830
Metropolitan West Funds		1,775
Vanguard Total International Stock Index Fund		950
Royce Premier Fund		721

		2011
PIMCO Funds	$	1,356
Ridgeworth Intermediate Bond Fund		1,345
Dodge & Cox International Stock Fund		804
Vanguard 500 Index Fund		724
Royce Premier Fund		632
Baring Focused International Equity Fund		595
Frontier Capital Appreciation Fund		570

The inputs and valuation techniques used to develop fair value measurements of plan assets at December 31, 2012 and 2011 are consistent with the inputs and valuation techniques described in note 8. The majority of the Plan's investment securities trade on a major exchange in an active market. Accordingly, such securities are considered as Level 1 of the fair value hierarchy. Investment securities not traded on a major exchange in an active market would be assigned a Level 2 based on the criteria and hierarchy described in note 8.

(Continued)

(In thousands)

The following is a summary of the fair value measurements of the Plan's investments by level within the fair value hierarchy as of December 31, 2012 and 2011:

December 31, 2012		Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total fair value
Mutual funds:					
Domestic fixed income mutual funds	$	3,601	—	—	3,601
International equity mutual funds		1,389	—	—	1,389
Domestic equity mutual funds		4,242	—	—	4,242
Alternative investments		227	—	—	227
Money market fund		112	—	—	112
Alternative investments		—	1,111	—	1,111
Equity securities		1,139	—	—	1,139
Total plan investments	$	10,710	1,111	—	11,821

December 31, 2011		Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total fair value
Mutual funds:					
Domestic fixed income mutual funds	$	2,677	—	—	2,677
International equity mutual funds		1,678	—	—	1,678
Domestic equity mutual funds		2,297	—	—	2,297
Alternative investments		—	1,774	—	1,774
Money market fund		110	—	—	110
Equity securities		1,208	—	—	1,208
Total plan investments	$	7,970	1,774	—	9,744

(19) Lease Commitments

The Company has several noncancelable operating leases, primarily for office space and equipment. The Company's operating leases for office space and equipment currently expire between March 15, 2013 and June 30, 2015, with equipment leases extending through June 30, 2018. Under certain lease agreements, the Company has the option to renew for two additional five-year periods. The Company has provided security deposits pursuant to the applicable lease agreements. The Company is also responsible for real estate taxes, utilities, and all other expenses associated with the operation of its leased office facilities.

(Continued)

(In thousands)

Recognition of rent expense on a straight-line basis in accordance with ASC 840-20-25-1, *Leases*, resulted in deferred rent of $6 at December 31, 2012, which is included in other liabilities on the accompanying 2012 consolidated balance sheet.

Future minimum lease payments under all other noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments are as follows:

		Operating leases		Capital leases
Year ending December 31:				
2013	$	3,081		130
2014		2,676		77
2015		775		—
2016		5		—
2017		5		—
2018 and thereafter		3		—
Minimum lease payments	$	6,545		207
Less amounts representing interest (at rates ranging from 5.08% to 5.84%)				16
Present value of minimum capital lease payments				191
Less current installments of obligations under capital leases				119
Obligations under capital leases, excluding current installments			$	72

Rent expense for operating leases amounted to $3,005 for the year ended December 31, 2012, $222 for the one month ended December 31, 2011, and $2,444 for the eleven months ended November 30, 2011, and is included within other administrative and general on the accompanying consolidated statements of income.

The Company, along with KMHP, is a legal party to the operating lease agreements for the Airport Business Center (ABC Lease) expiring April 30, 2020. Under the ABC Lease agreements, KMHP and the Company have the option to renew for two additional five-year periods. KMHP has provided security deposits pursuant to the lease agreements. Deferred rent resulting from the recognition of lease expense on a straight-line basis in accordance with ASC 840-20-25-1 is recorded on the financial statements of KMHP. KMHP and the Company are also responsible for real estate taxes, utilities, and all other expenses associated with the operation of the leased office facilities. Related to the ABC Lease, rent and all related expenses are paid by KMHP and indirectly allocated to the Company through an administrative service agreement. Such allocated expenses, which approximated $4,435 for the year ended December 31, 2012, $269 for the one month ended December 31, 2011, and $2,961 for the eleven months ended November 30, 2011, respectively, are included in purchased services – KMHP on the accompanying consolidated statements of income.

(In thousands)

Future minimum lease commitments relating to the ABC Lease for KMHP and the Company referred to above are as follows:

Year ending December 31:		
2013	$	9,613
2014		9,726
2015		9,910
2016		10,021
2017		10,132
2018 and thereafter		23,906
Minimum lease commitments	$	73,308

(20) Contingencies

In the ordinary course of business, the Company is involved in and is subject to claims, contractual disputes with providers, and other uncertainties. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s financial condition or results of operations.

The Company maintains managed care errors and omissions coverage for certain claims with an aggregate limit of $40,000. Professional liability policies are on a claims-made basis and must be renewed or replaced with equivalent insurance if claims incurred during its term but asserted after its expiration are to be insured.

(21) Subsequent Events

Management has evaluated events and transactions occurring subsequent to the balance sheet date through April 3, 2013, the date that the financial statements were available to be issued, for potential recognition and disclosure. No events or transactions meet the definition of a recognized or nonrecognized subsequent event under the scope of ASC 855-10, *Subsequent Events*, and, therefore, do not require recognition or disclosure in the financial statements.