

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF KANSAS**

In the Matter of the Merger of )  
**PREFERRED HEALTH SYSTEMS INSURANCE** )  
**COMPANY** )  
with and into ) Docket No. - 4263  
**COVENTRY HEALTH AND LIFE INSURANCE** )  
**COMPANY** )

**ORDER OF MERGER**

NOW on this 23 day of December, 2010, the above matter comes before the Commissioner of Insurance of the State of Kansas (“Commissioner”).

Preferred Health Systems Insurance Company (“PHSIC”), a Kansas stock life insurance company has applied to merge with and into Coventry Health and Life Insurance Company (“CHLIC”) a Delaware stock life insurance company (“Merger Application”), pursuant to K.S.A. 40-309.

PHSIC and CHLIC are represented by their Senior Vice President and Deputy General Counsel, Jonathan D. Weinberg of Coventry Health Care, Inc. The Kansas Insurance Department is represented by John W. Campbell, General Counsel and John R. Dowell, Staff Attorney. Also appearing for the Kansas Insurance Department are Kenneth Abitz, Director of the Financial Surveillance Division, and Mark Owens, Principal Financial Analyst.

All parties are relying on documentary and contractual representations filed with the Kansas Insurance Department.

Pursuant to the authority granted to the Commissioner pursuant to K.S.A. 40-309, 40-3301 and 40-3304(d)(1) and in accordance with the Kansas Administrative Procedures Act, K.S.A. 77-501, *et seq.*, the Commissioner hereby asserts the following findings of fact, conclusions of law, and orders, as follows:

## **FINDINGS OF PUBLIC INTEREST AND POLICY**

The purpose of filing the Merger Application was to obtain the approval of the Kansas Insurance Department for the proposed merger of PHSIC with and into CHLIC. The terms and conditions of the proposed merger are fully set forth in the Agreement of Merger (“Agreement”).

Significant documents in the Merger Application have been reviewed by representatives of the Financial Surveillance Division and the Legal Division of the Kansas Insurance Department, and the Commissioner of Insurance has had the benefit of their technical expertise and advice.

Contained in the Merger Application were various exhibits, including, but not limited to a draft Agreement of PHSIC with and into CHLIC, certificate of authority of PHSIC, minutes of special meetings of the board of directors and shareholders of PHSIC and CHLIC approving the proposed merger (dated December 10, 2010), actuarial opinions, and financial statements.

The staff of the Kansas Insurance Department has inspected and reviewed the contents of the Agreement and related documents, to the extent necessary, and found that the filing of the Agreement and related documents are in accordance with K.S.A. 40-309 and that the Agreement and related documents have provided all of the information required under Kansas law to enable the Commissioner to render a decision on the proposed Agreement.

## **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. PHSIC is a stock life insurance company organized and operating pursuant to the provisions of Article 4 of the Kansas Insurance Code, with its statutory office located in Wichita, Kansas. PHSIC has been authorized to transact business in Kansas since May 1, 1996.

2. CHLIC is a stock life insurance company organized under the laws of Delaware on March 18, 1968, with its statutory office located in Wilmington, Delaware. CHLIC has been authorized to transact business in Kansas since December 31, 1985.
3. The Agreement and related documents establish that CHLIC is exempt from filing a Form A, as required under K.S.A. 40-3304, because the merger of PHSIC with and into CHLIC does not have the purpose or effect of changing or influencing control of CHLIC inasmuch as both PHSIC and CHLIC are wholly owned by Coventry Health Care, Inc., which will continue to own 100% of the issued and outstanding stock of CHLIC, the surviving company.
4. Pursuant to K.S.A. 40-309, an insurance company of this state may merge with any other company of any other state engaged in like business and having similar corporate powers. PHSIC and CHLIC are engaged in like business and have similar corporate powers.
5. Pursuant to K.S.A. 40-309, on December 10, 2010, a resolution was adopted by the Board of Directors of CHLIC to effect the merger of PHSIC and CHLIC. On December 10, 2010, the shareholder of PHSIC approved a resolution of the proposed merger.
6. PHSIC and CHLIC filed an executed copy of the Agreement of Merger with the Kansas Insurance Department on December 14, 2010.
7. The Agreement is in compliance with the provisions of K.S.A. 40-309.
8. Contained in the Merger Application were all the necessary materials submitted to the Kansas Insurance Department in connection with the proposed merger.
9. The merger has been approved by the unanimous consent of the shareholder of PHSIC.

10. On the effective date of the merger, CHLIC will assume and be responsible for all debts, obligations, claims and liabilities for which PHSIC is legally responsible and all assets of PHSIC will be transferred to CHLIC.
11. The Agreement and related documents establish that on the effective date of the merger, CHLIC will assume all policies and insurance business of PHSIC and will assume all rights, responsibilities, and obligations of PHSIC for such policies and insurance business.
12. No evidence has been introduced to establish that the proposed merger of PHSIC with and into CHLIC would be injurious to or prejudice the interests of the policyholders and creditors.
13. No evidence has been introduced to establish that the proposed merger of PHSIC with and into CHLIC will be hazardous or prejudicial to the insurance-buying public.

**IT IS THEREFORE ORDERED BY THE COMMISSIONER OF INSURANCE THAT:**

1. The merger between PHSIC with and into CHLIC is hereby approved pursuant to K.S.A. 40-309 provided that (a) within sixty days of the date of this Order, the merger is effected and all appropriate closing documents are executed and filed with the Kansas Insurance Department; and (b) Coventry Health and Life Insurance Company and Coventry Health Care of Kansas, Inc., surviving entities of the merger with Preferred Health Systems Insurance Company and Preferred Plus of Kansas, Inc., will maintain an office in Wichita, Sedgwick, County, Kansas to provide services for Preferred Health Insurance Coverage. Said office will be staffed with not less than 185 full time equivalents for a period of not less than twelve (12) months from the date of this Order and will provide services for the following functional areas:

- Senior Management
- Marketing and Sales
- Network Management and Development
- Medical Management Services

Finance  
Underwriting and Actuarial Services and Support  
Legal and Regulatory Compliance  
Human Resources  
Information Technology Support  
Customer Service Operations

In the event the membership associated with the Preferred Health Insurance Coverage falls below 100,000 members, the number of full time equivalents required shall be reduced to 145, provided all functional areas listed above shall remain unchanged.

2. CHLIC shall be exempt from the application of the formal filing and approval requirements of K.S.A. 40-3304 as it may be deemed to apply to the merger of PHSIC with and into CHLIC.
3. In conjunction with this Order, the Kansas Certificate of Authority of PHSIC shall be cancelled by the Commissioner of Insurance of Kansas.
4. The Commissioner of Insurance retains jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such Orders as may be deemed necessary and appropriate.

#### **NOTICE OF RIGHTS**

PHSIC is entitled to a hearing pursuant to K.S.A. 77-537, the Kansas Administrative Procedure Act. If PHSIC desires a hearing, the company must file a written request for a hearing with:

John W. Campbell, General Counsel  
Kansas Insurance Department  
420 S.W. 9<sup>th</sup> Street  
Topeka, Kansas 66612

This request must be filed within fifteen (15) days from the date of service of this Order. If PHSIC requests a hearing, the Kansas Insurance Department will notify the company of the time and place of the hearing and information on the procedures, right of representation, and other rights of parties relating to the conduct of the hearing, before commencement of the same.

If a hearing is not requested in the time and manner stated above, the Order shall become effective as a Final Order upon the expiration of time for requesting a hearing, pursuant to K.S.A. 77-613. In the event that PHSIC files a petition for judicial review, pursuant to K.S.A. 77-613(e), the agency officer to be served on behalf of the Kansas Insurance Department is:

John W. Campbell, General Counsel  
Kansas Insurance Department  
420 S.W. 9<sup>th</sup> Street  
Topeka, Kansas 66612

**IT IS SO ORDERED THIS   23rd   DAY OF   DECEMBER  , 2010 IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.**



  /s/   Sandy Praeger \_\_\_\_\_  
Sandy Praeger  
Commissioner of Insurance

BY:

  /s/   John W. Campbell \_\_\_\_\_  
John W. Campbell  
General Counsel

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that above and foregoing Order of Merger was served via the United States Postal Service, first-class postage prepaid, on this \_\_23rd\_\_ day of December, 2010, addressed to the following:

Mr. Jonathan D. Weinberg  
Senior Vice President, Deputy General Counsel  
Coventry Health Care, Inc.  
6705 Rockledge Drive, Suite 900  
Bethesda, MD 20817-1850

\_ /s/ John R. Dowell \_\_\_\_\_  
John R. Dowell  
Staff Attorney