STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Cambridge Life Insurance Company for the period ended December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Cambridge Life Insurance Company for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Cambridge Life Insurance Company as of December 31, 2010, be and is hereby ADOPTED as filed and for Cambridge Life Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 22nd day of February, 2011.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

FINANCIAL EXAMINATION

Cambridge Life Insurance Company

As of:

DECEMBER 31, 2010

FILED
MAR 03 2012
DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 15, 2011

Honorable Joseph Torti III, Superintendent
Division of Insurance Regulation
State of Rhode Island
Chairman, Financial Condition (E) Committee, NAIC

Honorable Stephen Robertson, Commissioner
Department of Insurance
State of Indiana
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Cambridge Life Insurance Company

hereinafter referred to as such or as "Cambridge" or as the "Company." The Company's main administrative office is located at 3200 Highland Avenue, Downers Grove, IL 60515, telephone number (630) 737-7900. This examination began on March 28, 2011 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of Cambridge was made as of December 31, 2007, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope financial examination covers the period from January 1, 2008, through December 31, 2010, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2010.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The following key activities were identified: Investments, Treasury, Reserves, Claims Handling, Premiums, and Underwriting.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Ernst & Young LLP, for its audit covering the period from January 1, 2009, through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

Pharmacy Rebates

Prior to 2011, Coventry Health Care, Inc. (CHC) provided pharmacy services to Cambridge pursuant to an intercompany agreement approved by the DIFP. The DIFP approval stated, "In the event actual cost is less than projected cost by 3%, CHC shall reimburse Cambridge for the excess paid over actual cost. Cost overruns shall be borne by CHC." Projected costs did not include rebates. Since rebates received would lower the actual costs, these amounts should have been paid to Cambridge.

Per our analysis Cambridge was not reimbursed for $49,054,732 in rebates that its business generated from 2006 through 2010. It is noted that although the rebates were not reimbursed and taken into income, CHC did make capital contributions to Cambridge during the 2006-2010 time period; contributions that may not have been necessary had rebates been paid appropriately.

Even after taking into account the contributed capital in lieu of rebate reimbursement, reimbursement to Cambridge for rebates in excess of the 3% profit allowance fell short by $7,447,656 ($49,054,732-$41,607,076).

Intercompany Balance Reconciliation

The Company maintains a spreadsheet that tracks and summarizes monthly transactions and intercompany balances with affiliates. The spreadsheet balance does not reconcile to the intercompany general ledger accounts balance. Each year-end the Company

manually adjusts the general ledger intercompany accounts to reconcile to the spreadsheet balance with the offsetting entry being booked through the unassigned surplus account. The Company non-admitted the intercompany receivable related to this adjustment in the 2010 annual statement. According to Company personnel, the adjustment is necessary to correct for the cumulative effect of various accounting errors. The adjustment in 2010 was $527,922. It is unclear why adjustments are necessary each year.

SUBSEQUENT EVENTS

None.

COMPANY HISTORY

General

Cambridge was incorporated in Texas as National Motor Club Life and Accident Insurance Company on February 20, 1973, and began business in 1974. American Life and Health Insurance Company purchased the Company on December 21, 1992, and re-domiciled it to Missouri. In June of 1993, the Company changed its name to Cambridge Life Insurance Company.

First Health Group Corporation purchased the Company's ultimate parent, Creative Health Programs Administration, Inc. on January 31, 1996, making First Health Group Corporation the ultimate parent. American Life and Health Insurance Company sold Cambridge to another member of the holding company, First Health Services Corporation on January 1, 2002. First Health Services Corporation made a dividend of Cambridge's capital stock to the ultimate parent, First Health Group Corporation on February 10, 2003. Coventry Health Care, Inc. purchased First Health Group Corporation and its subsidiaries on January 28, 2005, becoming the Company's ultimate parent.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 600,000 shares of common stock with a par value of $3.34. At December 31, 2010, all 600,000 authorized shares were issued and outstanding for a total balance of $2,004,000 in the Company's common capital stock account.

Dividends

The Company has paid no dividends.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

Cambridge issued a surplus note for $18.5 million to Coventry Health Care, Inc. on November 1, 2008. Coventry Health Care, Inc. had previously paid invoices on behalf of the Company, and those payments were treated as the funding for the surplus note. The note and accumulated interest of $378,942 were outstanding at December 31, 2010.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the bylaws during the exam period. In 2009, the articles of incorporation were amended to change the principal and home office locations.

All actions of the shareholder and the Board of Directors were by written consent. The written consents for the examination period were reviewed for proper approval of corporate transactions. The consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of nine directors authorized by the Company's bylaws. The directors serving at December 31, 2010, were as follows:

Name and Address	Principal Occupation and Business Affiliation
Harvey C. DeMovick, Jr. Bethesda, MD	Executive Vice President Coventry Health Care, Inc.
Michael D. Bahr Bethesda, MD	Executive Vice President, Commercial Business Coventry Health Care, Inc.
James E. McGarry Carrolton, TX	Senior Vice President, Service Operations Coventry Health Care, Inc.
John S. Lavelle Tampa, FL	Senior Vice President, Sales and Marketing Coventry Health Care, Inc.
Shirley R. Smith Bethesda, MD	Senior Vice President, Legal Coventry Health Care, Inc.
John J. Ruhlmann Bethesda, MD	Senior Vice President, Controller Coventry Health Care, Inc.
Jonathan D. Weinberg Bethesda, MD	Senior Vice President, Legal Coventry Health Care, Inc.
Thomas C. Zielinski Plymouth Meeting, PA	Executive Vice President and General Counsel Coventry Health Care, Inc.
Melinda L. Tuozzo Bethesda, MD	Vice President, Tax Coventry Health Care, Inc.

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2010, were as follows:

Name	Position
Harvey C. DeMovick, Jr.	President and Chief Executive Officer
Shirley R. Smith	Secretary
John J. Ruhlmann	Corporate Controller & Treasurer
Jonathan D. Weinberg	Assistant Secretary
Melinda L. Tuozzo	Assistant Treasurer
John S. Lavelle	Executive Vice President

Committees

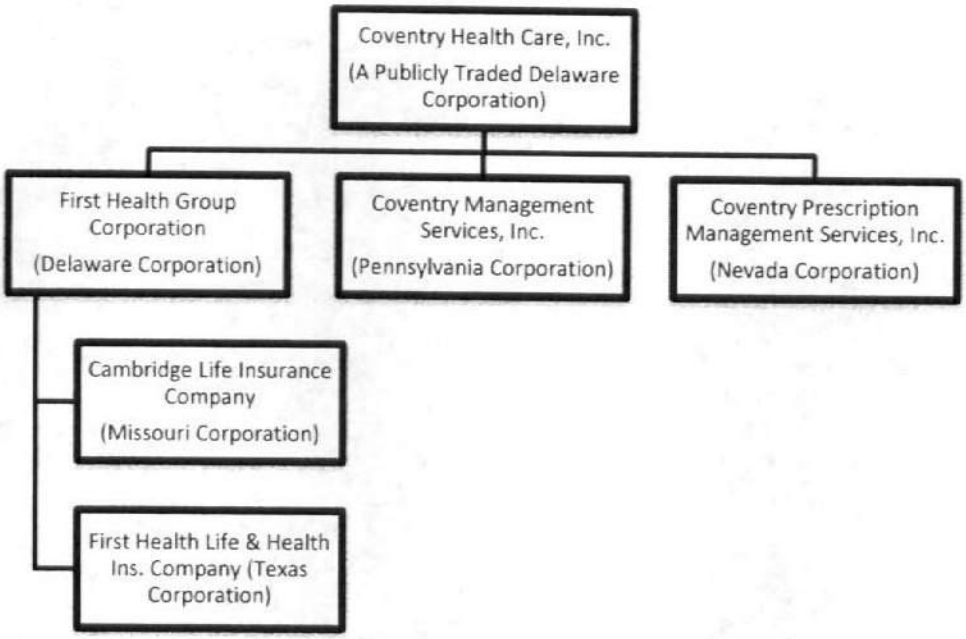
The Company does not have any committees. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Coventry Health Care, Inc., the ultimate parent of its holding company sytem. That committee comprised three independent directors at December 31, 2010.

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of First Health Group Corporation, which in turn, is a wholly owned subsidiary of Coventry Health Care, Inc., a publicly traded Delaware holding company. Coventry Health Care, Inc. is the ultimate parent of the holding company system.

Organization Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2010, including the Company. All subsidiaries shown are wholly owned. Only entities with direct and indirect ownership of the Company, and entities that have transactions with the Company are listed.



Affiliated Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below:

Administrative Services Agreement

Parties: Coventry Management Services, Inc. and Cambridge Life Insurance Company.

Effective: September 1, 1998, non-disapproved August 19, 1998. First Amendment, January 1, 2006, non-disapproved November 28, 2005.

Terms: First Health Group Corp. provides claims administrative services to Cambridge. No fees are charged on the Prescription Drug Plan offered to Medicare members.

Rate(s): Cambridge pays 3% of premium to Coventry Management Services, Inc.

Administrative and Financial Services and Overhead Allocation Agreement

Parties: First Health Group Corp. and Cambridge Life Insurance Company.

Effective: September 1, 1998, non-disapproved August 12, 1998. First Amendment, January 1, 2006, non-disapproved November 28, 2005.

Terms: First Health Group Corp. provides services including legal, administrative and financial to Cambridge. No fees are charged on the Prescription Dental Plan offered to Medicare members.

Rate(s): Cambridge pays a monthly fee of $10,000 to First Health Group Corp.

Amended and Restated Client Contract

Parties: First Health Group Corp. and Cambridge Life Insurance Company.

Effective: January 1, 1996, non-disapproved July 30, 1998. First Amendment, January 1, 2006, non-disapproved November 28, 2005.

Terms: First Health Group Corp. provides medical cost management services to Cambridge. No fees are charged on the Prescription Dental Plan offered to Medicare members.

Rate(s): Reimbursement for these services is contained in the reimbursement Cambridge pays under the agreement for Administrative and Financial Services and Overhead Allocation discussed above.

Prime Subcontract No. L-35489 Agreement

Parties: National Postal Mail Handlers Union, First Health Life and Health Insurance Company, Cambridge Life Insurance Company, and Federal Employee Plans, Inc. The First Amendment substitutes Claims Administration Corp. for Federal Employee Plans, Inc.

Effective: January 1, 2003, non-disapproved October 29, 2004. First Amendment, January 1, 2003, non-disapproved October 29, 2004.

Terms: National Postal Mail Handlers Union is the carrier of the Mail Handlers Benefit Plan. First Health Life and Health Insurance Company provides benefits for the Plan. Claims Administration Corp., another affiliate, provides administrative services. National Postal pays First Health Life and Health Insurance Company benefit and administrative charges.

Rate(s): Rates are approved by the United States Office of Personnel Management (OPM) annually.

Restated Tax Sharing Agreement

Parties: Coventry Health Care, Inc. and its subsidiaries, including Cambridge Life Insurance Company.

Effective: Tax-year ended 2008, non-disapproved January 28, 2011.

Terms: Coventry Health Care, Inc. and its subsidiaries will file a consolidated Federal (or state) income tax return. The tax liability for each participant will equal the amount of tax that would have been paid on a separate basis. Coventry Health Care, Inc. will act as agent for the group for the payment of all Federal or state income taxes, the receipt of all tax refunds, and all dealings with the IRS or other Federal or state agencies. Payments by the subsidiaries to Coventry will be made at such a time to reasonably permit Coventry to make required estimated payments. Differences between the estimated tax liabilities or benefit of loss carry forwards generated and the actual tax liabilities or tax benefit of loss carry forwards on the tax returns will be settled within ninety days of filing the income tax returns. Cambridge is not required to assume the Federal and state tax assets or liabilities or fund payments resulting from intercompany transfers of intangible assets. Cambridge will not be paid for the benefit of any capital or net operating loss carry forwards to the extent that Cambridge cannot use the benefit itself. However, if Cambridge can use such benefit itself, Coventry Health Care, Inc. will pay Cambridge for such benefit.

Rate(s): There are no costs associated with this agreement.

Management Services Agreement

Parties: Cambridge Life Insurance Company and Coventry Health Care, Inc.

Effective: January 1, 2006, non-disapproved November 18, 1995. The agreement was revised and has had four amendments. The last amendment was March 1, 2010, non-disapproved February 2, 2010.

Terms: Coventry Health Care, Inc. provides services to Cambridge with respect to its Prescription Drug Program and Private Fee-For-Service product. The services include senior management services, advertising, marketing and public relations, purchasing, pharmacy services, corporate legal, regulatory compliance and governmental affairs, accounting, tax compliance and consulting, facilities management, risk management, human resource consulting, payroll services, printing, postage, marketing and enrollment costs and phone center services.

Rate(s): The capitation rate is $1.09 PMPM for Prescription Drug Program members, and pays a flat monthly rate for the Private Fee-For-Service product fees to reflect the run-out cost of the Private Fee-For-Service product.

Examination

Finding: The DIFP approval of the first amendment stated, "In the event actual cost is less than projected cost by 3%, CHC shall reimburse Cambridge for the excess paid over actual cost. Cost overruns shall be borne by CHC." Projected costs did not include rebates. Since rebates received would lower the actual costs, these amounts should have been paid to Cambridge.

Per our analysis Cambridge was not reimbursed for $49,054,732 in rebates that its business generated from 2006 through 2010. It is noted that although the rebates were not reimbursed and taken into income, CHC did make capital contributions to Cambridge during the 2006-2010 time period: contributions that may not have been necessary had rebates been paid appropriately.

Even after taking into account the contributed capital in lieu of rebate reimbursement, reimbursement to Cambridge for rebates in excess of the 3% profit allowance fell short by $7,447,656 ($49,054,732-$41,607,076).

Management Services Agreement

Parties: Coventry Management Services, Inc. and Cambridge Life Insurance Company.

Effective: January 1, 2006, non-disapproved November 18, 2005. There have been five amendments, the latest as of March 1, 2010, non-disapproved February 2, 2010.

Terms: Coventry Management Services, Inc. provides management services for Cambridge with respect to its Prescription Drug Program and Private Fee-For-Service product. Services include information systems, service center services, advertising and marketing services, member appeals and grievances, medical management and pharmacy services.

Rate(s): Cambridge pays a monthly capitation fee of $2.96 for the Prescription Drug Program members and pays a flat monthly rate for the Private Fee-For-Service product fees to reflect the run-out cost of the Private Fee-For-Service product.

Management Services Agreement

Parties: Cambridge Life Insurance Company and Coventry Product Services, Inc.

Effective: January 1, 2008, non-disapproved November 14, 2007. There have been three amendments, the latest as of March 1, 2010, non-disapproved February 2, 2010.

Terms: Coventry Product Services, Inc. provides services for Cambridge with respect to its Prescription Drug Program and Private Fee-For-Service product. Services include advertising and marketing, member appeals and grievances services, medical management and pharmacy services.

Coventry Product Services, Inc. was merged into Coventry Management Services, Inc. effective December 31, 2010.

Rate(s): Cambridge pays a capitation rate of $1.94 for Prescription Drug Program members and pays a flat monthly rate for the Private Fee-For-Service product fees to reflect the run-out cost of the Private Fee-For-Service product.

Subordinated Surplus Note

Parties: Cambridge Life Insurance Company and Coventry Health Care, Inc.

Terms: Cambridge issued an $18.5 million Surplus Note to Coventry Health Care, Inc.

Effective: November 1, 2008, non-disapproved November 7, 2008.

Rate(s): The interest rate charged is an annual rate of 130% of the Short Term Applicable Federal Rate.

Restated Parental Guarantee Agreement

Parties: Coventry Health Care, Inc., Cambridge Life Insurance Company and Mercy Health Plans.

Effective: October 1, 2010, non-disapproved November 1, 2010

Terms: Coventry Health Care, Inc. will ensure sufficient funds are held by Cambridge and Mercy Health Plans to maintain each company's capital and surplus position at an adequate level to comply with all regulatory and statutory requirements at or above a Risk Based Capital ratio of 250%.

Rate(s): There are no costs associated with this guarantee.

Administrative Services Agreement

Parties: Cambridge Life Insurance Company and Coventry Prescription Management Services, Inc.

Effective: February 1, 2011, non-disapproved March 4, 2011.

Terms: Coventry Prescription Management Services, Inc. agrees to provide rebate administration services to Cambridge.

Rate(s): Coventry Prescription Management Services, Inc. will retain 25% of all rebates received from Medco Health Solutions, Inc. The 75% of rebates due

to Cambridge will be remitted by Coventry Prescription Management Services, Inc. within sixty (60) days following receipt of such rebates from Medco.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond which provides $20 million in coverage with a $50,000 deductible. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide property insurance; general, automoble, employer, and professional liability coverages; and workers' compensation insurance. The Company's insurance coverages appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, life insurance, long-term disability, a flexible spending account, a 401(k) plan, an employee assistance plan, tuition assistance, holidays, sick leave, and paid vacation. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 376 (Life, Health and Accident Insurance), and is licensed in 21 other states, but all current premium is written in New York.

Since January 1, 2006, Coventry Health Care, Inc. has been awarded contracts by the Centers for Medicare & Medicaid Services (CMS) to offer various Medicare Part D plans nationwide. Medicare Part D is a prescription drug benefit to seniors who are eligible for Medicare benefits. The New York business, marketed under the name AdvantraRx, is placed into the Cambridge legal entity. Currently the Company has no other material business.

GROWTH OF COMPANY

The Company's premium decline in 2010, was due to the December 31, 2009 market exit for the Medicare Private Fee-for-Service line of business and a decrease in enrollment for the Medicare Part D line of business. In 2010 Coventry also implemented changes in benefit design, such as additions of deductibles and a low income product, as well as a shift from co-payments to co-insurance structures, which affected premium revenue.

Year	Net Premium Written	Capital and Surplus	Net Premium Written to Capital and Surplus
2010	22,463,527	47,787,371	47%
2009	57,583,207	47,988,334	120%

2008	55,107,243	41,952,787	131%

LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical expense experience over the examination period. The large decrease in medical benefits in 2010 coincides with the decrease in premiums written.

Year	Claims Unpaid	Medical Benefits
2010	13,054,463	24,261,921
2009	14,637,665	66,655,271
2008	11,581,388	63,370,781

REINSURANCE

Reinsurance activity is minimal and immaterial to Cambridge. In 2010, the Company assumed $121,083 in premiums from Metropolitan Life Insurance Company based on a 2003 contract that is in runoff.

There were no ceded premiums in 2010 and only an immaterial amount in prior examination years.

ACCOUNTS AND RECORDS

General

The Company's financial statements were prepared using PeopleSoft financial accounting software.

Reserves and related actuarial items as of December 31, 2010, were reviewed and certified by Tuvy Guss, Vice President and Corporate Actuary of Coventry Health Care, Inc.

The Company maintains a spreadsheet that tracks and summarizes monthly transactions and intercompany balances with affiliates. The spreadsheet balance does not reconcile to the intercompany general ledger accounts balance. Each year-end the Company manually adjusts the general ledger intercompany accounts to reconcile to the spreadsheet balance with the offsetting entry being booked through the unassigned surplus account. According to Company personnel, the adjustment is necessary to correct for the cumulative effect of various accounting errors. The adjustment in 2010 was $527,922. It is unclear why adjustments are necessary each year.

Independent Auditor

The Company's financial statements for the period January 1, 2008 to December 31, 2010, were audited by Ernst & Young LLP, Certified Public Accountants. The workpapers and reports of the latest available completed independent audit (year ended December 31, 2009) were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2010, were sufficient in par and market values to meet the deposit requirement for the state of Missouri per Section 376.290 RSMo (Deposit and transfer of securities).

Type of Security	Par Value	Market Value	Statement Value
U.S. T-Notes	$1,109,000	$1,133,816	$1,098,652
St. Louis Airport Revenue Bond	400,000	410,196	408,797
Total Missouri Deposits	$1,509,000	$1,544,012	$1,507,449

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2010, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Note	$140,000	$149,275	$140,637
New Mexico	U.S. Treasury Note	120,000	125,578	119,226
North Carolina	Money Market Fund	127,876	127,876	127,876
North Carolina	U.S. Treasury Bond	300,000	343,827	297,296
South Carolina	U.S. Treasury Bond	185,000	193,484	183,654
		$872,876	$940,040	$868,689

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2010, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 30,086,033	$	$ 30,086,033
Cash, cash equivalents and short-term investments	10,436,155		10,436,155
Investment income due and accrued	186,556		186,556
Uncollected premiums	874,496	289	874,207
Accrued retrospective premiums	3,932,160		3,932,160
Amounts receivable relating to uninsured plans	24,066,639		24,066,639
Current federal income tax recoverable	297,171		297,171
Net deferred tax asset	531,992		531,992
Receivables from parent, subsidiaries and affiliates	717,360	527,922	189,438
Healthcare receivables	534,502		534,502
Prepaid expenses	6,280	6,280	-
State income tax recoverable	28,707		28,707
Total assets	$ 71,698,051	$ 534,491	$ 71,163,560

LIABILITIES, CAPITAL, AND SURPLUS

Claims unpaid	$ 13,054,463
Unpaid claim adjustment expenses	3,853
Aggregate life policy reserves	1,725
Premiums received in advance	149,957
General expenses due or accrued	119,904
Ceded reinsurance premiums payable	136,000
Amounts due parents, subsidiaries, and affiliates	187,366
Liability for amounts held under uninsured plans	9,450,208
CMS allowance	270,868
Abandoned property	1,845
Total liabilities	$ 23,376,189
Common capital stock	2,004,000
Gross paid in and contributed surplus	45,696,076
Surplus notes	18,878,942
Unassigned funds (surplus)	(18,791,647)
Total capital and surplus	$ 47,787,371
Total liabilities, capital and surplus	$ 71,163,560

STATEMENT OF REVENUE AND EXPENSES

Net premium income	$	22,402,731		
Total revenues			$	22,402,731
Hospital/medical benefits	$	(198,198)		
Prescription Drugs		24,460,119		
Non-health claims (net)		(5,003)		
Claims adjustment expenses		(29,112)		
General administrative expenses		1,487,381		
Increase in reserves for life and accident and health contracts		(769,505)		
Total underwriting deductions				24,945,682
Net underwriting gain (loss)			$	(2,542,951)
Net investment income earned	$	987,213		
Net realized capital gain (loss) less capital gains tax		(27,837)		
Net investment gains				959,376
Net loss from agents' or premiums balances charged off				(47,858)
Net income (loss) after capital gains tax and before federal income tax			$	(1,631,433)
Federal income tax				(1,115,544)
Net income			$	(515,889)

CAPITAL AND SURPLUS

Capital and surplus prior reporting year	$	47,988,334
Net income	$	(515,889)
Change in net deferred income tax		294,261
Change in nonadmitted assets		(290,507)
Change in surplus notes		378,942
Cumulative effect of changes in accounting principles		68,822
Change in surplus note interest		(378,942)
Reversal of unapproved surplus note interest from prior years		242,350
Net change in capital and surplus for the year	$	(200,963)
Capital and surplus, December 31 current year	$	47,787,371

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

Pharmacy Rebates

Cambridge Life Insurance Company (Cambridge) should seek reimbursement from Coventry Health Care Inc. (CHC) for $7,447,656 in pharmacy rebates earned by Cambridge from 2006 through 2010, which were not paid to Cambridge either through direct reimbursement or through contributed capital.

Intercompany Balance Reconciliation

The Company should implement preventative controls and procedures to ensure that all transactions are correctly recorded in the general ledger accounts. Currently, the Company manually adjusts its general ledger intercompany accounts to reconcile to the spreadsheet balance with the offsetting entry being booked through the unassigned surplus account.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Cambridge Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned; Jennifer Danz, CPA; Douglas Daniels, CFE, CPA; and Andy Balas, AES, CFE, CPA; examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration; participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Wyatt Sample

Wyatt Sample, CFE
Examiner-in-Charge
Missouri Department of Insurance,
Financial Institutions and
Professional Registration

Marta Anderson
Notary Public, State of Missouri
St. Charles County
My Commission # 11052162
Expires: May 22, 2015

Sworn to and subscribed before me this 8th day of November, 2011
My commission expires:
May 22, 2015

Marta Anderson
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration