STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON FINANCIAL CONDITION EXAMINATION

OF THE

COMPANION LIFE INSURANCE COMPANY

CONDITION:	December 31, 2007
DATE OF REPORT:	March 13, 2009

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AS OF

DECEMBER 31, 2007

DATE OF REPORT:	MARCH 13, 2009
EXAMINER:	TERRENCE J. CORLETT

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Company	4
	A. History	4
	B. Holding company	4
	C. Management	5
	D. Territory and plan of operation	7
	E. Reinsurance	8
4.	Significant operating results	10
5.	Financial statements	15
	A. Assets, liabilities, capital and surplus	15
	B. Condensed summary of operations	17
	C. Capital and surplus account	19
6.	Prior report summary and conclusions	20
7.	Summary and conclusions	21

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

David Paterson
Governor

Eric R. Dinallo
Superintendent

April 13, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22804, dated July 28**,** 2008 and annexed hereto, an examination has been made into the financial condition and affairs of Companion Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 303 Merrick Road, Suite 503, Lynbrook, New York 11563.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2007 filed annual statement. (See item 5 of this report)

The examiner recommends that the Company amend their custodial agreements with JP Morgan Chase and MG Trust to include all of the safeguard clauses required by Part 1, Section IV (J)(2) of the NAIC Financial Condition Examiner's Handbook. (See item 4 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2007 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2007 to determine whether the Company's 2007 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the financial condition violation and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 6 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

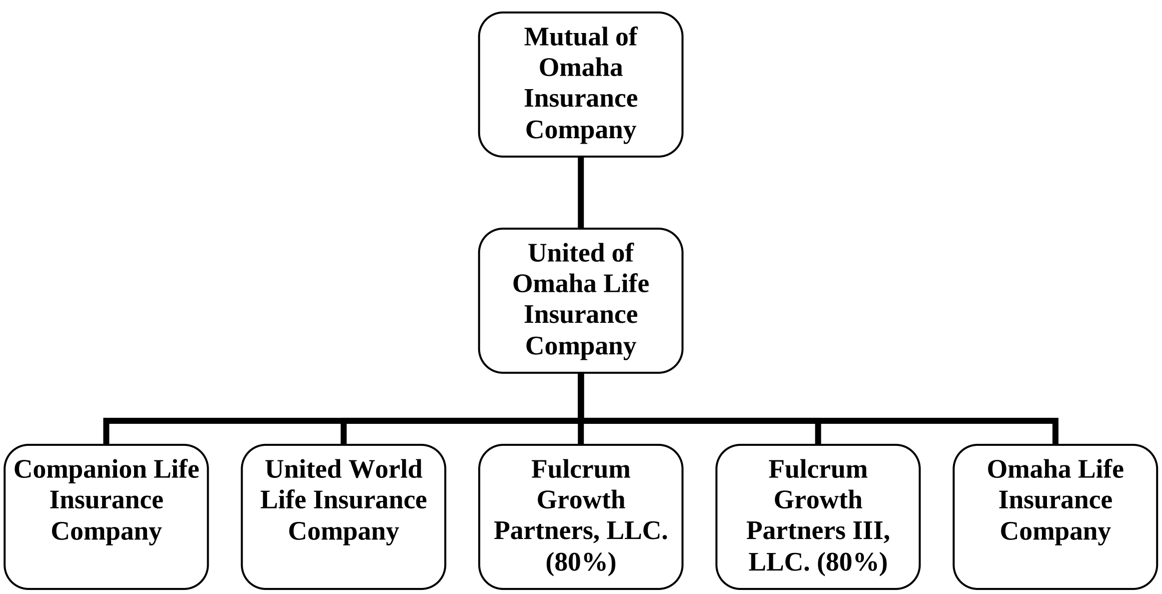
The Company was incorporated as a stock life insurance company under the laws of New York on June 3, 1949, was licensed on July 1, 1949 and commenced business on July 18, 1949. Initial resources of $1,500,000, consisting of capital of $500,000 and paid in and contributed surplus of $1,000,000, were provided through the sale of 5,000 shares of common stock (with a par value of $100 each) for $300 per share.

Changes in capital and paid in and contributed surplus prior to the examination period resulted in capital and paid in and contributed surplus of $2,000,000 and $45,650,000, respectively as of December 31, 2003. There were no changes to capital and paid in and contributed surplus during the examination period.

B. Holding Company

The Company is a wholly owned subsidiary of United of Omaha Life Insurance Company ("United"), a Nebraska life insurance company. United is in turn a wholly owned subsidiary of Mutual of Omaha Insurance Company ("Mutual"), also a Nebraska insurance company. Mutual is the ultimate parent of the Company.

An abbreviated organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2007 follows:



The Company had one service agreement in effect with affiliates during the examination period.

Type of Agreement	Effective Date	Provider of Services	Recipient of Services	Specific Services Covered	(Expense)* For Each Year of the Exam
Administrative Agreement	12/31/1980	United	The Company	All services except a limited amount of the following: underwriting, policy administration, management, record retention and sales and marketing.	2004 $(4,083,994) 2005 $(4,050,761) 2006 $(3,645,596) 2007 $(4,460,259)

* Amount of Expense Incurred by the Company

The Company also participates in a federal income tax allocation agreement with its parent and affiliates.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 17 directors; however, if the Company should have less than $1.5 billion in admitted assets, the minimum number of Directors instead shall in no case be less than nine. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2007, the board of directors consisted of nine members. Meetings of the board are held annually with committee meetings normally held quarterly.

The nine board members and their principal business affiliation, as of December 31, 2007, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Fred C. Boddy, Jr. Island Park, NY	Vice President, Treasurer and Assistant Secretary Companion Life Insurance Company	1998

Name and Residence	Principal Business Affiliation	Year First Elected
William G. Campbell * Ely, MN	Attorney Campbell Law Office	1991
Alexander M. Dye * New York, NY	Attorney Dewey LeBouef	2005
Charles T. Locke III * Darien, CT	Attorney Locke & Herbert	1987
Daniel P. Martin Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company	2007
Daniel P. Neary Omaha, NE	Chairman of the Board and President Companion Life Insurance Company	2003
James J. O'Neill * New Rochelle, NY	Retired Former Senior Vice President at Rothschild, Inc.	1997
Michael C. Weekly Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company	2003
Richard A. Witt Omaha, NE	Assistant Treasurer Companion Life Insurance Company	2005

* Not affiliated with the Company or any other company in the holding company system

The review of the qualifications of the board members indicated that the board's audit committee lacked a qualified "financial expert". The audit committee's previous financial expert member, Samuel L. Foggie Sr., retired in June of 2007. The examiner informed the Company, during the examination, that the audit committee lacked the recommended financial expert. In response to the examiner's finding, Samuel L. Foggie Sr. was re-elected to the board effective December 8, 2008. The Company intends to re-elect Mr. Foggie Sr. to the audit committee at the next board meeting.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2007:

Name	Title
Daniel P. Neary	Chairman of the Board and President
Fred C. Boddy, Jr.	Vice President, Treasurer and Assistant Secretary
Michael E. Huss	Corporate Secretary
Mark L. Prauner	Senior Vice President, Corporate Accounting
Gerald A. Jacobson	First Vice President, Regulatory Financial Reporting
Alan D. Brinkman	Vice President and Actuary
Robert Hupf	Vice President and Illustration Actuary
Daniel Kennelly *	Vice President and Compliance Officer
Richard A. Witt	Assistant Treasurer

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in three states, namely New York, New Jersey and Connecticut. In 2007, 98.2% of life and accident and health premiums, annuity considerations and deposit type funds were received from New York, 1.3% from New Jersey and 0.5% from Connecticut. Policies are written on a non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2007:

Life Insurance Premiums	
New York	98.0%
New Jersey	1.5
Connecticut	0.5
Total	100.0%

Annuity Considerations	
New York	99.8%
New Jersey	0.2
Total	100.0%

Deposit Type Funds	
New York	100.0%
Total	100.0%

The Company's product portfolio during the period under examination included individual term, universal life, group life, ordinary individual fixed and deferred annuities, group annuities and group variable annuities. Life insurance premiums represented 90.5% and annuity considerations represented 9.4% of all direct written premiums and annuity considerations in 2007. The Company did not write any new accident and health policies during the period under examination. During 2003, the Company ceased underwriting its variable life and annuity products.

In 2007, the Company introduced a new 401(k) product to provide service to retirement plan customers in New York. The 401(k) product is designed to target the group variable annuity market. As of August 31, 2008, the Company had sold 16 contracts covering approximately 550 participants. The Company plans to continue marketing this product through brokers.

The Company's products are sold through several channels. The Company markets its products through career agents, independent brokers, direct-mail and group sales representatives. As of the third quarter of 2008, the Company had 1,226 independent contractor agents managed by 147 employee field managers. They also had 108 career agents in New York that are managed by 12 field managers. There were 110 sales offices in New York as of the third quarter of 2008.

E. Reinsurance

As of December 31, 2007, the Company had reinsurance treaties in effect with nine companies, of which six were authorized or accredited. The Company's life, annuity and accident and health business is reinsured on a coinsurance, modified coinsurance and a yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $100,000. The Company's variable life and annuity business is insured on a coinsurance basis whereby the Company retains only the mortality risk. The Company reinsures its group life and AD&D business on an excess basis and retains a maximum of $500,000 of risk. The Company also reinsures its "Joint Second to Die" policies on an excess yearly renewable term basis.

The Company cedes group and individual life insurance to United. United assumes the excess risk over the Company's maximum retention, up to their retention limit, and the remainder is then ceded to a reinsurance pool. The Company also reinsured a deferred annuity block of business with United during the exam period. This business was recaptured by the Company in 2007.

The total face amount of life insurance ceded as of December 31, 2007, was $7,730,014,822, which represents 65.6% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $16,134,433, was supported primarily by funds withheld. Letters of credit totaling $600,000 were also in effect as of December 31, 2007. The Company reported no assumed business as of December 31, 2007.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2003	December 31, 2007	Increase (Decrease)
Admitted assets	$629,066,170	$672,852,824	$ 43,786,654
Liabilities	$561,216,491	$614,806,262	$ 53,589,771
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	45,650,000	45,650,000	0
Group contingency life reserve	721,151	992,262	271,111
Unassigned funds (surplus)	19,478,528	9,404,300	(10,074,228)
Total capital and surplus	$ 67,849,679	$ 58,046,562	$ (9,803,117)
Total liabilities, capital and surplus	$629,066,170	$672,852,824	$ 43,786,654

The decrease in unassigned funds of approximately $10 million since the prior exam date is mainly attributable to the difference between net income during the period of $2,872,402 and the dividends to stockholders of $13,000,000 paid during the same period.

The Company's invested assets as of December 31, 2007, exclusive of separate accounts, were mainly comprised of bonds (95.1%), policy loans (2.4%), mortgage loans (1.8%) and cash and short-term investments (0.6%). There was no significant change in the Company's asset mix since the prior exam.

The majority (96.5%) of the Company's bond portfolio, as of December 31, 2007, was comprised of investment grade obligations. As of December 31, 2007 the Company's bond portfolio was comprised of 9.3% asset backed securities, 17.4% commercial mortgage-backed securities and 21.8% residential mortgage-backed securities. These mortgage and asset backed securities represented approximately 48.5% of the Company's bond portfolio. The Company held 34% of its bond portfolio in private placements at December 31, 2007.

The financial markets have experienced a high level of volatility in the period subsequent to the exam date, including a significant downturn in the mortgage backed securities markets. Financial institutions with a significant exposure to sub-prime mortgages have experienced detrimental investment results. The examiner met with the Company's Chief Investment Officer during the exam. The Company indicated that it has an exposure of approximately $2 million to sub-prime mortgages within its investment portfolio, despite the significant percentage of investments held in mortgage backed securities as noted above.

Section 83.3(c) of Department Regulation No. 172 states, in part:

> "Notwithstanding any other provision of this Title, the Accounting Manual is adopted in its entirety, except as provided in Section 83.4 of this Part, and, subject to such conflicts and exceptions, insurers shall follow the accounting practices and procedures prescribed by the Accounting Manual. . . ."

> The "Accounting Manual" referenced in the Regulation above refers to the NAIC Accounting Practices and Procedures Manual. The NAIC Accounting Practices and Procedures Manual Section II(B)(8) states:

> "In simplest terms, SAP has been those accounting principles or practices prescribed or permitted by an insurer's domiciliary state. Statutory accounting practices have been interspersed in the insurance laws, regulations, and administrative rulings of each state, the Accounting Practices and Procedures manuals, the Annual Statement Instructions, the *NAIC Financial Condition Examiners Handbook*, the NAIC *Purposes and Procedures of the Securities Valuation Office* manual, and NAIC committee, task force, and working group minutes. In addition, there are many statutory practices widely accepted by both insurers and regulators which have never been codified." (Emphasis added)

Part 1, Section IV (J)(2) of the NAIC Financial Examiners Handbook states, in part:

> "Custodial or safekeeping agreements with an agent, or clearing corporation meeting the requirements herein should contain satisfactory safeguards and controls, including but not limited to the provisions provided below. . . .
> a. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation or administrative action otherwise require a stricter standard (Section 2.b. sets forth an example of such a stricter standard), the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian;
> b. If domiciliary state law, regulation or administrative action requires a stricter standard of liability for custodians of insurance company securities than that set forth in Section 2.a., then such stricter standard shall apply. An example of a

stricter standard that may be used is that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;

c. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced;

d. The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control;

e. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability;

f. If the custodial agreement has been terminated or if 100 percent of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;

g. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company;

h. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

i. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.

j. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;

> k. The custodian shall secure and maintain insurance protection in an adequate amount; and
> l. The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A U.S. custodian must hold all other securities."

A review of the Company's security custodial agreement with JP Morgan Chase revealed that the Company failed to include one of the recommended safeguard clauses within the custodial agreement. The custodial agreement did not contain the safeguard clause required in Part 1, Section IV(J)(2)(f) of the NAIC Financial Condition Examiner's Handbook. In addition, a review of the Company's security custodial agreement with MG Trust revealed that the Company did not include any of the safeguard clauses as recommended in the NAIC Financial Condition Examiner's Handbook within that custodial agreement. The NAIC Financial Condition Examiner's Handbook, recommends that all custodial agreements include the safeguards noted in Part 1, Section IV (J)(2).

The examiner recommends that the Company amend their custodial agreements with JP Morgan Chase and MG Trust to include all of the safeguard clauses required by Part 1, Section IV (J)(2) of the NAIC Financial Condition Examiner's Handbook.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2004	2005	2006	2007
Ordinary:				
Life insurance	$(2,312,413)	$(3,039,810)	$ 1,150,972	$2,148,797
Individual annuities	1,197,418	4,422,686	3,593,152	2,062,235
Supplementary contracts	25,628	67,409	(60,347)	121,911
Total ordinary	$(1,089,367)	$ 1,450,285	$ 4,683,777	$4,332,943
Group:				
Life	$ (48,603)	$ 421,307	$ (267,918)	$ (70,606)
Annuities	9,858	11,509	10,630	(309,497)
Total group	$ (38,745)	$ 432,816	$ (257,288)	$ (380,103)
Accident and health:				
Group	$ 11,081	$ 993	$ 0	$ 330
Other	(11,907)	(25,568)	(19,813)	(19,203)
Total accident and health	$ (826)	$ (24,575)	$ (19,813)	$ (18,873)
Total	$(1,128,938)	$ 1,858,526	$ 4,406,676	$3,933,967

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2007, as contained in the Company's 2007 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2007 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2007

Admitted Assets

Bonds	$587,702,076
Mortgage loans on real estate:	
First liens	11,014,118
Cash, cash equivalents and short term investments	3,422,682
Contract loans	14,816,464
Receivable for securities	823,930
Investment income due and accrued	5,598,409
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	101,480
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,722,337
Reinsurance:	
Amounts recoverable from reinsurers	2,706,413
Other amounts receivable under reinsurance contracts	104,568
Net deferred tax asset	2,596,576
Electronic data processing equipment and software	14
Receivables from parent, subsidiaries and affiliates	104,382
Aggregate write-ins for other than invested assets:	
Suspense items	823,333
Amounts due from non-affiliates	42,485
From Separate Accounts, segregated accounts and protected cell accounts	29,273,557
Total admitted assets	$672,852,824

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$542,396,070
Aggregate reserve for accident and health contracts	9,351
Liability for deposit-type contracts	2,966,539
Contract claims:	
Life	4,934,832
Accident and health	10,000
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	36,270
Premiums and annuity considerations for life and accident and health contracts received in advance	228,556
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	1,177
Interest maintenance reserve	609,305
Commissions to agents due or accrued	632,980
General expenses due or accrued	842,720
Transfers to Separate Accounts due or accrued	(11,227)
Taxes, licenses and fees due or accrued, excluding federal income taxes	22,215
Current federal and foreign income taxes	1,524,287
Unearned investment income	392,528
Amounts withheld or retained by company as agent or trustee	5,992,465
Amounts held for agents' account	3,408,922
Remittances and items not allocated	2,703,745
Miscellaneous liabilities:	
Asset valuation reserve	3,975,907
Funds held under reinsurance treaties with unauthorized reinsurers	26,457,073
Payable to parent, subsidiaries and affiliates	2,371,486
Drafts outstanding	124,722
Aggregate write-ins for liabilities:	
Abandoned property	508,929
Liability for interest due and unpaid on policy claims	35,608
Amounts due non-affiliates	27,000
Miscellaneous reserve liability	9,807
From Separate Accounts statement	14,594,995
Total liabilities	$614,806,262
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	45,650,000
Group contingency life reserve	992,262
Unassigned funds (surplus)	9,404,300
Total capital and surplus	$ 58,046,562
Total liabilities, capital and surplus	$672,852,824

B. CONDENSED SUMMARY OF OPERATIONS

	2004	2005	2006	2007
Premiums and considerations	$ 63,791,621	$ 73,953,530	$ 77,362,639	$ 71,400,966
Investment income	35,139,377	36,185,123	36,557,479	36,071,467
Net gain from operations from Separate Accounts	787	0	0	(285,782)
Commissions and reserve adjustments on reinsurance ceded	2,372,633	2,205,264	1,678,539	(493,336)
Miscellaneous income	21,356	16	37,301	62,174
Total income	$101,325,774	$112,343,933	$115,635,958	$106,755,489
Benefit payments	$ 40,799,088	$ 49,772,146	$ 62,069,292	$ (6,116,662)
Increase in reserves	28,834,761	28,251,453	17,507,070	80,239,258
Commissions	7,191,506	7,469,965	5,627,194	4,931,911
General expenses and taxes	17,584,765	17,443,762	15,719,534	15,134,206
Increase in loading on deferred and uncollected premiums	(610,406)	(555,959)	(181,579)	1,027,603
Net transfers to (from) Separate Accounts	(86)	0	0	0
Miscellaneous deductions	6,845,200	6,686,104	6,217,802	3,378,692
Total deductions	$100,644,828	$109,067,471	$106,959,313	$ 98,595,008
Net gain (loss)	$ 680,946	$ 3,276,462	$ 8,676,645	$ 8,160,481
Dividends	55,675	49,222	28,039	36,233
Federal and foreign income taxes incurred	1,754,209	1,368,714	4,241,930	4,190,281
Net gain (loss) from operations before net realized capital gains	$ (1,128,938)	$ 1,858,526	$ 4,406,676	$ 3,933,967
Net realized capital gains (losses)	(3,281,773)	(2,600,157)	(313,441)	(2,458)
Net income	$ (4,410,711)	$ (741,631)	$ 4,093,235	$ 3,931,509

The Company cedes group and individual life insurance and individual annuity business to United. As a result of a 2007 commutation of reinsurance with United, related to a deferred annuity block of business, the Company received consideration of $65,677,593 which was reflected as a reduction of funds held under reinsurance treaties and increased annuity reserves by $67,777,593. In 2007, the Company recorded a loss of $2,100,000 in other income and a decrease of $67,777,593 in benefits incurred due to this transaction. The commutation of this agreement is expected to have a positive impact on the future earnings of the Company.

C. CAPITAL AND SURPLUS ACCOUNT

	2004	2005	2006	2007
Capital and surplus, December 31, prior year	$67,849,679	$58,264,171	$54,361,327	$57,988,998
Net income	$ (4,410,711)	$ (741,631)	$ 4,093,235	$ 3,931,509
Change in net unrealized capital gains (losses)	565,388	225,816	27,984	0
Change in net deferred income tax	2,950,949	1,163,448	1,310,990	1,243,917
Change in non-admitted assets and related items	(2,737,731)	(1,738,311)	(1,223,285)	(1,000,194)
Change in liability for reinsurance in unauthorized companies	24,337	0	0	0
Change in asset valuation reserve	212,533	362,444	(422,252)	(329,558)
Surplus (contributed to), withdrawn from Separate Accounts during period	40,523	0	0	(15,000,000)
Other changes in surplus in Separate Accounts statement	(40,523)	0	0	14,964,344
Change in surplus as a result of reinsurance	0	0	(159,001)	(106,752)
Dividends to stockholders	(6,000,000)	(3,000,000)	0	(4,000,000)
Surplus impact, net of federal income tax, from reinsurance of existing block of insurance	(190,273)	(174,610)	0	0
Prior year adjustment	0	0	0	354,298
Net change in capital and surplus for the year	$ (9,585,508)	$ (3,902,844)	$ 3,627,671	$ 57,564
Capital and surplus, December 31, current year	$58,264,171	$54,361,327	$57,988,998	$58,046,562

In July of 2007, the Company funded $15 million of seed money to separate accounts for their new 401(k) product. In January 2008, the seed money was returned to the Company as a result of changes to the product.

The net losses experienced in 2004 and 2005 were driven primarily by net realized capital losses.

The decreases in the net change in capital and surplus in 2004 and 2005 were primarily attributable to a combination of net operating losses and dividends to stockholders.

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial violation and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommended that the Company amend the service agreement with United to specify the frequency of payments to be made and the basis of the calculation for the amounts to be paid by the Company at each payment interval. A review of the Company's service agreement with United indicated that the Company added an addendum to the agreement requiring the settlement of expense allocations within 45 days of the end of a month. The addendum was signed by all parties to the agreement on January 11, 2005.
B	The Company violated Section 1308(f)(1)(A) of the New York Insurance Law by using a reinsurance agreement prior to the agreement being approved by the Department. The Company did not enter into any reinsurance agreements requiring prior approval of the Department during the examination period.
C	The examiner recommended that the Company remove the private placement credit tenant loans from Schedule B of the Annual Statement, properly report these securities on Schedule D, and have these securities rated by a proper rating agency. A review of the Company's December 31, 2007 Annual Statement Schedule B indicated that the Company did not report any private placement credit tenant loans on the Schedule; only commercial mortgage loan participations were reported on the Schedule. A review of Schedule D indicated that all securities reported were properly rated by the NAIC SVO, as required.

7. SUMMARY AND CONCLUSIONS

Following is the recommendation and comment contained in this report:

Item	Description	Page No(s).
A	Comment that in response to the examiner's finding regarding the lack of a financial expert on the Company's audit committee, Samuel L. Foggie Sr. was re-elected to the board effective December 8, 2008. The Company intends to re-elect Mr. Foggie Sr. to the audit committee at the next board meeting.	6
B	The examiner recommends that the Company amend their custodial agreements with JP Morgan Chase and MG Trust to include all of the safeguard clauses required by Part 1, Section IV (J)(2) of the NAIC Financial Condition Examiner's Handbook.	13

Respectfully submitted,

/s/
Terrence J. Corlett, CFE
Senior Insurance Examiner
Examination Resources, LLC

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Terrence J. Corlett, CFE, being duly sworn, deposes and says that the foregoing report, subscribed by him is true to the best of his knowledge and belief.

/s/
Terrence J. Corlett, CFE

Subscribed and sworn to before me

this__________ day of ____________________2009.

APPOINTMENT NO. *22804*

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, ***ERIC R. DINALLO****, Superintendent of Insurance of the State of New York,*

pursuant to the provisions of the Insurance Law, do hereby appoint:

TERRY CORLETT

as a proper person to examine into the affairs of the

COMPANION LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 28th day of July, 2008

ERIC R. DINALLO
Superintendent of Insurance

Superintendent