Conservation & Liquidation Office

2009 Annual Report to the Governor

Section 1 – The Conservation & Liquidation Office

Background

The California Insurance Commissioner ("Commissioner"), an elected official of the State of California, acts under the supervision of the Superior Court when conserving and liquidating insurance enterprises. In this capacity, the Commissioner is responsible for taking possession (conservation) of the assets of financially troubled insurance enterprises domiciled in California. An enterprise subject to a conservation or liquidation order is referred to as an estate.

The Commissioner applies to the Superior Court for a conservation order to place a financially troubled enterprise in conservatorship. Under a conservation order, the Commissioner takes possession of the estate's financial records and real and personal property, and conducts the business of the estate until a final disposition regarding the estate is determined. The conservation order allows the Commissioner to begin an investigation that will determine, based on the estate's financial condition, if the estate can be rehabilitated, or if continuing business would be hazardous to its policyholders, creditors, or the public.

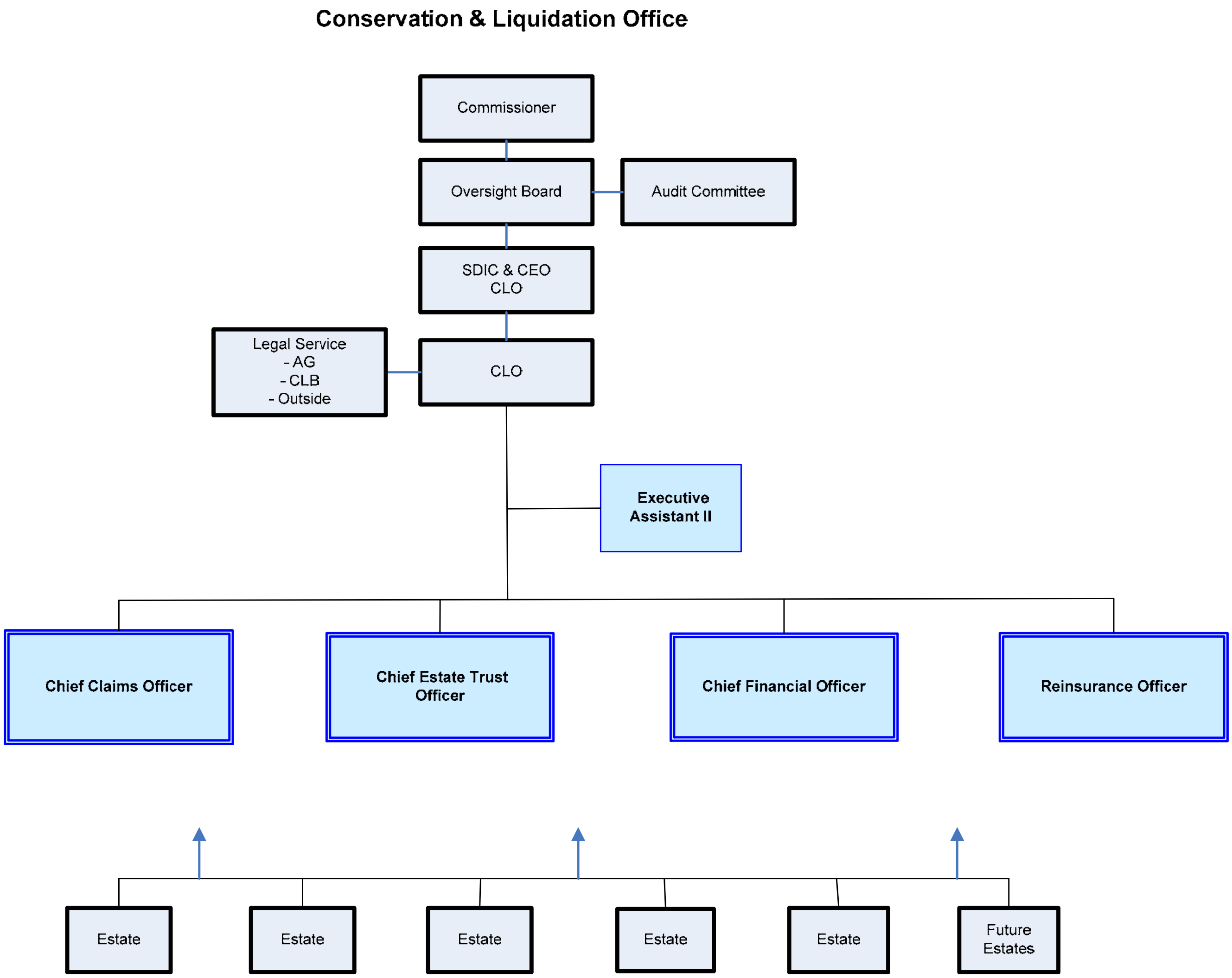
If, at the time the conservation order is issued or anytime thereafter, it appears to the Commissioner that it would be futile to proceed with the conservation of the financially troubled estate, the Commissioner will apply for an order to liquidate the estate's business. In response to the Commissioner's application, the Court generally orders the Commissioner to liquidate the estate's business in the most expeditious fashion.

In order to discharge the Commissioner's responsibilities as conservator or liquidator, the Commissioner appoints special deputy insurance commissioners as agents to act on his or her behalf. The Commissioner formed the Conservation & Liquidation Office ("CLO") to discharge the Commissioner's responsibilities as conservator, receiver and liquidator.

The CLO was created in 1994 to be the successor to the Conservation & Liquidation Division of the Department of Insurance, which was managed by State employees. The CLO is based in San Francisco, California.

As of December 31, 2009, the CLO was responsible for the administration of 23 insurance estates.

Organizational Structure



Oversight Board and Audit Committee Meetings

CLO activities are overseen by an Oversight Board composed of three senior executives of the California Department of Insurance. The current Committee members are Jesse Huff, Chief Deputy Commissioner, Adam Cole, Deputy Commissioner and General Counsel, and Sherwood Girion, Deputy Commissioner-Financial Surveillance. The Committee meets on a quarterly basis throughout the year.

During 2009, the Oversight Board and Audit Committee held four regularly scheduled meetings. There was 92% attendance by the Committee members at all meetings (one member missed one meeting as a result of illness).

2009 Organizational Goals and Results

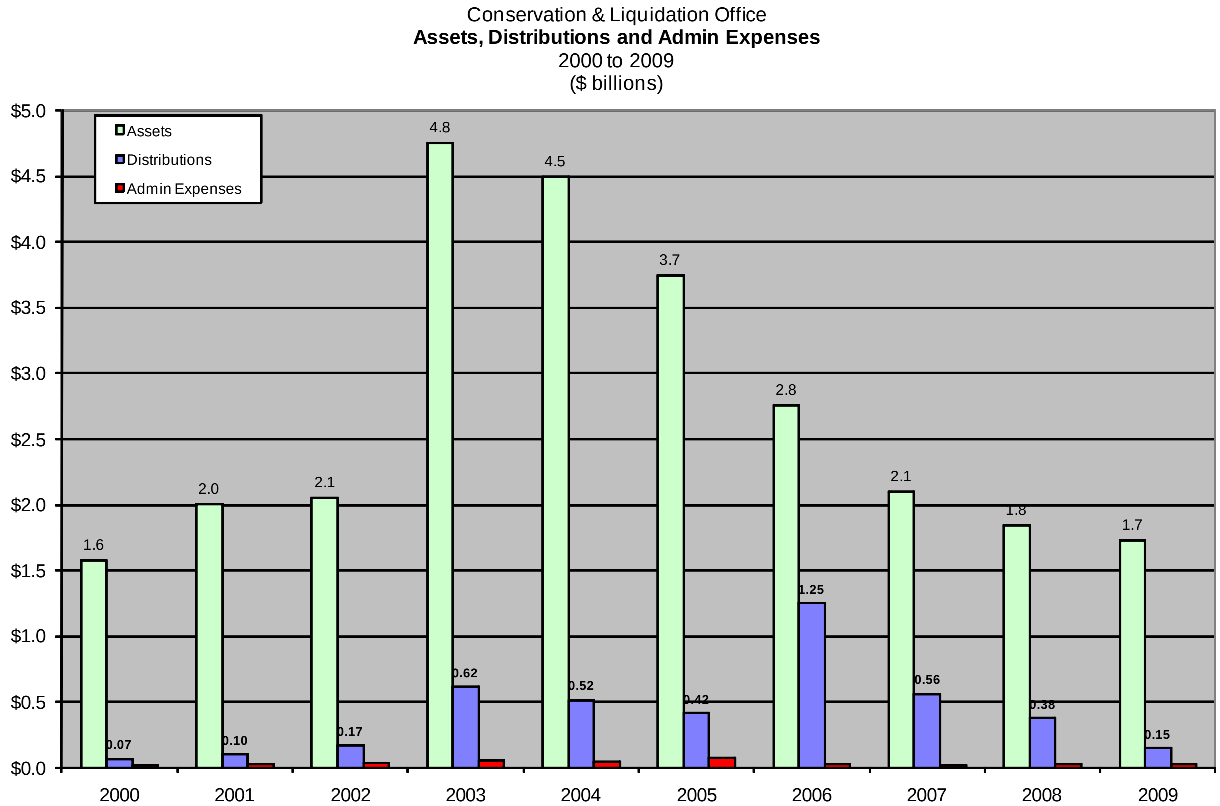
On an annual basis, the CLO prepares a business plan for the organization supporting the CLO Mission Statement. The Business Plan is then presented to the Board for approval. The CLO's Mission Statement is as follows:

> *On behalf of the Insurance Commissioner, the CLO acts to rehabilitate and/or liquidate, under court supervision, troubled insurance enterprises. The CLO operates as a fiduciary for the benefit of claimants, handling the property of the failed enterprises in a prudent, cost-effective, fair, timely, and expeditious manner.*

The 2009 Business Plan was a continuation of the objectives of the 2008 Business Plan, focusing on estate closings and distributions, collecting/converting assets, evaluating claims and enhancing the operating efficiencies of the CLO.

Entering 2009, there were 26 open estates in liquidation under management by the CLO. The open estates consist of 23 Property & Casualty Estates, two Workers' Compensation, and one Life/Health Estate (the Executive Life Insurance Company, which was placed into liquidation in 1991). The CLO goal in 2009 was to close five estates and distribute $100 million.

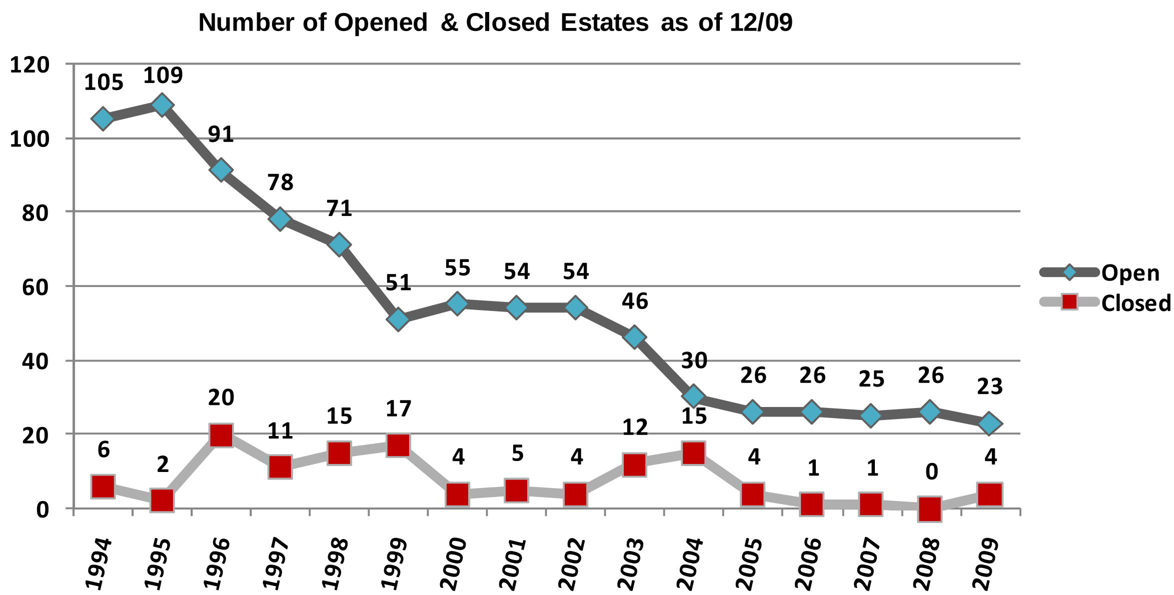
In addition to the Organizational Business Plan, there are individual work plans and cross-departmental estate teams for each estate. The individual Estate teams provide a written update and make an oral report to the Oversight Board on a quarterly basis.



The 2009 goals and results are as follows:

1. Closings

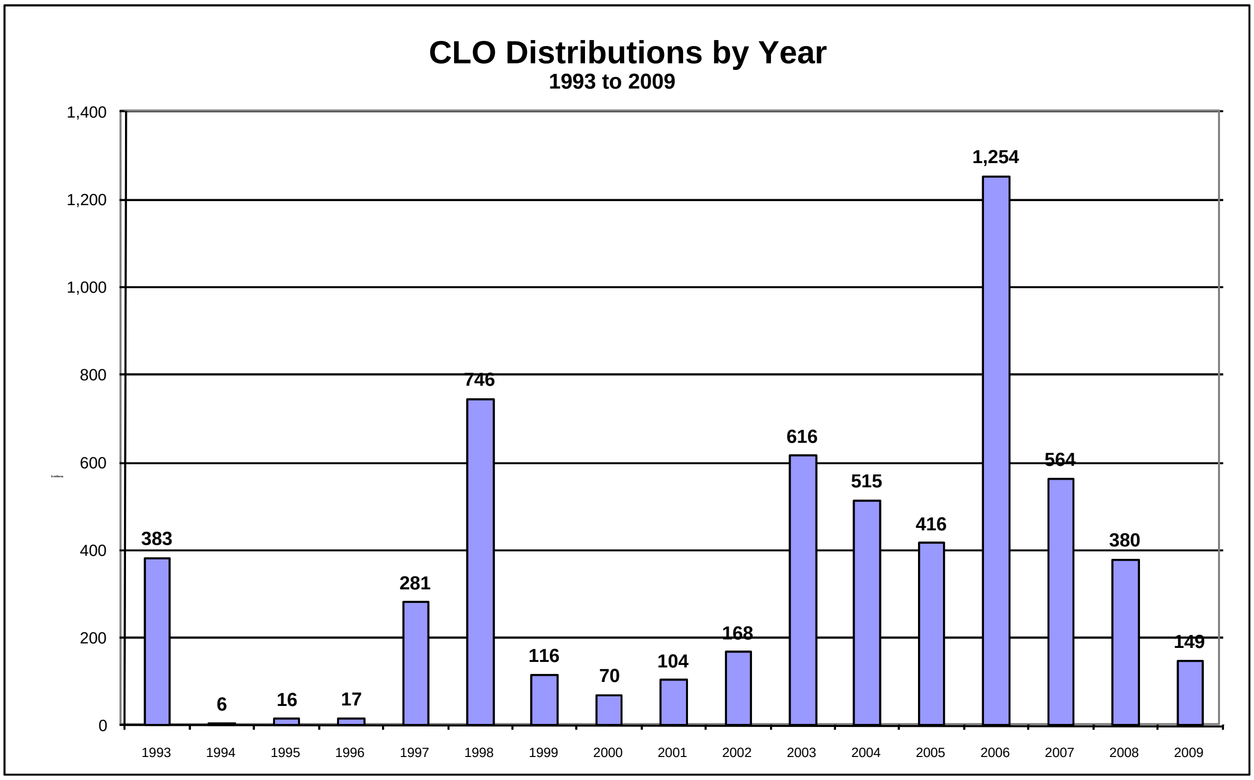
GOAL	RESULTS
Close 5 Estates: 1) Enterprise 2) Paula 3) Western Employers of Amer. 4) Western Growers 5) Western International	Four of the five estates were closed during 2009. One estate targeted for closure, Enterprise has one final asset receivable to collect from its parent company before it can make a final distribution and position the estate for closure.



Since 1994, there have been approximately 121 estates closed. These estates consisted of 55 ancillaries, 22 title companies, and 44 "regular" insurers. Ancillary and title companies typically require limited work on behalf of the liquidator.

2. Distributions

	2009 Actual ($Millions)	2009 Goal ($Millions)
Early Access Distributions		
Fremont	$ 49.6	$ 50
Superior National	56.2	0
HIH EAD returned	- 1.6	0
	104.2	50
Final Distributions		
Enterprise	4.9	4
National Auto	26.9	23
Sable	0	13
Western Employers of America	11.8	10
Western International	0.8	0
	45	50
Total Distributions:	**$ 148.6**	**$ 100**



CLO Investment Policy

The CLO has a formal investment policy requiring that investments be investment grade fixed income obligations of any type. These investments may be issued or guaranteed by (1) the U.S. and agencies, instrumentalities, and political sub-divisions of the U.S., and (2) U.S. corporations, trusts and special purpose entities. Such securities must be traded on exchanges or in over-the-counter markets in the U.S. None of the portfolio will be invested in fixed income securities rated below investment grade quality by Standard & Poor's, Moody's, or by another nationally recognized statistical rating organization. In addition, the duration must be maintained within +/- 6 months of the Barclays Capital U.S. Government/Credit 1-3 Yr.,which was 19 months at December 31, 2009.

The investments are managed in equal parts by two professional money management firms and are warehoused at the Union Bank of California.

At December 31, 2009, the CLO had $539 million of estate marketable investment securities under management.

For the year ending December 31, 2009, the average portfolio balance was approximately $580 million. The portfolio earned an interest yield of 4.0% and a net yield after security gains/losses and mark-to-market adjustments of 7.2%.

Administrative Expenses

Administrative expenses consist of both direct and indirect expenses. [1]

Direct expenses charged to estates consist of legal costs, consultants and contractors, salaries and benefits for employees working exclusively for a single estate, office expenses, and depreciation of property and equipment.

Indirect expenses that are not incurred on behalf of a specific estate are allocated using an allocation method based on the ratio of employee hours directly charged to a specific estate to total hours charged to all estates, and in some instances direct contract hours charged. For example, if employees charged 200 hours to a specific estate and in total 2,000 hours was incurred by all estates, that specific estate would be allocated 10% (200 hours divided by 2,000 total hours charged to all estates). Indirect expenses include CLO employee compensation, rent and other facilities charges and office expenses.

In accordance with California Insurance Code Section 1035, the Commissioner may petition funds from a general appropriation of the State of California Insurance Fund if an estate does not have sufficient assets to pay for administrative expenses.

CLO Compensation

The CLO is not part of the State's civil service system. All employees are at-will. The CLO does not have a bonus plan or pay incentive compensation. To that end, the CLO has established policies and procedures that are more akin to the private marketplace.

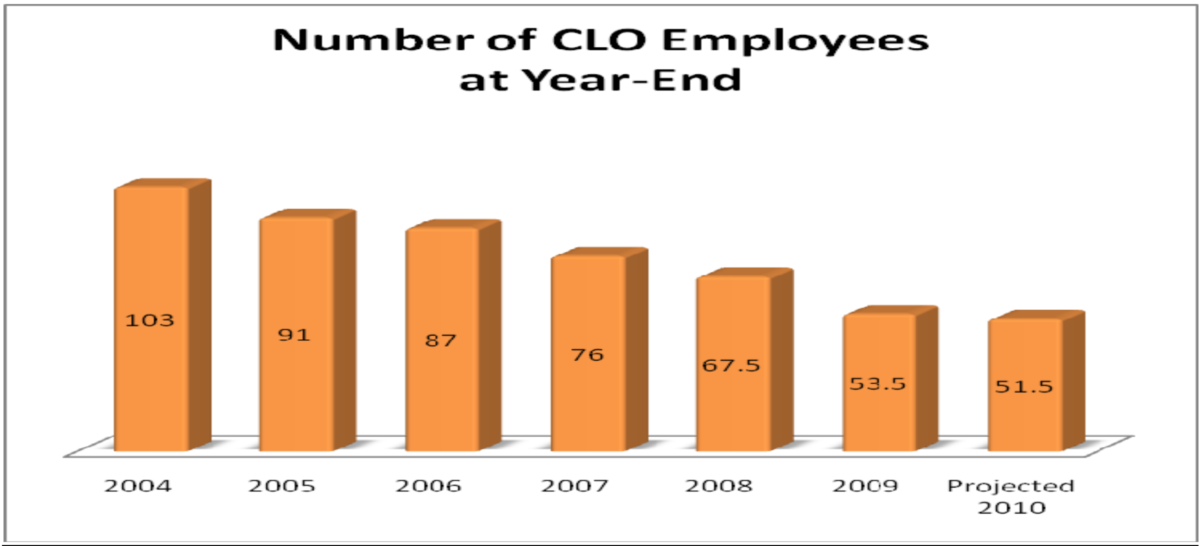
A summary of the compensation procedures follows:

- A written job description is developed for each position.
- Salary grades are derived from comparable external market data.
- Salary ranges are identified (low, middle, and high) based on market comparisons obtained by an outside independent compensation consultant.
- Salary ranges are updated periodically.
- The creation of a "new job position" is sent to an outside consultant for external evaluation.
- All employees receive an annual compensation review.
- Compensation increases are based on performance.

[1] See "Combined Financial Results" section of this report on the budget, and actual expenditures for 2009 for direct and indirect expenses.

CLO employment and total salaries for employees are summarized below:

	31-Dec-09	31-Dec-10 (Budget)
Number of CLO employees at beginning of year	67.5	53.5
Total compensation for CLO employees	$ 8,263,721	$ 6,789,882



As estates have closed resulting in reduced workloads and as a result of internal operating efficiencies, the number of full-time employees decreased by 20.7% in 2009 compared to 2008, and by 48% compared to December 31, 2004.

Compensation Methodology

The CLO engages an outside consultant to assist in establishing compensation ranges. In developing this report for the CLO, two published survey sources were used. These survey sources are described below:

- Comp Analyst: Large survey representing thousands of companies across the U.S. which include hundreds of jobs. This subscription survey collects marketplace compensation data from many sources, and uses mathematical algorithms to predict the pay level of any of its survey jobs in major industries and geographical locations. The data used in this study was the nonprofit industry segment located in San Francisco.

- Economic Research Institute: Large survey representing thousands of companies across the U.S. which include hundreds of jobs. This subscription survey collects marketplace compensation data from many sources and uses mathematical algorithms to predict the pay level of any of its survey jobs in major industries and geographical locations. The data used in this study was the nonprofit industry segment, organizations similar in size to the CLO, and located in San Francisco.

CLO Financial Results

For Years Ended December 31, 2009 and December 31, 2008

	December 31, 2009		
	Actual	Budget	December 31, 2008
Cash received			
Litigation and reinsurance recoveries	$ 86,965,900	N/A[2]	$ 96,658,600
Investment income, net of expenses	42,943,900	N/A[3]	26,137,800
	$ 129,909,800		**$ 122,796,400**
Distributions	**$ 148,556,800**	**$ 100,000,000**	**$ 380,151,900**
Administrative Expenses			
Estate direct expenses			
Legal expenses	$ 12,831,300	$ 16,547,900	$ 8,934,200
Consultants and contractors	2,710,800	2,746,700	2,580,700
Office expenses	3,107,000	2,305,800	2,441,100
Compensation and benefits	863,300	797,300	863,300
	19,512,200	22,397,700	14,819,300
CLO overhead expenses			
Compensation and benefits	$ 7,400,700	7,342,800	7,320,400
Office expenses	2,631,100	2,975,600	2,695,300
Consultants and contractors	320,100	596,000	711,800
Legal expenses	45,400	28,000	14,100
	10,397,300	10,942,400	10,741,600
	$ 29,909,500	**$ 33,340,100**	**$ 25,560,900**

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[2] Litigation and reinsurance recoveries are not susceptible to budgeting due to the irregular timing of their occurrence.

[3] Investment income is not budgeted due to the large changes in investment balances that occur throughout the year, as well as changes in investment return rates.

Estates Open Longer Than Ten Years

After the entry of an order placing an impaired California insurer into conservation and/or liquidation, the Insurance Commissioner and the CLO have the statutory responsibility to marshal and resolve the assets and liabilities of the failed entity.

The time required to close an insolvency proceeding is largely determined by the amount and complexity of the assets to be monetized and distributed to claimants. In addition, the length of an insolvency is equally affected by the amount of time required to make a final determination of an estate's liability.

Most of the insolvencies that remain open for more than ten years have some combination of on-going litigation; complicated tax exposure; potential collection of additional material assets; and challenges associated with the evaluation of liabilities. Until both sides of the insolvent estate's balance sheet are resolved (assets collected and liabilities fixed), the insolvency proceeding will remain open. In addition, estates are subject to federal tax reporting and escheatment requirements after the final distribution.

The estates listed below have been in liquidation for ten years or more:

Citation General:

The Estate wrote coverage on a broad range of long-tail insurance exposures. The 10-year statute of limitations on most of Citation's risks expired in late 2005, and a distribution of available funds was made to policyholder claims[4] in 2008. The Estate continues to have federal income tax exposure until its final liability to its consolidated parent is resolved. Once such resolution can be made, the Estate will distribute the remaining assets and prepare for closure. At a minimum, all approved POC's will be paid in 2010.

Executive Life & ELIC Opt Out Trust:

Continuing asset recovery, via complex litigation, has required the Estate to remain open. The damages phase of the Insurance Commissioner's lawsuit against Altus has not been scheduled at this time. The Estate and associated trusts will be required to complete any escheatment of unclaimed funds post-final distribution. Since the Estate was transferred to the CLO in 1997, the Estate has recovered $731 million from litigation and distributed $737 million to claimants. Assets presently in the Estate are held to fund ongoing litigation.

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[4] Policyholder claims are Class 2 claims under the current priority of payment scheme defined in the California Insurance Code 1033. Prior to 1998, policyholder claims were Class 5 claims. The date of liquidation governs which statutory priority scheme is applicable

Golden Eagle:

The Estate is in long-term run off. Although all policyholder claims have been reinsured, Golden Eagle remains liable to the policyholders should the reinsurer not be able to fulfill their obligations under the contract. The reinsurance program is structured to handle all remaining claims exposure. Until all claims are resolved or paid out, and all reinsurance collected, the Estate must remain open. The CLO acts in a pure monitoring capacity to ensure that the reinsurance structure continues to pay all claims. The claimants have received 100% reimbursement for their approved claims.

Mission/ Mission National/ Enterprise:

All policyholder claims have been paid in full in accordance with the 2006 distribution plan. Significant reinsurance recoveries remain due from other insolvency proceedings. The estates are subject to a potentially significant federal income tax liability as a participant in a consolidated tax group. As tax years close, the tax reserves will be released and distributed to remaining creditors. All three estates will be required to complete the escheatment process once all funds have been distributed.

Western Employers:

Western Employers wrote coverage on very long-tail exposures (asbestos, tobacco, etc.) and has been subject to extensive litigation associated with claims that exceed state guaranty fund limits or were altogether not covered. Inadequate record keeping and poor file management inherited at the time of liquidation have increased the difficulty in resolving the Estate's ultimate liability and collecting final assets.

Claims History

Property and Casualty Estates

Estate	Liquidation Date	Claims Filed	Claims Adjudicated	Open Claims	# of Guaranty Associations
Alistar	10/24/2002	355	355	0	1
Citation	8/24/1995	1,107	1,107	0	1
Frontier Pacific	11/30/2001	33,631	33,628	3	2
Fremont	7/2/2003	45,095	44,287	808	49
Fremont Life			not liquidated		
Golden Eagle[5]	2/18/1998		n/a (see below)		
Golden State Mut.			not liquidated		
HIH (2 estates)	5/8/2001	3,169	3,169	0	26
Municipal Mutual	10/31/2006	4	3	1	1
Mission (3 estates)	2/24/1987	173,920	173,920	0	0
National Auto	4/23/2002	3,099	3,099	0	4
Pacific National	8/5/2003	4,447	4,447	0	1
Paula			n/a (estate closed)		
Superior (5 estates)	9/26/2000	13,890	13,888	2	62
Sable	7/17/2001	377	377	0	4
Western Employers	4/19/1991	9,228	8,919	604	48
Western Employers Amer.			n/a (estate closed)		
Western Growers			n/a (estate closed)		
Western Int'l.			n/a (estate closed)		
		288,322	**287,199**	**1,418**	**199**

NOTE: Open estates have claims made by state insurance guaranty associations, which will not be determined until the estate is in process of closing. Numbers above reflect numbers of Guaranty Association claims still awaiting determination.

Paula, Western Growers, Western Employers of America, and Western International estates closed in 2009 and will no longer be reported.

Life Insurance Estate

Executive Life Insurance Company: Executive Life is a life insurance company and has policies rather than claims. There were 327,000 policies/contracts.

[5] Golden Eagle is subject to a finding of statutory insolvency. All claims are covered under a reinsurance agreement and are being paid by the reinsurer.

2010 Business Goals

The 2010 Business Plan is a continuation of the objectives of the 2009 Business Plan, focusing on estate closings and distributions, collecting/converting assets, evaluating claims and enhancing the operating efficiencies.

Entering 2010, there are 23 open estates in liquidation under management by the CLO. The open estates consist of 19 Property & Casualty Estates, one Workers' Compensation and three Life/Health Estates. Our goal in 2010 is to close two estates and distribute $161 million.

Starting 2010, we have 53.5 full-time employees and no temporary employees. We will continue a planned reduction in staff during 2010. Staffing may need to be added to some areas to meet specific work needs and, when necessary, to strengthen the internal control environment and infrastructure of the CLO.

In addition to the organizational goals, there are individual work plans and cross-departmental Estate teams for each of the 23 estates.

The 2010 Goals are as follows:

1. Close 2 Estates[6]
   - National Auto
   - Municipal Mutual
2. Early Access, Interim, and Final Distributions

Early Access Distributions:	
Fremont	$ 50,000,000
Pacific National	12,000,000
Superior National Estates	15,000,000
Interim Distributions:	
Citation General	5,000,000
Mission	60,000,000
Sable	15,000,000
Final Distributions:	
Enterprise	TBD
Municipal Mutual	4,000,000
	$161,000,000

[6] Closing is defined as fully releasing the Commissioner from all legal responsibilities for an estate.

Section 2 – Estate Specific Information

Conservation or Liquidation Estates Opened During the Year 2009

Golden State Mutual Life Ins. Co. was conserved on September 30, 2009.

Conservation or Liquidation Estates Closed During the Year 2009

Paula Ins. Co. – 10/22/09

Western Growers Ins. Co. – 02/11/09

Western International Ins. Co. – 12/01/09

Western Employers Ins. Co. of America – 12/29/09

Current Year and Cumulative Distributions by Estate
(in $000)

Conservation & Liquidation Office
Current Year and Cumulative Distributions by Estate
As of December 31, 2009
(in $000)

	Year Ended 12/31/2009				Cumulative to 12/31/2009				
	Policyholders	Federal and State Claims Having Preference	General Creditors	Total	Policyholders	Federal and State Claims Having Preference	General Creditors	Total	
Alistar Ins Co	-	-	-	-	$8,073	$0	$0	$8,073	
Citation General Ins Co	-	-	-	-	17,133	-	-	17,133	
Executive Life Ins Co	-	-	-	-	737,276	-	-	737,276	*
Fremont Indemnity Ins Co	49,636	-	-	49,636	859,789	-	-	859,789	
Great States Ins Co	3	-	-	3	10,155	-	-	10,155	
HIH America Ins Co	(1,581)	-	-	(1,581)	278,088	-	-	278,088	
Mission Ins Co	-	-	-	-	846,630	111	207,251	1,053,992	
Mission National Ins Co	-	-	-	-	499,607	-	27,077	526,684	
Enterprise Ins Co	-	-	4,928	4,928	120,573	40	5,339	125,952	
National Automobile & Casualty Ins Co	23,036	14	3,877	26,928	23,428	14	3,877	27,319	
Pacific National Ins Co	-	-	-	-	23,416	-	-	23,416	
Paula Ins Co	(4)	-	-	(4)	139,004	-	-	139,004	
Sable Ins Co	-	-	-	-	6,661	-	-	6,661	
California Compensation Ins Co	30,883	-	-	30,883	472,101	-	-	472,101	
Combined Benefits Ins Co	993	-	-	993	18,209	-	-	18,209	
Superior National Ins Co	22,921	-	-	22,921	187,172	-	-	187,172	
Superior Pacific Casualty Co	(14)	-	-	(14)	30,587	-	-	30,587	
Commercial Compensation Casualty Co	1,460	-	-	1,460	49,443	-	-	49,443	
Western Employers Ins Co	(116)	-	-	(116)	62,914	-	-	62,914	
Western Employers Ins Co of America	1,141	-	10,618	11,759	2,781	-	10,618	13,398	
Western Growers Ins Co	-	-	-	-	18,101	-	-	18,101	
Western International Ins Co	760	-	-	760	28,172	-	-	28,172	
	$129,119	$14	$19,423	$148,557	$4,439,312	$165	$254,163	$4,693,640	

* Since administration was transferred to CLO in 1997.

Estates in Conservation and/or Liquidation as of December 31, 2009

Estate Name	Date Conserved	Date Liquidated
Alistar Insurance Company	04/11/02	10/24/02
California Compensation Ins. Co.	03/06/00	09/26/00
Citation General Insurance Company	07/21/95	08/24/95
Combined Benefits Ins. Co.	03/06/00	09/26/00
Commercial Compensation Cas. Co.	06/09/00	09/26/00
Enterprise Insurance Company	11/26/85	02/24/87
Executive Life Insurance Company	04/11/91	12/06/91
Fremont Indemnity Company	06/04/03	07/02/03
Fremont Life Ins. Co.	06/05/08	*
Frontier Pacific Insurance Company	09/07/01	11/30/01
Golden Eagle Insurance Company	01/31/97	02/18/98
Golden State Mutual Life Ins. Co.	09/30/09	*
Great States Insurance Company	03/30/01	05/08/01
HIH America Comp. & Liab. Ins. Co.	03/30/01	05/08/01
Mission Insurance Company	10/31/85	02/24/87
Mission National Insurance Company	11/26/85	02/24/87
Municipal Mutual Insurance Company	*	10/31/06
National Automobile Casualty Ins. Co.	03/15/02	04/23/02
Pacific National Ins. Co.	05/14/03	08/05/03
Sable Insurance Company	05/10/01	07/17/01
Superior National Ins. Co.	03/06/00	09/26/00
Superior Pacific Casualty Co.	03/06/00	09/26/00
Western Employers Insurance Company	04/02/91	04/19/91

*No Conservation or Liquidation Order obtained

Report on Individual Estates

Each estate has its own unique set of challenges to monetizing assets, valuing the claims, distributing assets and closing. No two estates are the same. The remaining portion of Section 2 provides a brief summary of the 2009 operating goals and results, the current status of the estate in the conservation or liquidation process, and summarized financial information[7].
In reviewing the financial information, the following must be taken into account:

- The Statement of Assets and Liabilities have been prepared on the liquidation basis of accounting. Under the liquidation basis of accounting, assets reported on the financial statements are assets that are determined to be collectible. The liabilities may change during the course of the liquidation depending on the types of business written by the company, and as claims are reviewed and adjudicated.

- No estimates for future administrative expenses are included in the liabilities, unless the estate has been approved for final distribution and closure by the Court.

- California Insurance Code Section 1033 prescribes that claims on estate assets are paid according to a priority, except when otherwise provided in a rehabilitation plan. The probability of a valid claim being paid is dependent on the valuation of the claim, the order of preference of the claim, and the amount of funds remaining after other claims having higher preference have been discharged. Each priority class of claims must be fully paid before any distribution may be made to the next priority class. All members of a class receiving partial payment must receive the same pro-rata amount.

- For estates where available assets are insufficient to pay all policyholder claims, the CLO intentionally does not evaluate the lower priority proofs of claims, since to do so would incur unnecessary administrative time and expenses, reducing funds available for distribution to higher-priority claimants.

- Shareholders receive any remaining residual value of the estate's net assets only after the general creditors have been paid.

- Beginning Assets at Takeover represent cash and investment balances at the time of liquidation or, in cases where the estate was first liquidated and managed by other parties, at the time the estate was taken over by the Conservation & Liquidation Office.

[7] Estates under management of the CLO has an annual independent review of its financial statements. Copies of the independently reviewed financial statements can be accessed through the CLO webpage (www.caclo.org). Annual audits or reviews are waived for estates with little or no assets or activity.

Estate Specific Information

Alistar Insurance Company
Conservation Order: **April 11, 2002**
Liquidation Order: **October 24, 2002**

2009 Report

Alistar Insurance Company ("Alistar") was a non-standard Automobile and Workers' Compensation insurance company that was domiciled and wrote business in California. Alistar also wrote bail bond business, some portion of which was sold to Lincoln General Insurance prior to liquidation. The "Claims Bar Date", or the final date to submit a claim against the insolvent insurer, was July 31, 2003.

The primary work associated with the insolvency was the transfer of all open covered claims to the California Insurance Guarantee Association ("CIGA") and to identify and run off the reinsurance program.

During 2009, the Estate's goal was to bill active reinsurance treaties and to position the remaining reinsurance agreements for commutation. The Reinsurance Department has obtained updated actuarial studies and are in negotiations with two primary reinsurers to commute their treaties. Absent a settlement with the reinsurers in the near term, the Estate will work with CIGA to assign the remaining reinsurance treaties to them and allow the Estate to make its final distribution.

The Estate's immediate goal is to resolve the final two reinsurance contracts through commutation or assignment. Thereafter all policyholder claims liability will be determined and a final distribution paid. The Estate will seek to make the final distribution by 2011 and close the Estate thereafter subject to any escheatment requirements.

Alistar Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$11,810,300	$14,170,000
Recoverable from reinsurers	4,727,800	9,438,800
Other assets	6,000	1,500
	16,544,100	23,610,300
Liabilities		
Secured claims and accrued expenses	285,700	283,500
Claims against policies, before distributions	43,810,100	47,911,200
Less distributions to policyholders	(8,073,200)	(8,073,200)
All other claims	111,000	111,000
	36,133,600	40,232,500
Net assets (deficiency)	($19,589,500)	($16,622,200)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$211,500	$858,000
Salvage and other recoveries	215,100	104,100
	426,600	962,100
Expenses		
Loss and claims expenses	7,653,500	(2,279,500)
Administrative expenses	229,800	274,300
	7,883,300	(2,005,200)
Net income (loss)	($7,456,700)	$2,967,300

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$13,361,500
Recoveries, net of expenses	8,881,700
Distributions	(8,073,200)
Monetary assets available for distribution	$14,170,000

Citation General Insurance Company
Conservation Order: July 21, 1995
Liquidation Order: August 24, 1995

2009 Report

Citation General Insurance Company ("Citation") was the successor to Canadian Insurance Company and Canadian Insurance Company of California via an Assumption Agreement dated February 13, 1986. Citation wrote primarily Medical Malpractice, Workers' Compensation and Healthcare Insurance. Citation also wrote Contractors' General Liability policies covering construction defects and other losses. Citation was licensed to conduct business in California; Nevada; Arizona; South Dakota; and Washington. The "Claims Bar Date", or the final date to submit a claim against the Estate, was September 9, 1996.

The initial effort after liquidation was to transfer all covered claims to the insurance guaranty associations (primarily workers compensation and construction defect exposure) and to resolve the Estate's participation in a claims pooling arrangement. Additionally, the Estate assumed control of the reinsurance program and completed a run off of all treaties.

During 2009, the Estate's goal was to resolve all asset collections, determine final estate liabilities (subject to ultimate tax exposure), file with the IRS an application for recognition of exemption, and position the Estate to make a final distribution.

The Estate's remaining objective is the resolution of its final tax liability (Citation is part of a consolidated tax group) and to distribute any remaining funds that are being held as a tax reserve in 2010.

Citation General Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$11,448,200	$11,500,000
Recoverable from reinsurers	86,600	86,600
Other assets	900	600
	11,535,700	11,587,200
Liabilities		
Secured claims and accrued expenses	5,869,000	1,615,800
Claims against policies, before distributions	17,956,600	17,961,600
Less distributions to policyholders	(17,132,700)	(17,132,700)
All other claims	1,812,600	1,812,600
	8,505,500	4,257,300
Net assets (deficiency)	$3,030,200	$7,329,900

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$254,900	$829,100
Salvage and other recoveries	600	25,000
	255,500	854,100
Expenses		
Loss and claims expenses	390,000	326,400
Administrative expenses	269,000	326,500
	659,000	652,900
Net income (loss)	($403,500)	$201,200

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$8,744,200
Recoveries, net of expenses	19,888,500
Distributions	(17,132,700)
Monetary assets available for distribution	$11,500,000

Executive Life Insurance Company
Conservation Order: April 11, 1991
Liquidation Order: December 6, 1991

2009 Report

Executive Life Insurance Company ("ELIC") was placed into conservation in April 1991 primarily as a result of significant value declines in its high-yield investment portfolio. A comprehensive Rehabilitation Plan was adopted, heavily litigated and ultimately confirmed by the Court in 1993. As part of the Plan, ELIC policyholders could elect to either accept new coverage ("Opt-In") from Aurora National Life Assurance Company ("Aurora"), or to "opt-out" and surrender their policies for cash.

The California Insurance Commissioner, in his capacity as Rehabilitator, Conservator, and Liquidator of the ELIC estate, commenced a civil action in 1999 against various defendants, alleging that they had fraudulently and unlawfully obtained control over ELIC, its former bond portfolio and insurance assets, all in violation of federal and state laws prohibiting a foreign government-owned bank from acquiring control of a California insurance company. At the conclusion of the civil lawsuit, the court awarded net-restitution of $131,092,020, and the jury awarded $700 million for punitive damages in favor of the Commissioner. The court subsequently vacated the jury award of punitive damages. Defendants, Artemis et al, appealed the restitution award, while the Commissioner appealed the judge's decision to vacate the jury award.

On August 25, 2008, the U.S. Ninth Circuit Court of Appeals ruled to (1) vacate the district court's $131,092,020 net restitution award with leave to reinstate if warranted, at the close of a new damages phase trial, (2) affirm the district court's order vacating the jury's $700 million punitive damages award under California law, and (3) remand the case to the district court for a new damages phase trial limited to proffer the NOLHGA premise and a determination of damages (including punitive damages), if any, on that theory. Thelen Reid & Priest LLP, the law firm hired by the Commissioner to prosecute the original lawsuit has dissolved and as a result, the Commissioner has engaged the law firm of Shartsis Friese LLP to continue the litigation at the district court for a new damages phase trial; a hearing date was set for November 3, 2009,but the trial court has since vacated this date and a new hearing date is yet to be set.

Depending on the outcome of the trial, when the trial takes place, we anticipate that the party that does not prevail may embrace the opportunity to file an appeal, if that party does not agree with the court's decision. An appeal may delay the estate's final distribution and estate closure.

During 2008, the Bureau of State Audits ("BSA") audit of ELIC was completed. BSA made certain operational recommendations to assist with the continuing administration of ELIC and the Commissioner is pursuing those recommendations. Based on BSA's recommendation, the

Commissioner is awaiting agreement from Aurora National Assurance Company, Inc. and the National Organization Life & Health Insurance Guaranty Association (NOLHGA) that allows the Commissioner to conduct a due diligence review of any future distribution to Aurora for ELIC opt in policyholders. During this same period and thereafter, the Indentured Trustee Policyholders, ("ELIC opt out policyholders") filed an objection against the Commissioner's application to the conservation court seeking approval of CLO's internal administrative expenses incurred by the ELIC estate for the years 1997 to 2006, in the amount of approximately $9.8 million. For the year 2007, in the amount of $1,228,960 and from January to June 2008, in the amount of $473,639. On December 7, 2009, the court approved the Commissioner's internal administrative expenses from 1997 to June 2008, but disallowed the amount of $597, 254.65. On February 16, 2010, the court issued a Tentative Order approving the Commissioner's internal administrative expenses from July 2008 to December 2008.

On February 4, 2010, the Indentured Trustee Policyholders filed an appeal against the Order Granting Insurance Commissioner's Application for Approval of Internal Expenses for the Periods 1997 – December 31, 2006 and January 1, 2007 – June 30, 2008.

The Pennsylvania Superior Court ordered Pennsylvania Life & Health Insurance Guaranty Association ("PLHIGA") to make whole the losses of all Pennsylvania policyholders of ELIC and as a result of PLHIGA making supplemental payments, PLHIGA obtained an absolute assignment of all distributions the estate makes to those policyholders. The Commissioner's dispute with PLHIGA involves who receives the first dollar of estate distributions, PLHIGA or the policyholder. The Commissioner and PLHIGA have yet to settle this dispute which to date remains outstanding. Hopefully, this dispute would be amicably resolved as soon as possible. Previously allotted policyholder funds are being held until resolution of this issue.

NOLHGA has informed the Commissioner that in the 1995/1996 timeframe distributions made to policyholders were mischaracterized as Article 10 distributions versus Article 17 distributions. The Commissioner and NOLHGA have settled this matter and in accordance with the pertinent provisions of the ELIC Enhancement Agreement, these funds would be distributed to NOLHGA at the next scheduled ELIC distribution.

ELIC Opt-Out Trust

The Opt-Out Trust receives approximately 33% of ELIC assets which are distributed to approximately 27,300 former ELIC policyholders ("Opt-Outs") who elected to terminate their policies. A distribution of $211 million of Altus Litigation Funds was made to Opt-Out policyholders in February 2006. Presently the remaining assets of the Opt-Out Trust consist of (1) distributions allocated to policyholders with whom contact has been lost, in most cases due to bad addresses (funds for those for whom contact has been lost will be escheated to the last known state of residence), and (2) the settlement proceeds of Mutuelle Assurance Artisinale De France ("MAAF") (one-third of the recovery of a default judgment in the name of defendant, MAAF) which became available for distribution to Opt-Out policyholders. As the costs to effect a distribution of this size outweigh the benefits to the Opt-Outs, the Commissioner determined that MAAF funds would be distributed when the new damages phase of the NOLHGA Premise including punitive damages, if any, is concluded. The trial court had initially set a hearing on November 3, 2009 but the court vacated that date with the understanding that a new trial date would be set. The Commissioner anticipated that if the hearing was held on the date it was originally set, a distribution of the MAAF funds would have occurred together with any new awards that the Commissioner would have received. Because the date of the trial was vacated and a new date has not yet been set, the Commissioner intends to distribute the MAAF funds in the third quarter of 2010. This trust however, continues to remain open to effect distributions to Opt-Out policyholders if the Commissioner is successful in the retrial.

Holdback Trust

This trust is a grantor trust of Aurora National Life Assurance Company ("Aurora") administered by the Commissioner as trustee. It was created in 1994 to hold ELIC assets while certain litigation challenges to the terms of the Rehabilitation Plan were pending an appeal. When all legal challenges were resolved, all funds in the Holdback Trust were distributed except for funds that were due to ELIC policyholders that could not be located. Since 1998, the Commissioner vigorously continued to attempt to locate the missing policyholders. In 2007, all remaining held funds were included within the Aurora AVI distribution. Presently the Holdback Trust is completing the escheatment of unclaimed funds to the policyholder's state of last record. Within California, the State Controller's Office ("SCO") received notification, researched addresses and communicated via letter to all individuals with unclaimed property in excess of $50. During a seven-and-one-half month period, if any policyholders are located, their funds will be paid. The remaining California funds were remitted to the SCO in November 2009 to accommodate the SCO regulations. Escheatment of funds to other states was completed in June 2009. The Holdback Trust is now scheduled to be closed by the end June, 2010. At that time, an application will be made to the court to terminate the trust and discharge the Commissioner as trustee.

FEC Litigation Trust

This trust was established September 1992 between First Executive Corporation ("FEC"), the parent company of Executive Life Insurance Company ("ELIC") and the Commissioner in his capacity as conservator, rehabilitator and liquidator of ELIC. The purpose of this trust was to collect the proceeds of certain litigation claims and to distribute the proceeds to former ELIC policyholders in accordance with the terms of the trust. The distribution in 2002 paid all funds except for funds that were due ELIC policyholders that could not be located. Presently the FEC Trust is completing the escheatment of unclaimed funds to the policyholder's state of last record. Within California, the SCO will be sent notification of unclaimed property. They will research addresses and communicate via letter to all individuals with unclaimed property in excess of $50. During a seven and one half month period, if any policyholders are located, their funds will be paid. The remaining California funds were remitted to the SCO in December 2009, to accommodate the SCO regulations. We have applied and have received approval from California Insurance Fund for a transfer of funds to reimburse the trust because of budget over-run. Upon the application of those funds, the Commissioner plans to finally close the trust by June 30, 2010. At that time the Commissioner will file an application, including financials from inception to close, to the court to terminate the trust and discharge the Commissioner as trustee.

Executive Life Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments, unrestricted	$43,125,200	$35,798,000
Restricted investments, NOLHGA	9,379,900	9,387,100
Restricted investments, Opt-In Only	490,100	295,700
Restricted investments, Aurora-Penn	5,878,200	5,894,600
Other assets	1,653,400	1,605,800
	60,526,800	52,981,200
Liabilities		
Secured claims and accrued expenses	8,167,000	8,484,800
Policyholder liability [8]	5,241,748,200	5,469,371,500
All other claims	428,800	428,800
	5,250,344,000	5,478,285,100
Net assets (deficiency)	($5,189,817,200)	($5,425,303,900)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$3,758,400	$2,669,000
	3,758,400	2,669,000
Expenses		
Post-liquidation Federal income tax	-	229,400
Administrative expenses	2,073,200	10,302,900
Accrued interest on policyholder liability	227,623,300	227,623,300
	229,696,500	238,155,600
Net income (loss)	($225,938,100)	($235,486,600)

CHANGE IN MONETARY ASSETS [9]

Beginning monetary assets at takeover	$112,111,400
Recoveries, net of expenses	676,540,000
Distributions	(737,275,900)
Monetary assets	$51,375,500

[8] *In preparation for the eventual final distribution and closing of the estate, a detailed review of the liability to policyholders was performed based on examination of the Modified Rehabilitation Plan and relevant judicial decisions. In 2009 the Estate corrected its policyholder liability to reflect the actual liability, as established by the Court in 1993. This correction was made as a prior period adjustment of $2,752,730,200 to net asset balance as of December 31, 2007. In addition, interest of $227,623,300 was accrued in 2008 and 2009. The revised policyholder liability balance includes accrued but unpaid interest owed to former ELIC policyholders of approximately $2.0 billion and $2.2 billion as of December 31, 2008 and 2009, respectively.*

This revision is consistent with the methodology specified in the Rehabilitation Plan, approved by the Court, which has been used to make all distributions from the ELIC estate. The revision will have no impact on individual policyholders or their right to a proportionate share of any future distributions.

[9] *This schedule represents changes in monetary assets from August 1, 1997, when Executive Life's estate accounting was transferred to the CLO, to December 31, 2009.*

ELIC Holdback Trust
ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$1,776,700	$344,700
	1,776,700	344,700
Liabilities		
Unclaimed funds payable	$1,147,900	$0
Reserve for administrative expenses	628,800	344,700
	1,776,700	344,700

INCOME AND EXPENSES

	2008	2009
Investment income	$33,600	$45,806
Administrative expenses	100	343,558
Net income (loss)	$33,500	($297,752)

ELIC Opt Out Trust

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$21,349,500	$21,184,100
	21,349,500	21,184,100
Liabilities		
Secured claims	$17,814,900	$18,043,800
Unclaimed funds payable	2,477,700	2,476,700
Reserve for administrative expenses	1,056,900	663,600
	21,349,500	21,184,100

INCOME AND EXPENSES

	2008	2009
Investment income	$429,700	$39,000
Administrative expenses	74,000	120,100
Net income (loss)	$355,700	($81,100)

ELIC FEC Litigation Trust

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$855,200	($201,500)
Receivable from Insurance Fund	215,700	298,700
	1,070,900	97,200
Liabilities		
Secured claims	$95,600	$97,200
Unclaimed funds payable	975,300	-
	1,070,900	97,200

INCOME AND EXPENSES

	2008	2009
Investment income	$16,800	$33,494
Administrative expenses	-	144,831
Net income (loss)	$16,800	($111,337)

Fremont Indemnity Company
Conservation Order: June 04, 2003
Liquidation Order: July 02, 2003

2009 Report

Fremont was authorized as a multi-line Property & Casualty insurer, but at liquidation operated as a "Monoline" Workers' Compensation insurer writing only Workers' Compensation and Employer Liability coverage in 48 states. Fremont is the successor by merger of six affiliate insurers that were under the common ownership of Fremont Compensation Insurance Group, Inc. ("FCIG"), Fremont's immediate parent company. FCIG is wholly-owned by a publicly traded holding company, Fremont General Corporation ("FGC"). Approximately 65% of Fremont's Workers' Compensation claims are attributable to business written in California. Most of the general liability business was assumed by a group of life insurance companies and administered through a third party administrator named Riverstone. The "Claims Bar Date", or the final date to submit a claim against the insolvent entity, was June 30, 2004.

After the initial liquidation there was a significant amount of coordination to get all open covered claims to the insurance guaranty associations. The Estate also faced significant self-insured and large deductible programs to be administered and resolved. At the time of insolvency, the Estate had nearly $1 billion in reinsurance recoverable reserves on the books. A significant number of the Fremont Reinsurance Department staff were retained to help plan and manage the long-term run off of the program.

In addition to asset recoveries, the Estate filed various lawsuits seeking to recover assets or damages from the parent entity, former officers and directors as well as third parties. The breach of fiduciary duty complaint filed against the former officers and directors went to trial in October 2008 and both sides completed their closing arguments and briefs in March of 2009. Prior to the judge entering his ruling, the Estate entered global settlement discussions with FGC and the D&O defendants.

The Estate's parent company, FGC, filed for protection under Chapter 11 of the federal bankruptcy code in June of 2008. As part of the FGC consolidated tax group the Estate sought to protect certain tax attributes and to ensure financial recovery or preservation of its net operating losses. Counsel for the estate filed four proofs of claims seeking recovery from the FGC bankruptcy estate. In April 2009 the Estate commenced global settlement discussions with representatives of FGC to settle all disputes between the Estate and FGC as it relates to the pending POCs. After months of negotiation the Estate agreed to settle all disputes in exchange for two approved, unsecured general creditor claims totaling $40 million in approved voting claims that are capped at $27 million in payout plus post petition interest on $5 million. In addition the estate received $9 million in cash at execution of the settlement, and agreement with FGC to help facilitate the deconsolidation of the Estate from the consolidated tax group in a matter that allows the Estate to preserve all of its net operating losses for future application (estimated to exceed $400 million).

Finally, the Estate reached a court mediated settlement of all claims associated with the bill review dispute with Concentra for a cash payment of $3.2 million. With this resolution all of the Estate's pending litigation is now settled, subject to collections from the FGC bankruptcy estate.

The Estate continues to bill and collect on active reinsurance treaties, as well as seeking commutations where advantageous. It was determined in 2008 to consolidate the Los Angeles reinsurance operations of the estate into the CLO's San Francisco office in 2009. The closure of the Los Angeles reinsurance unit was completed on June 30, 2009. All on-going reinsurance processing is now being handled by the CLO San Francisco staff who will complete the balance of the run off of the reinsurance program.

The Estate completed its sixth early access distribution in 2009, and continues to refine the magnitude of the policyholder claims that are not covered by the guaranty associations.

The Estate anticipates releasing its seventh early access distribution during 2010, or it may seek to make an interim distribution to all approved Policyholder Class creditors if the non-covered exposure can be reliably quantified.

Fremont Indemnity Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$134,918,400	$103,111,700
Recoverable from reinsurers	168,264,100	180,438,900
Other assets	59,939,600	56,502,600
	363,122,100	340,053,200
Liabilities		
Secured claims and accrued expenses	24,464,000	24,261,300
Claims against policies, before distributions	2,397,240,800	2,749,754,800
Less distributions to policyholders	(810,153,300)	(859,789,200)
All other claims	393,751,700	395,607,400
	2,005,303,200	2,309,834,300
Net assets (deficiency)	($1,642,181,100)	($1,969,781,100)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$5,532,900	$9,417,100
Litigation recoveries	265,900	40,428,700
Other recoveries	15,412,000	8,370,500
	21,210,800	58,216,300
Expenses		
Loss and claims expenses	148,144,700	375,218,300
Administrative expenses	12,458,400	9,261,600
	160,603,100	384,479,900
Net income (loss)	($139,392,300)	($326,263,600)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$434,855,900
Recoveries, net of expenses	528,045,000
Distributions	(859,789,200)
Monetary assets available for distribution	$103,111,700

Fremont Life Insurance Company
Conservation Order: June 05, 2008

2009 Report

Fremont Life Insurance Company ("Fremont Life"), a California domiciled life insurance company was located in Costa Mesa, California and licensed in 13 states and Guam. Fremont Life is a wholly owned subsidiary of Fremont Compensation Insurance Group Inc., whose ultimate parent is Fremont General Corporation ("FGC"). FGC filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June of 2008. On May 15, 2008, Fremont Life filed their March 31, 2008 quarterly statement with the California Department of Insurance reporting surplus of $1,967,289. The minimum required capital and surplus for Fremont Life is $4,500,000. With the subsequent bankruptcy filing by its parent FGC the California insurance regulators opted to seek a conservation of Fremont Life.

All active insurance contracts have been transferred to successor insurance companies, and the operations of Fremont Life have been discontinued. The conserved estate has the responsibility to ensure all risk associated with the remaining policies and life products are properly assumed by the successor insurers.

The conservation estate continues to seek release of certain protective deposits to help fund the cost to complete the assumption process. To date the conservation estate has limited but sufficient funds to pay all court mandated premium surcharges to certain policyholders upon receipt of the proper demand as well as maintain the required books and records of the estate. Subject to gaining release of the deposits, it is expected to require most of 2010 to complete the formal assumption process and to resolve the remaining contractual disputes associated with litigation existing at the time of conservation.

The stock of Fremont Life was conveyed to the Fremont Indemnity insolvency estate together with $100,000 as part of the overall global settlement between Fremont Indemnity and FGC's bankruptcy estate. The ultimate goal of the conserved estate is to complete the risk transfer, resolve the few remaining disputes, and close the conservation.

Fremont Life Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$1,458,200	$1,296,800
Other assets	209,300	209,300
	1,667,500	1,506,100
Liabilities		
Secured claims and accrued expenses	153,000	32,700
All other claims	258,500	1,408,500
	411,500	1,441,200
Net assets (deficiency)	$1,256,000	$64,900

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$40,900	($67,000)
Litigation recoveries	-	100,000
Salvage and other recoveries	173,100	96,100
	214,000	129,100
Expenses		
Loss and claims expenses	9,800	-
Administrative expenses	171,400	170,300
	181,200	170,300
Net income (loss)	$32,800	($41,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$1,443,100
Recoveries, net of expenses	(146,300)
Monetary assets available for distribution	$1,296,800

Frontier Pacific Insurance Company
Conservation Order: September 7, 2001
Liquidation Order: November 30, 2001

2009 Report

Frontier Pacific Insurance Company ("FPIC"), a California domiciled property and casualty insurer, was licensed in California, Nevada, New York and South Carolina. FPIC primarily wrote Surety and Private Passenger Auto Liability. In August 2001, FPIC's parent company, Frontier Insurance Company ("FIC") of New York, voluntarily entered rehabilitation under the control of the New York Liquidation Bureau. As a result of the FIC rehabilitation, substantial reinsurance recoverables due FPIC from FIC were never paid. A subsequent financial examination by the California regulators disallowed the FIC reinsurance receivable, resulting in a negative surplus on FPIC's books, and FPIC was placed into conservation on September 7, 2001. During conservation, the Commissioner determined that FPIC's financial condition was such that rehabilitation was futile and an Order of Liquidation was obtained on November 30, 2001. The "Claims Bar Date", or the final date to submit a claim against the Estate, was August 30, 2002. The FPIC claims operation was transferred to the CLO in October 2005.

FPIC and its agents (including its parent, FIC) held collateral in various forms as security for the issuance of surety bonds, including large numbers of bail bonds. The Liquidator has finalized and released security for those obligations which have expired. All items of collateral associated with bail bonds have been returned, except those associated with forfeited bonds. As for those outstanding unliquidated obligations, the Liquidator is making suitable arrangements to effect release to the appropriate parties, including escheatment. The Liquidator has reached an agreement with the New York Liquidation Bureau on a procedure for the disposition of collateral securing joint and several obligations of FPIC and FIC.

Since FPIC's liquidation in November 2001, the liquidator continues to marshal FPIC's assets to pay approved claims. However, FIC has refused to honor approximately $19.1 million in reinsurance obligations owed to FPIC. In addition, FIC has improperly retained approximately $190,000 which FIC collected on FPIC's behalf from Everest Reinsurance Company and has not provided FPIC with the necessary documents or assistance to collect on a federal income tax recoverable of approximately $5.3 million. Over the past eight years, the Commissioner has sought the cooperation of the New York Liquidation Bureau in marshalling these assets, but that cooperation has not been forthcoming. Thus, the Commissioner commenced litigation against FIC in the New York court overseeing the FIC rehabilitation, to determine whether FIC is in a financial position to honor any portion of FPIC's claims. As of March 3, 2010, both parties have filed the necessary briefs and await the Court's decision.

In light of FIC's failure to cooperate, the Liquidator is no longer collaborating with the New York Liquidation Bureau to reconcile and collect on group reinsurance programs that were historically maintained by FIC. FPIC's largest reinsurance relationship is with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway, Inc., which refuses to pay FPIC, asserting that it may offset against FPIC's claims over $40 million in premium owed by FIC, for which NICO released FIC, in a transaction to which FPIC was not a party.

Unable to reach a reasonable resolution to the NICO dispute, the Liquidator filed a Declaratory Relief action to determine the Estate's obligations under FPIC's reinsurance relationship with NICO. The Court granted NICO's request to stay the action until FPIC and NICO arbitrate their dispute. Thereafter, the Commissioner, in his capacity as liquidator of FPIC, negotiated a Submission Agreement with NICO to resolve all outstanding issues between the parties in a single arbitration proceeding. A panel of three experienced reinsurance arbitrators has been chosen, and will meet later in April with the parties and counsel to set a schedule for the arbitration.

Resolution of the NICO and FIC reinsurance relationships will be a significant step toward positioning the Estate for a final distribution and closure.

Frontier Pacific Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$19,220,200	$19,335,900
Recoverable from reinsurers	46,737,600	43,956,900
Other assets	1,450,100	1,419,600
	67,407,900	64,712,400
Liabilities		
Secured claims and accrued expenses	791,800	2,638,000
Claims against policies, before distributions	53,653,800	53,908,900
All other claims	22,675,000	22,675,000
	77,120,600	79,221,900
Net assets (deficiency)	($9,712,700)	($14,509,500)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$384,100	$1,096,900
Salvage and other recoveries	26,700	285,900
	410,800	1,382,800
Expenses		
Loss and claims expenses	700,600	5,199,000
Administrative expenses	915,900	980,200
	1,616,500	6,179,200
Net income (loss)	($1,205,700)	($4,796,400)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$18,531,900
Recoveries, net of expenses	804,000
Monetary assets available for distribution	$19,335,900

Golden Eagle Insurance Company
Conservation Order: **January 31, 1997**
Rehab./Liquidation Plan Approved: **August 4, 1997**
Liquidation Order: **February 18, 1998**

<u>2009 Report</u>

The Golden Eagle Insurance Company Liquidating Trust ("The Trust") was created and approved by the Superior Court as a neutral mechanism to manage the liquidation of Golden Eagle Insurance Company. The Trust was created as of the entry of the Liquidation Order. The Liquidation Order does not contain a formal finding of insolvency, and thus the Insurance Guaranty Associations have not been triggered, and no bar date has been set for the filing of claims covered under a Golden Eagle policy, which claims will continue to be received, adjusted and paid in the ordinary course of the run-off of Golden Eagle's policyholder liabilities.

The Trust was responsible for the management of third-party claim administrators and reinsurers (affiliates of Liberty Mutual Insurance Company) who were and continue to be responsible for the adjustment and payment of covered policyholder claims. The Trust also managed the residual assets of the liquidated Estate and administered to resolution all proofs of claims filed by general creditors. The "Claims Bar Date", or the final date to submit general creditor claims (i.e., non-policyholder claims) against the Estate, was February 27, 1998.

As part of the Rehabilitation Plan, the Trust purchased sufficient reinsurance coverage to cover the remaining covered insurance policy exposures, including liabilities under both workers' compensation and other property and casualty policies. In 2006, the Trust and the Commissioner prepared and implemented a final closing plan. All affairs associated with the discontinued insurance operations and monitoring of the claims run off plan have been transferred to the CLO. The Trust was officially terminated and closed on November 30, 2006.

As all remaining policyholder claims are being administered and paid under an indemnity reinsurance agreement with Liberty Mutual affiliates, the estate will seek to transfer the remaining risk via novation or the equivalent. Until the entire remaining exposure is assumed or novated, the Estate must remain open to monitor the long-term claim run-off.

Golden Eagle Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$2,031,600	$1,923,800
	2,031,600	1,923,800
Liabilities		
Secured claims and accrued expenses	1,100	300
	1,100	300
Net assets (deficiency)	$2,030,500	$1,923,500

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$54,800	($4,800)
Salvage and other recoveries	11,900	2,300
	66,700	(2,500)
Expenses		
Administrative expenses	85,700	104,500
	85,700	104,500
Net income (loss)	($19,000)	($107,000)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover [10]	$2,029,000
Recoveries, net of expenses	(105,200)
Monetary assets available for distribution	$1,923,800

[10] *As of December 31, 2006, when Golden Eagle's estate accounting was transferred to the CLO.*

Golden State Mutual Life Insurance Company
Conservation Order: September 30, 2009
Liquidation Order: TBD

<u>2009 Report</u>

Golden State Mutual Life Insurance Company, (Golden State), is a mutual life and health insurance company domiciled and incorporated in California, with its principal place of business and home office located at 1999 West Adams Boulevard in Los Angeles, California. Golden State's business focus has been to provide life insurance products to the minority middle-income marketplace with a geographic emphasis in California, Texas, North Carolina, Michigan and Illinois.

In August 2009, Golden State filed a Quarterly Statement as required by the Insurance Code, showing its financial condition as of June 30, 2009. The Quarterly Statement indicated that Golden State had assets of $93,291,509 and liabilities of $91,640,816. Thus, Golden State's surplus was $1,650,693 or $3,349,307 less than the total aggregate of the minimum paid-in capital and minimum surplus required by the Insurance Code, a circumstance that indicates Golden State was impaired. Consequently, Golden State was placed into conservation on September 30, 2009.

Since September 30, 2009 the Conservator's staff has managed Golden State's day-to-day operations, marshaled Golden State's assets and attempted to reduce Golden State's expenses and liabilities. Immediately following the placement of Golden State in Conservation, a number of interested parties inquired as to the process of determining the appropriate remedy for Golden State. The Conservator met or spoke with all who were interested.

Based on Golden State's financial condition and its operational capabilities, the Conservator determined that the business operations of Golden State were not sustainable and that the best course of action for Golden State's policyholders and creditors was for the Conservator to position Golden State for a sale, merger or an assumption of its insurance book of business by a third party.

On November 24, 2009, the Conservator mailed forty-one solicitation letters to life insurance companies in an attempt to sale/merge Golden State into a financially strong life insurance company or by having a financially strong life insurance company assume the policies of Golden State in exchange for a ceding commission to be used to mitigate the non-policyholder liabilities of Golden State. The Conservator received responses from thirteen interested parties and mailed RFP ("Request for Proposal") packages to prospective bidders on December 14, 2009. Of the thirteen interested parties, seven groups scheduled due diligence reviews during the month of January, 2010. The deadline for submitting bids was January 29, 2010 and the Conservator received five bids for the sale/merger of Golden State or the assumption of Golden State's policies.

During the week of February 1-5, 2010, the Conservator contacted the 5 bidders to clarify aspects of their bids in an attempt to compare the strengths and weaknesses of each bid. The Conservator spent three weeks evaluating the bids according to the selection criteria established in the RFP. The selection criteria included the following:

- Whether the potential bidder seeks to acquire all or less than all of the insurance business described in the RFP.
- Whether the potential bidder is currently licensed in the jurisdictions in which the policy, contract and certificate owners of GSM reside.
- Whether the potential bidder is willing to accept GSM's bonds, stocks and mortgage loans.
- The size, financial strength and ratings of the potential bidder.
- Whether the potential bidder would seek policy restructuring.
- The potential bidder's experience in administering the types of business to be assumed and the fit/compatibility of the business with the potential bidder's existing business.
- Financial and legal requirements of the proposal, including the amount of assets (net of ceding commissions) required to be transferred to the bidder.

Based on the Conservator's review of the 5 bids that were submitted, it was recommended that the bid of IA American Life Insurance Company be accepted. IA American is a Georgia domiciled life insurance Company rated A- by A.M. Best. IA American is owned by Industrial Alliance Insurance and Financial Services, the fourth largest Canadian life insurer.

<u>2010 Goals</u>

- The Conservator anticipates filing a rehabilitation plan, assumption reinsurance agreement and service agreement between Golden State in Conservation and IA American Life Insurance Company with the California Superior Court during the month of April for approval.
- The Conservator will ask for a June, 2010 hearing date for approval of the assumption reinsurance agreement after appropriate notices have been given to all interested parties.
- The assumption reinsurance transaction, subject to approval by the California Superior Court, will close during August, 2010.
- The retained Golden State estate will petition the California Superior Court for an order of liquidation to invoke the priority of claim requirements of Insurance Code 1033 by September 30, 2010.
- The remaining on-going operations of Golden State Mutual Life Insurance Company will be discontinued as of December 31, 2010.

Golden State Mutual Life Ins Co

ASSETS AND LIABILITIES

	9/30/2009[11]
Assets	
Cash and investments	$72,139,200
Recoverable from reinsurers	25,900
Other assets	2,366,200
	74,531,300
Liabilities	
Policyholder claims	71,078,700
Other claims	4,236,200
	75,314,900
Net assets (deficiency)	(783,600)

INCOME AND EXPENSES

Income	
Investment income	$2,560,000
Premium income	8,367,000
Other income	179,900
	11,106,900
Expenses	
Loss and claims expenses	13,204,500
Dividends to policyholders	70,400
Realized capital loss	80,500
	13,355,400
Net income (loss)	(2,248,500)

[11] Assets and liabilities of Golden State Mutual, and its operating income and expenses, have been audited using statutory basis of accounting as of 9/30/2009, when it was placed under a Conservation Order.

HIH America Comp. & Liab. Ins. Co.
Conservation Order: March 30, 2001
Liquidation Order: May 8, 2001

<u>2009 Report</u>

HIH America Compensation Liability Insurance Company ("HIH") was domiciled in California and licensed to transact business in 31 states with California being the primary state accounting for 82% of the business written. HIH wrote only Workers' Compensation insurance. The "Claims Bar Date", or the final date to submit a claim against the insolvent Estate was December 2, 2001.

Given the number of states in which HIH wrote business, a significant effort was required at the time of liquidation to properly transfer all open covered claims to the insurance guaranty community. The Estate had a significant amount of intercompany relationships with various affiliates that required a considerable amount of work to resolve such intercompany balances. Additionally, the Estate had a significant reinsurance program that was placed under a run off plan.

The resolution of the various affiliated relationships has taken considerably longer than initially anticipated due to the fact many of the HIH affiliates, including the parent corporation, were determined to be insolvent and placed under the supervision of other regulators.

Shortly after liquidation, the Estate identified a potential legal dispute with a service provider over contractual service obligations. After numerous attempts to amicably resolve the issue, a formal demand for arbitration was served upon the vendor in 2006. The arbitration was concluded in June of 2007 with the Estate's final award being confirmed on December 4, 2007. The arbitration was settled in full for $1.485 million in January 2008.

The inter-company relationship with the Hawaii affiliate has been resolved through a Re-Designation Agreement and the payment of approximately $8 million to HIH. HIH Hawaii and the Estate have sought and received approvals in their respective liquidation courts. Settlement proceeds and remaining administrative reimbursements were transferred to the Estate.

The Estate's immediate goal is to resolve the final inter-company balance with the Australia parent company, collect the final reinsurance recoveries in 2010, and seek to release a final distribution by 2011.

HIH America Comp & Liability Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$48,413,400	$60,209,600
Recoverable from reinsurers	1,994,700	2,014,100
Other assets	20,764,500	11,059,400
	71,172,600	73,283,100
Liabilities		
Secured claims and accrued expenses	246,300	1,800
Claims against policies, before distributions	674,214,700	721,916,800
Less distributions to policyholders	(279,669,300)	(278,087,900)
All other claims	1,399,700	923,800
	396,191,400	444,754,500
Net assets (deficiency)	($325,018,800)	($371,471,400)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$907,800	$3,459,300
Litigation recoveries	1,485,100	-
Salvage and other recoveries	1,990,800	1,492,800
	4,383,700	4,952,100
Expenses		
Loss and claims expenses	31,097,300	52,861,800
Administrative expenses	582,400	403,800
	31,679,700	53,265,600
Net income (loss)	($27,296,000)	($48,313,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$147,637,800
Recoveries, net of expenses	190,659,700
Distributions	(278,087,900)
Monetary assets available for distribution	$60,209,600

Great States Insurance Company
Conservation Order: March 30, 2001
Liquidation Order: May 8, 2001

2009 Report

Great States Insurance Company was domiciled in California and was licensed to transact business in 14 states. Great States wrote only Workers' Compensation insurance and concentrated in Arizona, Colorado, and Nevada. Great States wrote a minimal amount in California and Illinois. The "Claims Bar Date", or the final date to submit a claim against the Estate, was December 2, 2001.

A significant portion of the Estate's statutory deposits are held in the form of surety bonds and are released as claims arise and formal awards are issued. The entity that has issued the surety bond has off-set rights related to certain reinsurance recoveries by Great States. The process of reconciling these releases and offsets has been an on-going requirement of the Estate.

The Estate also had a significant reinsurance program that was put into run off after liquidation. One major reinsurance contract remains with Munich/Am Re; and a commutation is being pursued. The Estate's primary goal is to resolve collections under a surety bond issued by American Home Assurance originally pledged as a statutory deposit.

Once all reinsurance assets are recovered, the Estate will determine final policyholder liability and seek a final distribution in 2011.

Great States Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$6,772,200	$7,064,600
Recoverable from reinsurers	10,590,600	10,590,600
	17,362,800	17,655,200
Liabilities		
Secured claims and accrued expenses	24,400	17,000
Claims against policies, before distributions	79,800,600	85,041,800
Less distributions to policyholders	(10,151,300)	(10,154,800)
All other claims	11,917,600	11,917,600
	81,591,300	86,821,600
Net assets (deficiency)	($64,228,500)	($69,166,400)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$116,600	$447,000
Salvage and other recoveries	67,900	(293,000)
	184,500	154,000
Expenses		
Loss and claims expenses	6,523,200	4,897,900
Administrative expenses	237,200	194,000
	6,760,400	5,091,900
Net income (loss)	($6,575,900)	($4,937,900)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$7,889,700
Recoveries, net of expenses	9,329,700
Distributions	(10,154,800)
Monetary assets available for distribution	$7,064,600

Mission Insurance Company
Conservation Order: **October 31, 1985**
Liquidation Order: **February 24, 1987**

Mission National Insurance Company
Conservation Order: **November 26, 1985**
Liquidation Order: **February 24, 1987**

Enterprise Insurance Company
Conservation Order: **November 26, 1985**
Liquidation Order: **February 24, 1987**

2009 Report

The insolvency of Mission Insurance Company and affiliated insurers was the largest Property and Casualty insurer failure at the time of its conservation. The Mission Companies wrote complicated Primary, Excess, and Surplus insurance and reinsurance, much of which covers long-term exposure with losses developing over decades of time.

The Mission group of companies consisted of five affiliates: Mission Insurance Company ("MIC"), Mission National Insurance Company ("MNIC") and Enterprise Insurance Company ("EIC") which are California-domiciled companies. Holland-America Insurance Company ("HAIC") and Mission Reinsurance Corporation ("MRC") are domiciled in Missouri. HAIC wrote Property &Casualty business while MRC reinsured Property & Casualty business. These companies are direct or indirect subsidiaries of the Mission Insurance Group, Inc., which was later renamed as Danielson Holding Corporation ("DHC"), now known as Covanta Holding Corporation.

The Mission Insurance Companies' insolvency proceedings began with a court-ordered conservation of the Enterprise entity in November of 1985 with the balance of the entities being conserved on October 31, 1985. All were placed into conservation due to their hazardous financial condition. Efforts to rehabilitate the companies did not succeed, and on February 24, 1987, the companies were ordered into liquidation. Ancillary proceedings in California for HAIC and MRC were initiated concurrent with the Missouri Insurance Director's obtaining a receivership order as the domiciliary liquidator.

In accordance with a court approved closing plan, the Mission estates completed a final policyholder distribution in 2006 whereby all policyholder claimants for Mission, Mission National and Enterprise were paid 100% of their approved claim. As of year-end 2008 additional disbursements made to the general creditors of the Mission and Enterprise estates have unsatisfied portions remaining on their approved claims.

The Mission estates participate as members of a consolidated tax group (Covanta being the parent) and, as such, are joint and severally liable for the tax exposure of the group. With guidance and advice from tax counsel, the estates have established proper tax reserves for certain open tax years. Once those tax years are closed, the estates will seek court approval to distribute the reserves to claimants or pay the Internal Revenue Service.

Distributions to claimants in 2008 included the payment of both cash and stock. Both the Mission and Mission National estates held stock for the benefit of its claimants. In accordance with the court-approved allocation methodology, $32 million worth of Covanta shares were distributed to Mission and Mission National claimants. Additionally, the Mission estate distributed $28 million to its general creditors, and Mission National distributed $93 million as interest to its covered policyholder class.

The Mission estates file status conference reports on a regular quarterly interval. As final assets are recovered and tax reserves released, additional distributions to the claimants will be scheduled for 2010.

The collective Estate's goal is to efficiently advance the remaining reinsurance and asset collections and distribute available funds in accordance with the closing plan.

The Enterprise estate will seek to obtain court approval in 2010 to release another payment to its general creditors. Both the Mission and Mission National estates will also evaluate and seek court approval for a 2010 release.

Mission Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$88,859,500	$94,423,500
Recoverable from reinsurers	48,414,900	21,586,400
Other assets	78,083,400	79,798,100
	215,357,800	195,808,000
Liabilities		
Secured claims and accrued expenses	79,337,800	79,398,300
Claims against policies, before distributions	846,832,600	846,832,600
Less distributions to policyholders	(846,629,600)	(846,629,600)
All other claims	256,851,600	256,851,600
	336,392,400	336,452,900
Net assets (deficiency)	($121,034,600)	($140,644,900)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$3,581,200	$5,966,000
Debt forgiveness income	915,746,800	-
Salvage and other recoveries	1,078,300	233,200
	920,406,300	6,199,200
Expenses		
Loss and claims expenses	206,512,600	25,067,700
Administrative expenses	1,326,200	739,800
	207,838,800	25,807,500
Net income (loss)	$712,567,500	($19,608,300)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION[12]

Beginning monetary assets at takeover	$133,667,000
Recoveries, net of expenses	1,014,748,400
Distributions	(1,053,991,900)
Monetary assets available for distribution	$94,423,500

[12] Subsequent to the release of the 2008 financial statements, the Mission [Mission National] estate revised certain reinsurance recoverable and related balances as of 12/31/2008 to account for the restoration of latent deficiency claims previously written off.

Mission National Ins Co
ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$18,120,400	$21,853,600
Recoverable from reinsurers	6,989,600	5,119,900
Other assets	147,300	120,700
	25,257,300	27,094,200
Liabilities		
Secured claims and accrued expenses	17,743,000	17,754,900
Claims against policies, before distributions	596,098,500	596,098,500
Less distributions to policyholders	(499,606,700)	(499,606,700)
All other claims	16,838,100	16,838,100
	131,072,900	131,084,800
Net assets (deficiency)	($105,815,600)	($103,990,600)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$1,192,900	$1,251,100
Debt forgiveness income	75,397,400	-
Salvage and other recoveries	49,300	57,200
	76,639,600	1,308,300
Expenses		
Loss and claims expenses	220,921,400	(678,700)
Administrative expenses	397,700	162,200
	221,319,100	(516,500)
Net income (loss)	($144,679,500)	$1,824,800

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION[13]

Beginning monetary assets at takeover	$18,289,000
Recoveries, net of expenses	530,248,700
Distributions	(526,684,100)
Monetary assets available for distribution	$21,853,600

[13] Subsequent to the release of the 2008 financial statements, the Mission [Mission National] estate revised certain reinsurance recoverable and related balances as of 12/31/2008 to account for the restoration of latent deficiency claims previously written off.

Enterprise Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$6,319,600	$1,595,700
	6,319,600	1,595,700
Liabilities		
Secured claims and accrued expenses	1,094,600	1,241,600
Claims against policies, before distributions	120,573,400	120,573,400
Less distributions to policyholders	(120,573,400)	(120,573,400)
All other claims	35,632,800	30,780,900
	36,727,400	32,022,500
Net assets (deficiency)	($30,407,800)	($30,426,800)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$69,800	$242,300
Salvage and other recoveries	1,669,800	200
	1,739,600	242,500
Expenses		
Loss and claims expenses	(2,613,400)	76,600
Administrative expenses	16,100	184,800
	(2,597,300)	261,400
Net income (loss)	$4,336,900	($18,900)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$3,281,000
Recoveries, net of expenses	124,267,200
Distributions	(125,952,500)
Monetary assets available for distribution	$1,595,700

Municipal Mutual Insurance Company
Supervision Agreement Date: August 18, 2003
Liquidation Order: October 31, 2006

2009 Report

Municipal Mutual Insurance Company, an Excess Liability and Workers' Compensation insurance company doing business only in California, was placed in informal administrative supervision in August of 2003 by the California Department of Insurance. The company had ceased writing business in April of 2003 and was liquidated on October 31, 2006. All insurance claims were transferred to the California Insurance Guarantee Association ("CIGA") for administration and payment.

The Commissioner obtained an order to limit the Proof of Claim process to only the liability policies issued by Municipal Mutual and to CIGA. This order will allow CIGA to accept policyholder claims relating to latent exposures into the future.

Collection of reinsurance is the only reason the Estate is open. The CLO is collecting balances due and is current in billing. We have begun actuarial evaluations necessary to commute all remaining reinsurance treaties. The reinsurers appear amenable to commutations.

The Estate collected $377,907 of reinsurance in 2009 and has initiated commutation negotiations of all remaining contracts.

Municipal Mutual Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$1,245,100	$1,646,300
Recoverable from reinsurers	1,137,400	4,778,200
	2,382,500	6,424,500
Liabilities		
Secured claims and accrued expenses	24,500	25,200
Claims against policies, before distributions	8,742,700	10,542,100
	8,767,200	10,567,300
Net assets (deficiency)	($6,384,700)	($4,142,800)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$7,800	$95,300
Salvage and other recoveries	4,400	127,700
	12,200	223,000
Expenses		
Loss and claims expenses	510,300	(2,091,600)
Administrative expenses	88,200	72,900
	598,500	(2,018,700)
Net income (loss)	($586,300)	$2,241,700

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$920,200
Recoveries, net of expenses	726,100
Monetary assets available for distribution	$1,646,300

National Automobile & Casualty Insurance Company
Conservation Order: March 15, 2002
Liquidation Order: April 23, 2002

2009 Report

National Automobile & Casualty Insurance Company ("NACIC") specialized in Private Passenger, Automobile Liability, Physical Damage, Homeowner, Fire, Liability, Common Carrier Liability, Surety, and other miscellaneous classes of insurance. NACIC was licensed to write business in eight states. Since liquidation, all guaranty associations continue to pay and report on covered claims. The "Claims Bar Date", or the final date to submit a claim against the Estate, was December 20, 2002.

At liquidation, significant efforts were required to properly place all covered claims with the respective guaranty associations. Given the myriad of polices written, the transfer was considerable and took an extended period of time. Also at the time of liquidation, the company was completing the final stages of construction on a new home office in Arcadia. The building was appraised and sold in 2003.

In addition to the sale of the Arcadia building, the Estate also obtained court approvals for the sale of the legal title to National Automobile's charter and license documents, and the sale of reinsurance contracts known as AMI Reinsurance Contracts. The balance of the reinsurance program was placed in run-off.

During 2009, the Estate's goal was to finalize its total liability and complete a final distribution. These goals were accomplished.

The Estate's remaining objective is to escheat any unclaimed funds to the California State Controller's Office, and petition the Los Angeles Superior Court to close the Estate in 2010.

National Automobile and Casualty Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$24,731,100	$320,700
	24,731,100	320,700
Liabilities		
Secured claims and accrued expenses	289,800	20,700
Claims against policies, before distributions	22,143,400	23,427,800
Less distributions to policyholders	(391,500)	(23,427,800)
All other claims	5,055,800	-
	27,097,500	20,700
Net assets (deficiency)	($2,366,400)	$300,000

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$465,700	$3,422,100
Salvage and other recoveries	(123,800)	360,900
	341,900	3,783,000
Expenses		
Loss and claims expenses	(39,300)	(1,610,900)
Administrative expenses	291,600	350,500
	252,300	(1,260,400)
Net income (loss)	$89,600	$5,043,400

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$13,264,000
Recoveries, net of expenses	14,375,900
Distributions	(27,319,200)
Monetary assets available for distribution	$320,700

Pacific National Ins. Co.
Conservation Order: **May 14, 2003**
Liquidation Order: **August 5, 2003**

2009 Report

Pacific National Insurance Company ("PNIC") is a subsidiary of the Highlands Insurance Group. PNIC's principal business lines include Workers' Compensation, Commercial Multiple-Peril, General Liability, and Commercial Automobile insurance. PNIC wrote business in only California.

In October 2002, Highlands Insurance Group and five of its non-insurance subsidiaries commenced Chapter 11 bankruptcy proceedings in the U.S. Bankruptcy Court in the District of Delaware.

On May 14, 2003, the Commissioner was appointed as Conservator of PNIC and on August 5, 2003, the Superior Court appointed the Commissioner as Liquidator of PNIC. Upon liquidation, covered claims were transferred to the appropriate insurance guaranty associations. PNIC's assets consist primarily of cash and reinsurance receivables. The "Claims Bar Date", or the final date to submit a claim against the Estate, was July 30, 2004.

Highlands Insurance Company ("HIC") in New Jersey, a subsidiary of Highlands Insurance Group, continues to handle routine administrative services for PNIC under an inter-company agreement. HIC was placed in conservation by the Texas Department of Insurance in November 2003. The CLO continues to work with the Texas Department of Insurance on data transfer and reinsurance collections.

During 2009, the Estate's goal was to finalize an actuarial study in 2009 and commence commutation proposals in 2010.

The Estate's immediate goal is to finalize commutations for asset collections and position the Estate for an interim distribution in 2010.

Pacific National Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$14,866,900	$17,307,300
Recoverable from reinsurers	9,285,500	19,300,900
	24,152,400	36,608,200
Liabilities		
Secured claims and accrued expenses	5,530,000	6,172,300
Claims against policies, before distributions	108,126,500	119,976,100
Less distributions to policyholders	(23,416,400)	(23,416,400)
All other claims	239,300	246,400
	90,479,400	102,978,400
Net assets (deficiency)	($66,327,000)	($66,370,200)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$259,400	$1,017,000
Salvage and other recoveries	758,400	1,020,900
	1,017,800	2,037,900
Expenses		
Loss and claims expenses	6,349,000	1,857,300
Administrative expenses	255,600	223,800
	6,604,600	2,081,100
Net income (loss)	($5,586,800)	($43,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$36,519,100
Recoveries, net of expenses	4,204,600
Distributions	(23,416,400)
Monetary assets available for distribution	$17,307,300

Sable Insurance Company
Conservation Order: May 10, 2001
Liquidation Order: July 17, 2001

<u>2009 Report</u>

Sable Insurance Company is a California-domiciled wholly-owned subsidiary of Sable Insurance Holding Company. Sable Insurance Company wrote Workers' Compensation and Property and Casualty insurance and was licensed to write business in California, Illinois, Indiana, and Missouri. The "Claims Bar Date", or the final date to submit a claim against the Estate, was June 30, 2002.

A significant portion of Sable's assets consist of reinsurance receivables which are not immediately collectible due to the insolvency of a primary reinsurer, Reliance.

The Estate's primary objectives are to resolve all reinsurance recoveries for estate closure in 2011. The Estate continues to pursue collection of final reinsurance balances and will consider selling or writing off the final accounts if balances cannot be commuted. An interim distribution has been planned to occur at the beginning of 2010 for approximately $15 million in disbursements. The cost to keep the Estate open beyond the immediate estate plan may not be justified.

Sable Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$15,116,200	$15,800,700
Recoverable from reinsurers	291,100	252,500
Other assets	4,700	-
	15,412,000	16,053,200
Liabilities		
Secured claims and accrued expenses	1,558,200	15,500
Claims against policies, before distributions	52,306,000	50,131,000
Less distributions to policyholders	(6,661,400)	(6,661,400)
All other claims	185,800	191,000
	47,388,600	43,676,100
Net assets (deficiency)	($31,976,600)	($27,622,900)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$284,100	$857,400
Salvage and other recoveries	158,200	283,400
	442,300	1,140,800
Expenses		
Loss and claims expenses	1,587,600	(1,926,100)
Administrative expenses	246,900	291,200
	1,834,500	(1,634,900)
Net income (loss)	($1,392,200)	$2,775,700

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$17,472,300
Recoveries, net of expenses	4,989,800
Distributions	(6,661,400)
Monetary assets available for distribution	$15,800,700

Superior National Insurance Companies In Liquidation ("SNICIL")
(California Compensation Insurance Company, Combined Benefits Insurance Company, Commercial Compensation Casualty Company, Superior National Insurance Company, and Superior Pacific Casualty Company)
Conservation Order March 6, 2000
Liquidation Order September 26, 2000

<u>2009 Report</u>

On March 6, 2000, the Los Angeles County and Sacramento County Superior Courts ordered and appointed the Insurance Commissioner to serve as Conservator of four workers' compensation insurance companies: Superior National Insurance Company, Superior Pacific Casualty Company, California Compensation Insurance Company and Combined Benefits Insurance Company. On June 9, 2000, the Los Angeles County Superior Court ordered and appointed the Commissioner to serve as conservator of a fifth workers' compensation insurance company named Commercial Compensation Casualty Company (collectively the "Insurance Estates"). In his capacity as Conservator, the Insurance Commissioner obtained title to and possession of all the property and assets of the Insurance Estates, the value of which exceeded $1.4 billion.

On April 26, 2000, Superior National Insurance Group, Inc., Business Insurance Group, Inc., the parent companies to the Insurance Estates (collectively "Debtors") filed voluntary petitions for relief under chapter 11 in United States Bankruptcy Court. Both companies continued to operate as Debtors in Possession.

On September 26, 2000, Los Angeles County Superior Court found that each of the Insurance Estates was insolvent and that it would be futile to proceed as Conservator; on that basis, the Court terminated the Insurance Commissioner's status as conservator of the five insurers and ordered and appointed the Commissioner to serve as Liquidator of the insurers.

The charge in liquidating the Insurance Estates was to marshal assets, pay claims and resolve the vast business affairs as efficiently as possible. In this regard, the Liquidator consolidated the Insurance Estates' operations into the offices of the Conservation and Liquidation Office (San Francisco) in September 2003.

In addition to the Conservation and Liquidation Office, the Liquidator retained services of the employees of the insolvent companies to complete various aspects of the liquidation process. These services were supplemented by specialized vendors, contractors, consultants and attorneys. Non-litigation legal services were provided by the California Department of Insurance's Legal Division. The Office of the Attorney General is the Liquidator's primary litigation counsel. Both sets of attorneys were supplemented by private counsel with expertise in specialized areas of the law.

Surety Litigation

Prior to conservation, the Superior National companies posted seven Workers' Compensation Bonds issued by four surety companies to partially satisfy the Superior National companies' liability to pay workers' compensation awards issued by the Workers' Compensation Appeals Board ("WCAB"). The bonds were issued pursuant to former Insurance Code § 11690 et seq., which was repealed as of January 1, 2003.

The sureties agreed that in the event the Superior National companies fail to pay awards rendered against them by the WCAB within 30 days after an award becomes final, the sureties collectively will pay up to $94 million of such awards.

Starting in June 2000 (prior to liquidation), the Department of Insurance demanded that the sureties pay their respective shares of awards, but they have refused. On September 23, 2003, in the Los Angeles Superior Court, the Commissioner sued each of the sureties for payment of benefits attributable to the WCAB awards, plus interest and attorneys' fees.

All four surety cases have now been settled. In aggregate, the Commissioner recovered $88.5 million for the benefit of injured workers paid by CIGA.

U.S. Life Arbitration

On February 18, 2007, the arbitration panel hearing the U.S. Life dispute entered its Final Award finding that all amounts billed to U.S. Life are properly ceded and due, and ordered payment of $443,515,724, plus interest at the daily rate of $81,242.36 computed from January 1, 2007.

A judgment was entered on June 25, 2007 confirming the Final Arbitration Award but amending the interest rate to the federal interest rate from date of entry of Judgment. U.S. Life appealed the judgment to the Ninth Circuit Appellate Court and posted a surety bond in the amount of $600 million to preclude the Commissioner from executing on judgment. The Appeal was heard on November 19, 2008 and on January 4, 2010, the Ninth Circuit Court of Appeals issued its opinion affirming the US District Court's decision upholding the arbitration awards. On January 19, 2010, US Life filed its motion to reconsider and reconsider en banc. On March 1, 2010, the Commissioner filed an Appellee's Answer to Petition for Rehearing and Rehearing En Banc. On March 19, 2010 the court denied US Life's petition.

US Life now has ninety days to file a petition for appeal with the United States Supreme Court. With interest charges accruing until all appeals are exhausted, the judgment is now more than $517 million and as noted previously secured by a $600 million surety undertaking.

Since US Life refused to make any payments pursuant to the reinsurance contract while its appeal is pending, the Commissioner filed an application and obtained an order authorizing the Commissioner to draw $53 million from U.S. Life's Special Schedule P Deposit. Make a distribution to the California Insurance Guarantee Association (CIGA) to reimburse CIGA for its compensable workers' compensation insurance claims made to injured workers under policies issued by the SNICIL companies, which policies are reinsured by U.S. Life.

<u>2010 Outlook</u>

Under the most optimistic estimates, SNICL will not have sufficient assets to fully pay the policyholder claims. Consequently, once asset recoveries and liabilities are determined, the Estate will seek court approval not to consider any potential claims below the policyholder class. The "Claims Bar Date", or the final date to submit a claim against the Estates, was May 25, 2001.

The Estate is working to determine all non-guaranty association policyholders' liabilities by year-end 2010. The Estate's ultimate goal is to resolve its reinsurance program, complete final asset recoveries and position the Estate for closure.

It is anticipated that resolution of the U.S. Life arbitration case will be in the fourth quarter of 2010. It is expected that U.S. Life will have exhausted all its appeal rights and the judgment entered in favor of the Estate will be final. US Life will be required to pay the judgments shortly after. In the unlikely event that US Life refuses to pay the judgment, the Commissioner will have available to him the right to drawdown on U.S. Life's $600 million supersedeas bond.

California Compensation Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$41,687,300	$48,874,700
Recoverable from reinsurers	378,240,400	345,272,400
Other assets	143,100	63,400
	420,070,800	394,210,500
Liabilities		
Secured claims and accrued expenses	28,390,000	21,821,800
Claims against policies, before distributions	1,745,533,800	1,900,929,600
Less distributions to policyholders	(441,217,600)	(472,100,600)
All other claims	120,683,500	119,760,000
	1,453,389,700	1,570,410,800
Net assets (deficiency)	($1,033,318,900)	($1,176,200,300)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$1,040,200	$2,740,100
Salvage and other recoveries	7,928,600	6,091,100
	8,968,800	8,831,200
Expenses		
Loss and claims expenses	169,373,200	156,482,500
Administrative expenses	2,321,900	1,743,900
	171,695,100	158,226,400
Net income (loss)	($162,726,300)	($149,395,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$165,879,200
Recoveries, net of expenses	355,096,100
Distributions	(472,100,600)
Monetary assets available for distribution	$48,874,700

Combined Benefits Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$2,703,200	$2,646,300
Recoverable from reinsurers	12,064,400	11,039,600
	14,767,600	13,685,900
Liabilities		
Secured claims and accrued expenses	415,900	205,400
Claims against policies, before distributions	25,581,700	33,606,500
Less distributions to policyholders	(17,215,900)	(18,208,600)
All other claims	3,590,600	3,673,400
	12,372,300	19,276,700
Net assets (deficiency)	$2,395,300	($5,590,800)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$46,100	$158,900
Salvage and other recoveries	16,200	154,700
	62,300	313,600
Expenses		
Loss and claims expenses	(3,932,400)	8,377,400
Administrative expenses	89,300	132,400
	(3,843,100)	8,509,800
Net income (loss)	$3,905,400	($8,196,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$11,115,400
Recoveries, net of expenses	9,739,500
Distributions	(18,208,600)
Monetary assets available for distribution	$2,646,300

Superior National Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$21,798,700	$19,863,400
Recoverable from reinsurers	184,940,400	175,917,700
Other assets	232,300	21,100
	206,971,400	195,802,200
Liabilities		
Secured claims and accrued expenses	7,123,700	4,991,300
Claims against policies, before distributions	730,358,600	828,057,400
Less distributions to policyholders	(164,251,500)	(187,172,400)
All other claims	28,747,300	28,751,800
	601,978,100	674,628,100
Net assets (deficiency)	($395,006,700)	($478,825,900)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$717,400	$1,083,000
Salvage and other recoveries	58,376,300	3,300,500
	59,093,700	4,383,500
Expenses		
Loss and claims expenses	34,237,600	89,656,200
Administrative expenses	1,030,200	647,800
	35,267,800	90,304,000
Net income (loss)	$23,825,900	($85,920,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$68,622,300
Recoveries, net of expenses	138,413,500
Distributions	(187,172,400)
Monetary assets available for distribution	$19,863,400

Superior Pacific Casualty Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$6,632,900	$8,216,000
Recoverable from reinsurers	22,367,700	25,011,900
Other assets	400	-
	29,001,000	33,227,900
Liabilities		
Secured claims and accrued expenses	1,648,900	76,900
Claims against policies, before distributions	169,027,700	198,889,300
Less distributions to policyholders	(30,600,400)	(30,586,800)
All other claims	68,312,700	60,548,700
	208,388,900	228,928,100
Net assets (deficiency)	($179,387,900)	($195,700,200)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$135,500	$482,500
Salvage and other recoveries	306,800	1,730,300
	442,300	2,212,800
Expenses		
Loss and claims expenses	6,509,200	19,712,100
Administrative expenses	417,600	389,000
	6,926,800	20,101,100
Net income (loss)	($6,484,500)	($17,888,300)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$58,666,300
Recoveries, net of expenses	(19,863,500)
Distributions	(30,586,800)
Monetary assets available for distribution	$8,216,000

Commercial Compensation Casualty Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$3,307,200	$3,347,400
Recoverable from reinsurers	45,528,500	47,747,000
Other assets	28,800	1,800
	48,864,500	51,096,200
Liabilities		
Secured claims and accrued expenses	1,696,600	1,582,100
Claims against policies, before distributions	125,811,900	137,233,200
Less distributions to policyholders	(47,982,800)	(49,443,000)
All other claims	11,578,500	11,070,500
	91,104,200	100,442,800
Net assets (deficiency)	($42,239,700)	($49,346,600)

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$65,000	$170,600
Salvage and other recoveries	1,718,800	(762,400)
	1,783,800	(591,800)
Expenses		
Loss and claims expenses	30,200	6,477,800
Administrative expenses	110,300	142,500
	140,500	6,620,300
Net income (loss)	$1,643,300	($7,212,100)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$6,420,700
Recoveries, net of expenses	46,369,700
Distributions	(49,443,000)
Monetary assets available for distribution	$3,347,400

Western Employers Insurance Company
Conservation Order: April 2, 1991
Liquidation Order: April 19, 1991

<u>2009 Report</u>

Western Employers Insurance Company ("WEIC") began as a New York-domiciled insurer known as Letherby Insurance Company and was re-domesticated to California in the late 1970's. The company was licensed in 38 states and wrote primarily Workers' Compensation and Multi-Peril insurance. After four years of attempted self-liquidation, WEIC determined it could no longer continue to liquidate without the assistance of the California Department of Insurance. An order placing WEIC into liquidation was entered on April 19, 1991.

WEIC's primary objective will be to resolve all asset recoveries, determine final estate liability and position the Estate for closure by 2011. A significant requirement to meet that objective is to determine how to quantify the remaining long-tail exposure. The Estate will consider seeking a court order to establish a tail-cutting motion at which time claims must be liquidated (finalized) to be considered. The Estate is subject to continued long-term loss development, potential tax exposure, and provided sufficient assets are available at final distribution, the Estate will also consider making an interest payment to approved claimants.

In furtherance of the above mentioned primary objective, on December 17, 2009, the Commissioner filed an application with the court for an order requiring all claimants in the WEIC estate to update their claim. All claimants were served a copy of that application.

On January 12, 2010 the Commissioner again filed and served to all claimants an amended application requiring all claimants to update their claim in the WEIC estate.

On February 2, 2010, the court set a deadline of August 31, 2010 by which all holders of claims, other than workers' compensation claims, which include contingent or undetermined claims, must submit detailed claim updates which set forth the facts regarding the further developments of those claims. The Commissioner has sent a notice to all claimants of record advising of the August 31, 2010 deadline.

Western Employers Ins Co

ASSETS AND LIABILITIES

	12/31/2008	12/31/2009
Assets		
Cash and investments	$108,868,100	$124,221,000
Recoverable from reinsurers	18,644,400	18,911,200
Other assets	10,332,000	-
	137,844,500	143,132,200
Liabilities		
Secured claims and accrued expenses	3,200	21,700
Claims against policies, before distributions	176,653,400	183,305,300
Less distributions to policyholders	(63,029,700)	(62,913,900)
All other claims	6,329,100	6,329,100
	119,956,000	126,742,200
Net assets (deficiency)	$17,888,500	$16,390,000

INCOME AND EXPENSES

	2008	2009
Income		
Investment income	$2,203,200	$6,863,000
Salvage and other recoveries	90,500	586,700
	2,293,700	7,449,700
Expenses		
Loss and claims expenses	(27,354,800)	8,103,000
Administrative expenses	577,100	825,100
	(26,777,700)	8,928,100
Net income (loss)	$29,071,400	($1,478,400)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$74,867,900
Recoveries, net of expenses	112,267,000
Distributions	(62,913,900)
Monetary assets available for distribution	$124,221,000

Section 3 – Cross Reference to California Insurance Code (CIC)

CIC Section 1060 - The Commissioner shall transmit all of the following to the Governor, the Legislature, and to the committees of the Senate and Assembly having jurisdiction over insurance in the annual report submitted pursuant to Section 12922: