Conservation & Liquidation Office

2008 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 insolvent 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.

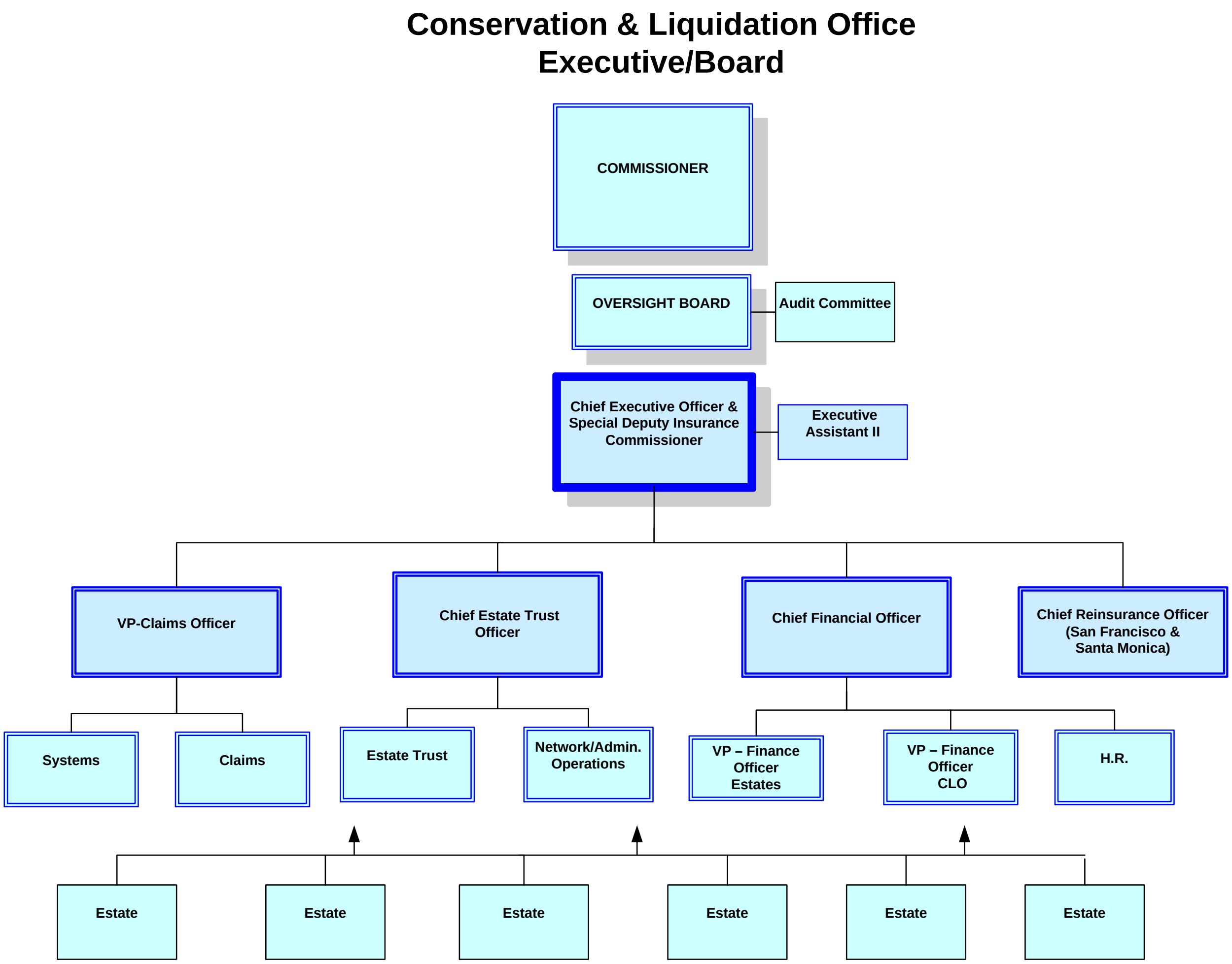
If, at the time the conservation order is issued or anytime thereafter, it appears to the Commissioner that it would be futile to proceed with the conservation of the financially troubled estate, the Commissioner will apply for an order to liquidate the estate's business. In response to the Commissioner's 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, 2008, the CLO was responsible for the administration of 26 insolvent 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 Jim Richardson, Chief of Staff, Adam Cole, Deputy Commissioner and General Counsel, and Ramon Calderon, Deputy Commissioner-Financial Surveillance. The Committee meets on a quarterly basis throughout the year.

During 2008, the Oversight Board and Audit Committee held four regularly scheduled meetings and two special purpose meetings. There was 100% attendance by the Committee members at all meetings.

2008 Organizational Goals and Results

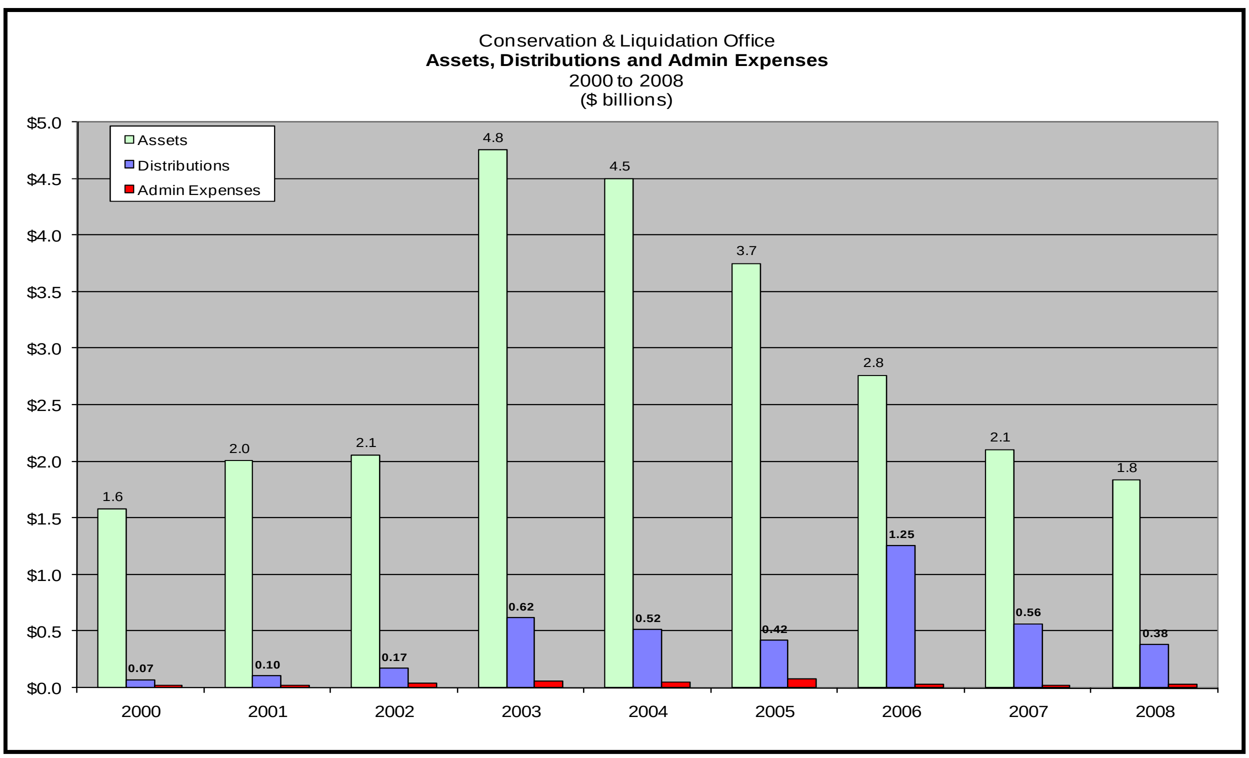
On an annual basis, the CLO prepares a business plan for the organization supporting the CLO Mission Statement. The Business Plan is then submitted to the Board for approval. The CLO's Mission Statement is as follows:

> *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 2008 Business Plan was a continuation of the objectives of the 2007 Business Plan, focusing on estate closings and distributions and enhancing the operating efficiencies of the CLO.

Entering 2008, 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 2008 was to close three estates and distribute $164 million.

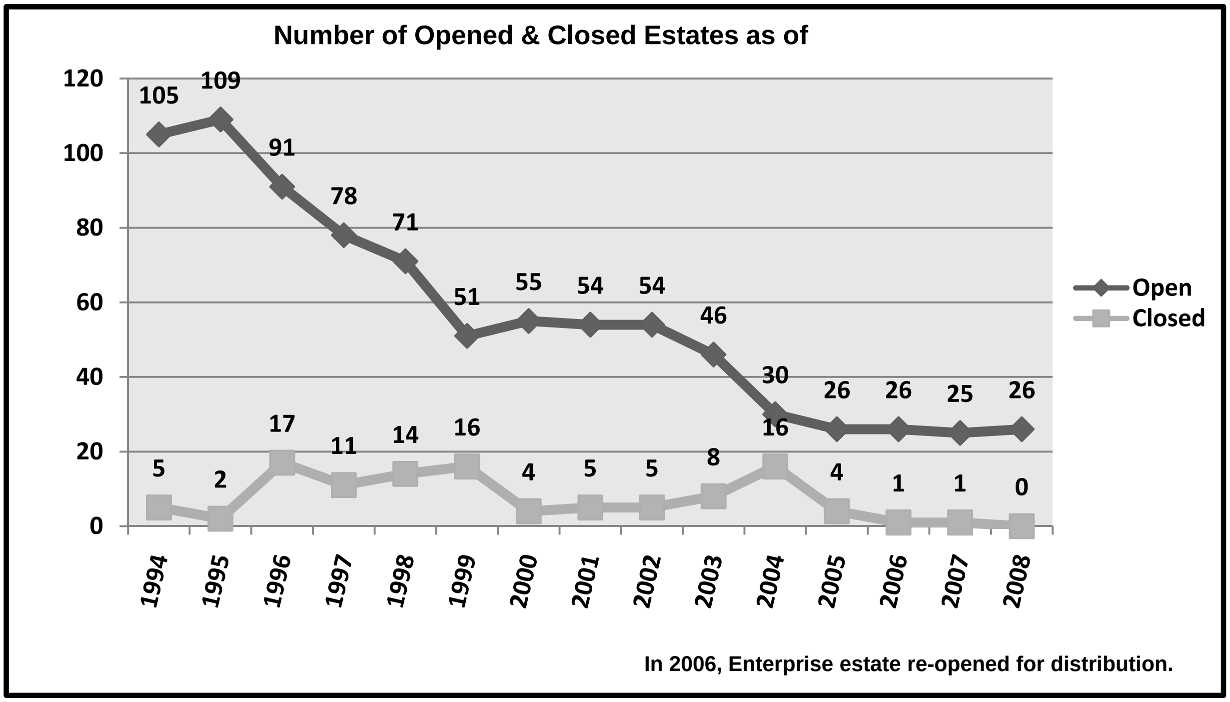
In addition to the Business Plan for the organization, there are individual work plans and cross-departmental Estate teams for each estate. The individual Estate teams provide a written update and make an oral report to the Board on a quarterly basis.



The 2008 goals and results are as follows:

1. Closings

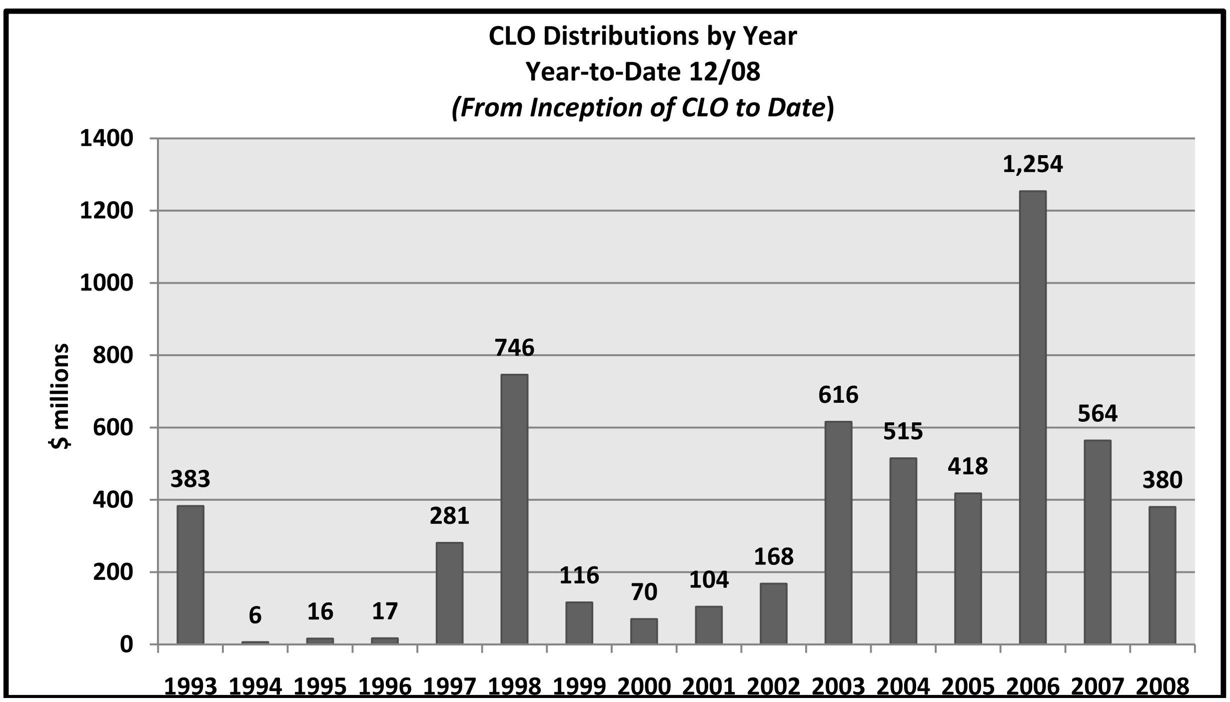
GOAL	RESULTS
Close 3 Estates: 1) Citation 2) Paula 3) Western Growers	No estates were closed during 2008. Three estates had final distributions in 2008 and will formally close in 2009. One estate targeted for closure, Citation, has a contingent tax issue with its parent company. In 2008, Citation distributed all available funds, except for a tax reserve.



Since 1994, there have been approximately 117 estates closed. These estates consisted of 55 ancillaries, 22 title companies, and 40 "regular" insurers. Ancillary and title companies typically require limited work on behalf of the liquidator.

2. Distributions

	2008 Actual ($Millions)	2008 Goal ($Millions)
Early Access and Interim and Final Distributions		
Early Access Distributions		
Fremont	$ 50	$ 50
Superior National	88	25
	138	75
Final Distributions		
Paula	53	42
National Auto	0	20
Western Growers	16	15
Western International	10	0
	79	77
Interim Distributions		
Mission, Cash	123	0
Mission, Covanta Stock Distribution	32	0
Citation	8	12
	163	12
Total Distributions:	**$ 380**	**$ 164**



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. ex Baa which was 19 months at December 31, 2008.

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, 2008, the CLO had $575 million of estate marketable investment securities under management.

For the year ending December 31, 2008, the average portfolio balance was approximately $705 million. The portfolio earned an interest yield of 4.3% and a net yield after security gains/losses and mark-to-market adjustments of 2.2%.

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. For example, if employees charged 200 hours to a specific estate and in total charged 2,000 hours to 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.

[1] See "Combined Financial Results" section of this report on the budget, and actual expenditures for 2008 for direct and indirect 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.

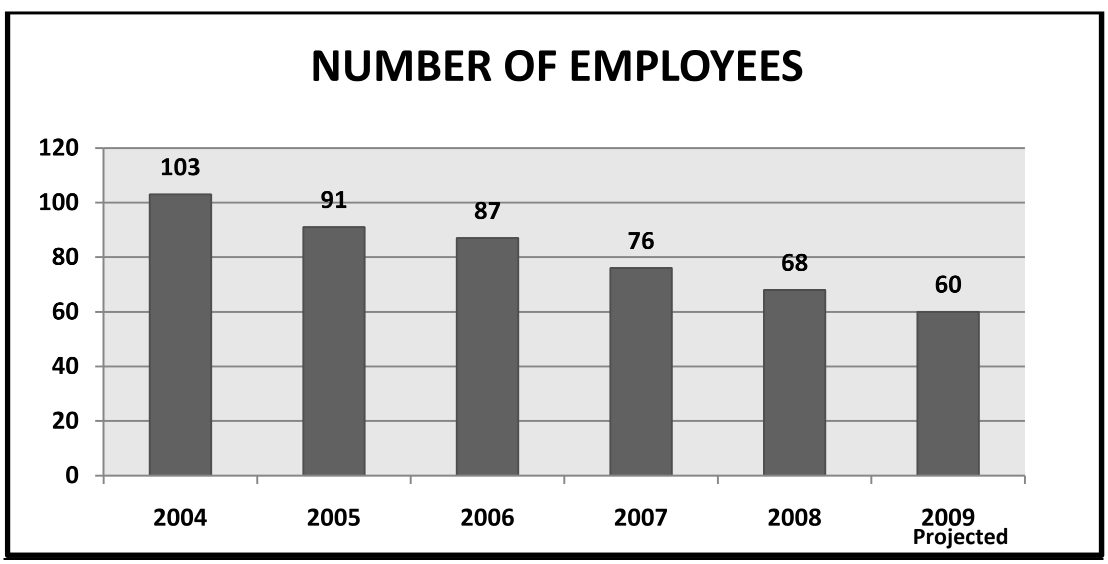
A summary of the compensation procedures follows:

- 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.

CLO employment and total salaries for employees are summarized below:

	31-Dec-07	**31-Dec-08**
Number of CLO employees	76	68
Total compensation for CLO employees	$ 7,816,889	$ 7,320,399

As estates have closed resulting in reduced workloads and, as a result of internal operating efficiencies, the number of full-time employees decreased by 10.4% in 2008 compared to 2007, and by 34.0% 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, 2008 and December 31, 2007

	December 31, 2008 Actual	December 31, 2008 Budget	December 31, 2007
Cash received			
Litigation and reinsurance recoveries	$ 96,658,600	N/A[2]	$ 101,840,600
Investment income, net of expenses	26,137,800	N/A[3]	74,198,400
	$ 122,796,400		**$ 176,039,000**
Distributions	**$ 380,151,900**	**$ 164,000,000**	**$ 563,579,300**
Administrative Expenses			
Estate direct expenses			
Legal expenses	$ 8,934,200	$ 9,007,400	$ 1,993,300[4]
Consultants and contractors	2,580,600	2,979,100	3,694,200
Office expenses	2,441,000	2,248,900	2,482,700
Compensation and benefits	863,300	730,400	937,600
	14,819,100	14,965,800	9,107,800
CLO overhead expenses			
Compensation and benefits	7,320,300	7,290,800	7,816,900
Office expenses	2,695,400	2,895,600	2,802,200
Consultants and contractors	711,800	909,400	931,700
Legal expenses	14,100	55,300	26,800
	10,741,600	11,151,100	11,577,600
	$ 25,560,700	**$ 26,116,900**	**$ 20,685,400**

[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.

[4]Estate direct legal expenses in 2007 were $6.5 million before a $4.5 million reimbursement from an arbitration settlement.

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 post- 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[5] 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.

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 been set for retrial in late 2009. 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 $683 million to claimants. Assets presently in the estate are held to fund ongoing litigation.

[5]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/ WEIC of California:

These estates wrote coverage on very long-tail exposures (asbestos, tobacco, etc.) and have 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.

Western International:

The estate wrote business primarily in the southern California market and covered various commercial business interests. The company became embroiled in a five year legal dispute between the Board of Directors and a senior executive over employment terms. Ultimately the subject executive prevailed in court and was awarded a default judgment of more than $25 million against WIIC. Settlement of the award was accomplished in 1992. At the time WIIC was struggling financially. The settlement payment technically rendered the company insolvent based upon the results of a regulatory exam. Shortly after payment was rendered "LA Riots" occurred.

Losses attributable to various acts of violence and vandalism were disputed by reinsurers who argued the proper interpretation of the treaty coverage. The main issue was the determination of a common understanding of what constitutes the number of "occurrences" when dealing with a general, widespread riot. The contracts did not define a clear occurrence in circumstances of catastrophic loss; “What is a riot or how many instances make a riot?” This legal definition drives the calculation of amounts due from the reinsurer.

Considerable efforts were made to provide reinsurers with documentation of amounts billed on non-riot related losses. Reinsurers refused to pay these losses until they were satisfied with the available premium data. After considerable time the Liquidator determined the optimum approach to resolution with reinsurers in settling with WIIC was to consolidate all issues and data into “commutation packages”.

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	1,106	1,106	0	1
Frontier Pacific	11/30/2001	33,631	33,628	3	2
Fremont	7/2/2003	45,047	42,658	2,389	49
Fremont Life			not liquidated		
Golden Eagle[6]	2/1/1998		n/a (see below)		
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	6/21/2002	10,720	10,720	0	0
Superior (5 estates)	9/26/2000	13,885	13,883	2	61
Sable	7/17/2001	378	378	0	4
Western Employers (2 estates)	4/19/1991	9,228	8,919	309	48
Western Growers	1/17/2003	2	2	0	0
Western International	9/9/1992	19,936	19,936	0	0
		318,927	**316,223**	**2,704**	**198**

[6]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.

NOTE: All open estates, except Citation and Paula, 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.

Life Insurance Estate

Executive Life Insurance Company: 327,000 policies/contracts

2009 Business Goals

The 2009 Business Plan is a continuation of the objectives of the 2008 Business Plan, focusing on estate closings and distributions and enhancing the operating efficiencies.

Entering 2009, there are 26 open estates in liquidation under management by the CLO. The open estates consist of 23 Property & Casualty Estates, one Workers' Compensation and two Life/Health Estates. Our goal in 2009 is to close five estates and distribute $100 million.

Starting 2009, we have 68 full-time employees and 9 temporary employees. We will continue a planned reduction in staff during 2009. The planned reduction will be approximately 9%, which is the primary result from the closure of the Fremont Los Angeles reinsurance operation. 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 26 estates.

The 2009 Goals are as follows:

1. Close 5 Estates[7]

   - Paula
   - Western Growers
   - Western Employers Insurance Co. of America
   - Enterprise
   - Western International

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

2. Early Access and Final Distributions

Early Access Distributions:

Fremont	$ 50,000,000

Final Distributions:

Enterprise	4,000,000
National Auto	23,000,000
Western Employers Ins. Co. of America	10,000,000
Sable	13,000,000
	50,000,000
	$100,000,000

Section 2 – Estate Specific Information

Conservation or Liquidation Estates Opened During the Year 2008

Fremont Life Ins. Co. was conserved on June 5, 2008.

Conservation or Liquidation Estates Closed During the Year 2008

No Estates were closed in 2008.

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

	Year Ended 12/31/2008				Cumulative to 12/31/2008			
	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	-	-	$8,073
California Compensation Ins Co	$26,814	-	-	$26,814	441,218	-	-	441,218
Citation General Ins Co	7,478	-	-	7,478	17,133	-	-	17,133
Combined Benefits Ins Co	-	-	-	-	17,216	-	-	17,216
Commercial Compensation Cas Co	437	-	-	437	47,983	-	-	47,983
Enterprise Ins Co	-	-	-	-	120,573	$40	$411	121,024
Executive Life Ins Co	-	-	-	-	737,276	-	-	737,276
Fremont Indemnity Ins Co	49,863	-	-	49,863	810,153	-	-	810,153
Fremont Life Ins Co	-	-	-	-	-	-	-	-
Frontier Pacific Ins Co	-	-	-	-	-	-	-	-
Golden Eagle Ins Co	-	-	-	-	-	-	-	-
Great States Ins Corp	101	-	-	101	10,151	-	-	10,151
HIH America Ins Co	-	-	-	-	279,669	-	-	279,669
Mission Ins Co	10,133	-	$44,674	54,807	846,630	111	207,251	1,053,992
Mission National Ins Co	99,860	-	838	100,698	499,607	-	27,077	526,684
Municipal Mutual Ins Co	-	-	-	-	-	-	-	-
National Automobile & Cas Ins Co	-	-	-	-	391	-	-	391
Pacific National Ins Co	-	-	-	-	23,416	-	-	23,416
Paula Ins Co	53,147	-	-	53,147	139,008	-	-	139,008
Sable Ins Co	-	-	-	-	6,661	-	-	6,661
Superior National Ins Co	55,912	-	-	55,912	164,251	-	-	164,251
Superior Pacific Casualty Co	4,969	-	-	4,969	30,600	-	-	30,600
Western Employers Ins Co	-	-	-	-	63,030	-	-	63,030
Western Employers Ins Co of America	-	-	-	-	1,639	-	-	1,639
Western Growers Ins Co	15,514	-	-	15,514	18,101	-	-	18,101
Western International Ins Co	10,412	-	-	10,412	27,412	-	-	27,412
	$334,640	$0	$45,512	$380,152	$4,310,191	$151	$234,739	$4,545,081

Estates in Conservation and/or Liquidation as of December 31, 2008

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	02/01/98
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
Paula Insurance Company	04/26/02	06/21/02
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
Western Employers Ins. Co. of America	04/25/91	05/07/91
Western Growers Ins. Co.	*	01/17/03
Western International Insurance Company	08/10/92	09/09/92

*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 this Section 2 provides a summary of the 2008 operating goals and results, the current status of the estate in the conservation or liquidation process, and summarized financial information[8]. 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.

[8]Each of the 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).

Estate Specific Information

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

2008 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. Additionally the estate had significant accounts receivable assets (premium and subrogation) to be recovered.

During 2008, the Estate's goal was to bill active reinsurance treaties and to position the remaining reinsurance agreements for commutation. The Reinsurance Department is 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 2010 and close the estate thereafter subject to any escheatment requirements.

Alistar Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$10,938,100	$11,810,300
Recoverable from reinsurers	5,632,700	4,727,800
Other assets	13,700	6,000
	16,584,500	16,544,100
Liabilities		
Secured claims and accrued expenses	289,800	285,700
Claims against policies, before distributions	36,390,900	43,810,100
Less distributions to policyholders	(8,073,200)	(8,073,200)
All other claims	108,400	111,000
	28,715,900	36,133,600
Net assets (deficiency)	($12,131,400)	($19,589,500)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$540,500	$211,500
Litigation recoveries	1,000,000	-
Salvage and other recoveries	339,600	215,100
	1,880,100	426,600
Expenses		
Loss and claims expenses	1,111,100	7,653,500
Administrative expenses	447,600	229,800
	1,558,700	7,883,300
Net income (loss)	$321,400	($7,456,700)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$13,361,500
Recoveries, net of expenses	6,522,000
Distributions	(8,073,200)
Monetary assets available for distribution	$11,810,300

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

2008 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 2008, the Estate's goal was to resolve all asset collections, determine final estate liabilities (subject to ultimate tax exposure) and release an interim distribution to policyholder claimants for approximately $7.5 million. These goals were accomplished.

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 2009.

Citation General Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$18,434,600	$11,448,200
Recoverable from reinsurers	249,500	86,600
Other assets	1,200	900
	18,685,300	11,535,700
Liabilities		
Secured claims and accrued expenses	5,364,500	5,869,000
Claims against policies, before distributions	18,136,500	17,956,600
Less distributions to policyholders	(9,655,000)	(17,132,700)
All other claims	1,810,400	1,812,600
	15,656,400	8,505,500
Net assets (deficiency)	$3,028,900	$3,030,200

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$1,058,200	$254,900
Litigation recoveries	-	-
Salvage and other recoveries	3,000	600
	1,061,200	255,500
Expenses		
Loss and claims expenses	382,400	390,000
Administrative expenses	247,000	269,000
	629,400	659,000
Net income (loss)	$431,800	($403,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$8,744,200
Recoveries, net of expenses	19,836,700
Distributions	(17,132,700)
Monetary assets available for distribution	$11,448,200

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

2008 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 decided 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 has been set for November 3, 2009.

Depending on the outcome, 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. During this same period, 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. This matter is ongoing in spite of several court-ordered mediation and meet and confer attempts by the parties to amicably settle the issue at hand.

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 amicably settle this dispute but hope to do so as soon as possible. Previously allotted policyholder funds are being held until resolution of this issue.

Based on BSA's recommendation, the Commissioner is awaiting agreement from Aurora National Assurance Company, Inc. and 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.

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 is conducting research in this area with a view to settling this matter. A reserve has been set up to deal with this issue.

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 results of the appeal in the Commissioner's civil lawsuit against Artemis et al is finalized. This trust 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 will then be remitted to the SCO in August 2009, to accommodate the SCO regulations. The Holdback Trust is to be closed by September 2009. 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 will then be remitted to the SCO in December 2009, to accommodate the SCO regulations. At that time, the financial statements will be provided from inception to close and an application will be made to the court to terminate the trust and discharge the Commissioner as trustee.

Executive Life Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments, unrestricted	42,815,000	43,125,200
Restricted investments, NOLHGA	9,224,200	9,379,900
Restricted investments, Opt-In Only	694,900	490,100
Restricted investments, Aurora-Penn	5,787,400	5,878,200
Other assets	1,653,400	1,653,400
	60,174,900	60,526,800
Liabilities		
Secured claims and accrued expenses	7,887,600	8,167,000
Claims against policies, before distributions	2,998,670,700	2,998,670,700
Less distributions to policyholders	(737,275,900)	(737,275,900)
All other claims	428,800	428,800
	2,269,711,200	2,269,990,600
Net assets (deficiency)	($2,209,536,300)	($2,209,463,800)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$10,695,800	$3,758,400
Litigation recoveries	-	-
Salvage and other recoveries	-	-
	10,695,800	3,758,400
Expenses		
Loss and claims expenses	-	-
Administrative expenses [9]	(1,207,000)	2,073,200
	(1,207,000)	2,073,200
Net income (loss)	$11,902,800	$1,685,200

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION [10]

Beginning monetary assets at takeover	$112,111,400
Recoveries, net of expenses	684,037,900
Distributions	(737,275,900)
Monetary assets available for distribution	58,873,400

[9] *Executive Life administrative expenses in 2007 were $3.3 million before $4.5 million reimbursed by NOLHGA for attorney fees and other litigation expenses.*

[10] *This schedule represents changes in assets available for distribution from August 1, 1997, when Executive Life's estate accounting was transferred to the CLO, to December 31, 2008.*

ELIC Holdback Trust

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$1,717,400	$1,776,700
Other assets	-	-
	1,717,400	1,776,700
Liabilities		
Secured claims	71,800	-
Unclaimed funds payable	1,048,200	1,147,900
Reserve for administrative expenses	597,400	628,800
	1,717,400	1,776,700
Net assets (deficiency)	$0	$0

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$120,300	$33,600
Litigation recoveries	-	-
Salvage and other recoveries	-	-
	120,300	33,600
Expenses		
Loss and claims expenses	-	-
Administrative expenses	67,300	100
	67,300	100
Net income (loss)	$53,000	$33,500

ELIC Opt Out Trust

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$21,190,300	$21,349,500
Other assets	-	-
	21,190,300	21,349,500
Liabilities		
Secured claims	16,531,300	17,814,900
Unclaimed funds payable	2,788,300	2,477,700
Reserve for administrative expenses	1,870,700	1,056,900
	21,190,300	21,349,500
Net assets (deficiency)	$0	$0

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$411,500	$429,700
Litigation recoveries	-	-
Salvage and other recoveries	-	-
	411,500	429,700
Expenses		
Loss and claims expenses	-	-
Administrative expenses	319,500	74,000
	319,500	74,000
Net income (loss)	$92,000	$355,700

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

2008 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 is expected to rest in March of 2009. The estate seeks damages in excess of $150M. The Estate’s parent company, FGC, filed for protection under Chapter 11 of the Bankruptcy Code in June of 2008. As such the Estate must seek financial recovery for the use of its net operating losses through the proof of claim process in the bankruptcy court. Counsel for the estate has filed four proofs of claims. The Commissioner continues to assess any opportunity to settle both cases.

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 San Francisco staff will complete the balance of the run off of the reinsurance program.

The Estate completed its fifth early access distribution in 2008, and continues to refine the magnitude of the policyholder claims that are not covered by the guaranty associations.

The Estate anticipates releasing its sixth early access distribution during 2009, 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

	12/31/2007	12/31/2008
Assets		
Cash and investments	$110,549,200	$134,918,300
Recoverable from reinsurers	263,744,200	168,264,100
Other assets	65,863,900	59,939,600
	440,157,300	363,122,000
Liabilities		
Secured claims and accrued expenses	21,902,700	24,464,000
Claims against policies, before distributions	2,340,291,600	2,397,240,800
Less distributions to policyholders	(760,289,700)	(810,153,300)
All other claims	341,076,100	393,751,700
	1,942,980,700	2,005,303,200
Net assets (deficiency)	($1,502,823,400)	($1,642,181,200)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$14,815,000	$5,532,900
Litigation recoveries	420,000	265,900
Salvage and other recoveries	6,618,600	15,412,000
	21,853,600	21,210,800
Expenses		
Loss and claims expenses	151,068,600	148,144,700
Administrative expenses	9,862,400	12,458,400
	160,931,000	160,603,100
Net income (loss)	($139,077,400)	($139,392,300)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$434,855,900
Recoveries, net of expenses	510,215,700
Distributions	(810,153,300)
Monetary assets available for distribution	$134,918,300

Fremont Life Insurance Company
Conservation Order: June 05, 2008

2008 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. It is expected to require most of 2009 to complete the formal assumption process and to resolve the remaining of contractual disputes associated with litigation existing at the time of conservation.

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
Assets	
Cash and investments	$1,458,200
Recoverable from reinsurers	-
Other assets	209,300
	1,667,500
Liabilities	
Secured claims and accrued expenses	153,000
Claims against policies, before distributions	-
Less distributions to policyholders	-
All other claims	258,500
	411,500
Net assets (deficiency)	$1,256,000

INCOME AND EXPENSES

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

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$1,443,100
Recoveries, net of expenses	15,100
Distributions	-
Monetary assets available for distribution	$1,458,200

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

2008 Report

Frontier Pacific Insurance Company ("FPIC"), a California domiciled property and casualty company was licensed in California, Nevada, New York and South Carolina. Frontier Pacific 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, certain reinsurance recoverables due FPIC from FIC were never paid to FPIC. A subsequent financial examination by the California regulators disallowed the FIC reinsurance receivable resulting in a negative surplus on FPIC's books. The "Claims Bar Date", or the final date to submit a claim against the Estate, was August 30, 2002.

During conservation, the Commissioner determined that FPIC's financial condition was such that rehabilitation was futile and the Order of Liquidation was sought and obtained shortly thereafter. 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 to the appropriate parties, 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 affect release to the appropriate parties, including escheatment. The Liquidator has reached an agreement with the New York Liquidator on a procedure for the disposition of collateral securing joint and several obligations of FPIC and FIC.

The Liquidator is also continuing to collaborate with the New York Liquidation Bureau to reconcile and collect on many 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.

Unable to negotiate a reasonable resolution to the NICO dispute, the Estate has filed a Declaratory Relief action to determine the Estate's obligations associated with its reinsurance-relationship to NICO. The Court ruled in favor of NICO, staying the prosecution of FPIC's claims. The Estate has subsequently filed a Motion for Reconsideration of the court's ruling. The Court has scheduled a hearing date in March 2009 to consider the matter once again.

Resolution of the NICO and FIC reinsurance relationships is the final requirement to position the Estate for a final distribution and closure.

Frontier Pacific Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$19,937,300	$19,220,200
Recoverable from reinsurers	47,002,800	46,737,600
Other assets	1,480,500	1,450,100
	68,420,600	67,407,900
Liabilities		
Secured claims and accrued expenses	612,600	791,800
Claims against policies, before distributions	53,530,800	53,653,800
Less distributions to policyholders	-	-
All other claims	22,784,400	22,675,000
	76,927,800	77,120,600
Net assets (deficiency)	($8,507,200)	($9,712,700)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$1,048,800	$384,100
Litigation recoveries	-	-
Salvage and other recoveries	(81,800)	26,700
	967,000	410,800
Expenses		
Loss and claims expenses	(3,337,600)	700,600
Administrative expenses	968,100	915,900
	(2,369,500)	1,616,500
Net income (loss)	$3,336,500	($1,205,700)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$18,531,900
Recoveries, net of expenses	688,300
Distributions	-
Monetary assets available for distribution	$19,220,200

Golden Eagle Insurance Company

Conservation Order:	**January 31, 1997**
Rehab./Liquidation Plan Approved:	**August 4, 1997**
Liquidation Order:	**February 13, 1998**

<u>2008 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.

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 a claim against the Estate, was February 27, 1998.

As part of the Rehabilitation Plan, the Trust purchased sufficient reinsurance coverage to cover the remaining workers' compensation exposure 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 Golden Eagle Trust was officially closed on March 28, 2007.

As all 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

	12/31/2007	12/31/2008
Assets		
Cash and investments	$2,049,600	$2,031,600
Recoverable from reinsurers	-	-
Other assets	-	-
	2,049,600	2,031,600
Liabilities		
Secured claims and accrued expenses	-	1,100
Claims against policies, before distributions	-	-
Less distributions to policyholders	-	-
All other claims	-	-
	-	1,100
Net assets (deficiency)	$2,049,600	$2,030,500

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$86,200	$54,800
Litigation recoveries	-	-
Salvage and other recoveries	-	11,900
	86,200	66,700
Expenses		
Loss and claims expenses	-	-
Administrative expenses	70,400	85,700
	70,400	85,700
Net income (loss)	$15,800	($19,000)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover [11]	$2,029,000
Recoveries, net of expenses	2,600
Distributions	-
Monetary assets available for distribution	$2,031,600

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

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

<u>2008 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 all balances. Additionally, the estate had a significant reinsurance program that was placed under a multi-year 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.

The estate has resolved all agreements allowing for the release of all statutory deposits to the states they are held in benefit for. The final agreement with the State of Missouri has been settled and funds are to be released in 2009.

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 Superior Access 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 the estate. HIH Hawaii and the Estate have sought and received approvals in their respective liquidation courts. Settlement proceeds will be transferred to the estate after the appeal period expires in March 2009.

The Estate's immediate goal is to resolve the final inter-company balance with the Australia parent company, collect the final reinsurance recoveries in 2009, and seek to release a final distribution by 2010.

HIH America Comp & Liability Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$46,481,600	$48,413,400
Recoverable from reinsurers	1,626,300	1,994,700
Other assets	22,669,800	20,764,500
	70,777,700	71,172,600
Liabilities		
Secured claims and accrued expenses	44,100	246,300
Claims against policies, before distributions	646,677,900	674,214,700
Less distributions to policyholders	(279,669,300)	(279,669,300)
All other claims	2,118,800	1,399,700
	369,171,500	396,191,400
Net assets (deficiency)	($298,393,800)	($325,018,800)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$2,621,100	$907,800
Litigation recoveries	-	1,485,100
Salvage and other recoveries	2,702,000	1,990,800
	5,323,100	4,383,700
Expenses		
Loss and claims expenses	13,880,100	31,097,300
Administrative expenses	1,086,500	582,400
	14,966,600	31,679,700
Net income (loss)	($9,643,500)	($27,296,000)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$147,637,800
Recoveries, net of expenses	180,444,900
Distributions	(279,669,300)
Monetary assets available for distribution	$48,413,400

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

2008 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 balance of treaties remaining, approximately $50,000 in amounts due, will be written off or sold if the reinsurers refuse to settle. The estate cannot justify the administrative expense to keep the estate open for the amounts outstanding.

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

Great States Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$6,677,400	$6,772,200
Recoverable from reinsurers	14,374,100	10,590,600
Other assets	-	-
	21,051,500	17,362,800
Liabilities		
Secured claims and accrued expenses	29,000	24,400
Claims against policies, before distributions	76,808,000	79,800,600
Less distributions to policyholders	(10,050,200)	(10,151,300)
All other claims	11,917,600	11,917,600
	78,704,400	81,591,300
Net assets (deficiency)	($57,652,900)	($64,228,500)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$363,000	$116,600
Litigation recoveries	-	-
Salvage and other recoveries	4,137,800	67,900
	4,500,800	184,500
Expenses		
Loss and claims expenses	8,340,900	6,523,200
Administrative expenses	231,800	237,200
	8,572,700	6,760,400
Net income (loss)	($4,071,900)	($6,575,900)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$7,889,700
Recoveries, net of expenses	9,033,800
Distributions	(10,151,300)
Monetary assets available for distribution	$6,772,200

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**

<u>2008 Report</u>

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, only the general creditors to 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.

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 early 2009 to release another payment to its general creditors. Both the Mission and Mission National estates will also consider what cash is available for distribution in 2009.

Mission Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$140,205,500	$88,859,500
Recoverable from reinsurers	10,809,500	10,603,100
Other assets	71,627,600	78,083,400
	222,642,600	177,546,000
Liabilities		
Secured claims and accrued expenses	79,057,000	79,337,800
Claims against policies, before distributions	839,159,700	846,832,600
Less distributions to policyholders	(836,192,900)	(846,629,600)
All other claims	301,581,400	256,851,600
	383,605,200	336,392,400
Net assets (deficiency)	($160,962,600)	($158,846,400)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$14,993,400	$3,581,200
Litigation recoveries	-	-
Debt forgiveness income	-	915,746,800
Salvage and other recoveries	11,300	1,078,300
	15,004,700	920,406,300
Expenses		
Loss and claims expenses	(36,864,400)	916,963,900
Administrative expenses	653,800	1,326,200
	(36,210,600)	918,290,100
Net income (loss)	$51,215,300	$2,116,200

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$133,667,000
Recoveries, net of expenses	1,009,184,400
Distributions	(1,053,991,900)
Monetary assets available for distribution	$88,859,500

Mission National Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$116,733,000	$18,120,400
Recoverable from reinsurers	1,079,200	1,079,200
Other assets	173,900	147,300
	117,986,100	19,346,900
Liabilities		
Secured claims and accrued expenses	16,528,600	17,743,000
Claims against policies, before distributions	399,174,100	596,098,500
Less distributions to policyholders	(399,747,100)	(499,606,700)
All other claims	-	16,838,100
	15,955,600	131,072,900
Net assets (deficiency)	$102,030,500	($111,726,000)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$7,154,700	$1,192,900
Litigation recoveries	-	-
Debt forgiveness income	-	75,397,400
Salvage and other recoveries	137,600	49,300
	7,292,300	76,639,600
Expenses		
Loss and claims expenses	-	289,998,400
Administrative expenses	154,200	397,700
	154,200	290,396,100
Net income (loss)	$7,138,100	($213,756,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$18,289,000
Recoveries, net of expenses	526,515,500
Distributions	(526,684,100)
Monetary assets available for distribution	$18,120,400

Enterprise Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$1,982,900	$6,319,500
Recoverable from reinsurers	-	-
Other assets	-	-
	1,982,900	6,319,500
Liabilities		
Secured claims and accrued expenses	1,094,800	1,094,600
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	35,632,800
	36,727,600	36,727,400
Net assets (deficiency)	($34,744,700)	($30,407,900)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$155,500	$69,800
Litigation recoveries	-	-
Salvage and other recoveries	-	1,669,800
	155,500	1,739,600
Expenses		
Loss and claims expenses	-	(2,613,400)
Administrative expenses	32,100	16,100
	32,100	(2,597,300)
Net income (loss)	$123,400	$4,336,900

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$3,281,000
Recoveries, net of expenses	124,062,500
Distributions	(121,024,000)
Monetary assets available for distribution	$6,319,500

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

2008 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 approximately $1.2 million in 2008 and will continue to pursue commutations in 2009.

Municipal Mutual Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$312,700	$1,245,100
Recoverable from reinsurers	1,672,800	1,137,400
Other assets	-	-
	1,985,500	2,382,500
Liabilities		
Secured claims and accrued expenses	26,200	24,500
Claims against policies, before distributions	7,757,600	8,742,700
Less distributions to policyholders	-	-
All other claims	-	-
	7,783,800	8,767,200
Net assets (deficiency)	($5,798,300)	($6,384,700)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$15,800	$7,800
Litigation recoveries	-	-
Salvage and other recoveries	67,500	4,400
	83,300	12,200
Expenses		
Loss and claims expenses	6,073,800	510,300
Administrative expenses	151,600	88,100
	6,225,400	598,400
Net income (loss)	($6,142,100)	($586,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$920,200
Recoveries, net of expenses	324,900
Distributions	-
Monetary assets available for distribution	$1,245,100

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

2008 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 2008, the Estate's goal was to complete the adjudication of all general creditors POCs. All POCs have been adjudicated, with the exception of one POC, which is currently in dispute. The Estate is monitoring the resolution of an "off-set" dispute emanating from the sale of certain assets from the Estate. Upon resolution, the Estate will finalize its total liability and seek to complete a final distribution in 2009.

National Automobile Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$24,549,000	$24,731,100
Recoverable from reinsurers	-	-
Other assets	-	-
	24,549,000	24,731,100
Liabilities		
Secured claims and accrued expenses	311,200	289,800
Claims against policies, before distributions	22,155,100	22,143,400
Less distributions to policyholders	(391,500)	(391,500)
All other claims	4,954,100	5,055,800
	27,028,900	27,097,500
Net assets (deficiency)	($2,479,900)	($2,366,400)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$1,380,800	$465,700
Litigation recoveries	-	-
Salvage and other recoveries	505,800	(123,800)
	1,886,600	341,900
Expenses		
Loss and claims expenses	(879,100)	(39,300)
Administrative expenses	369,900	291,600
	(509,200)	252,300
Net income (loss)	$2,395,800	$89,600

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$13,264,000
Recoveries, net of expenses	11,858,600
Distributions	(391,500)
Monetary assets available for distribution	$24,731,100

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

2008 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 2008, the Estate's goal was to finalize an actuarial study to commence commutation proposals in 2009.

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

Pacific National Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$13,289,600	$14,866,900
Recoverable from reinsurers	7,195,400	9,285,500
Other assets	6,400	-
	20,491,400	24,152,400
Liabilities		
Secured claims and accrued expenses	109,000	5,530,000
Claims against policies, before distributions	104,292,600	108,126,500
Less distributions to policyholders	(23,416,400)	(23,416,400)
All other claims	(884,900)	239,300
	80,100,300	90,479,400
Net assets (deficiency)	($59,608,900)	($66,327,000)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$717,800	$259,400
Litigation recoveries	-	-
Salvage and other recoveries	196,700	758,400
	914,500	1,017,800
Expenses		
Loss and claims expenses	2,007,000	6,349,000
Administrative expenses	337,000	255,600
	2,344,000	6,604,600
Net income (loss)	($1,429,500)	($5,586,800)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$36,519,100
Recoveries, net of expenses	1,764,200
Distributions	(23,416,400)
Monetary assets available for distribution	$14,866,900

Paula Insurance Company
Conservation Order: **April 26, 2002**
Liquidation Order: **June 21, 2002**

2008 Report

Paula Insurance Company, a wholly-owned subsidiary of Paula Financial, wrote Workers' Compensation coverage for labor-intensive agri-businesses located in eight states. All Paula policies were cancelled as of July 21, 2002. The "Claims Bar Date", or the final date to submit a claim against the Estate, was March 31, 2003.

The Estate has a significant reinsurance program that was in run-off over a number of years. Additionally, the Estate pursued significant premium collections after conducting final audits on certain programs (policies). The Estate concluded asset collections (including final reinsurance commutations) and settled all IGA claims in 2007.

During 2008, the Estate's goal was to complete a final distribution to approved claimants. In September 2008, the estate completed its final distribution to six IGAs and 400 claimants for approximately $53 million.

The Estate's ultimate goal is to complete its escheatment requirements and file a Declaration of Compliance to close the estate in 2009.

Paula Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$53,709,300	$623,800
Recoverable from reinsurers	-	-
Other assets	361,200	288,700
	54,070,500	912,500
Liabilities		
Secured claims and accrued expenses	61,700	788,100
Claims against policies, before distributions	274,641,200	274,626,700
Less distributions to policyholders	(85,861,200)	(139,008,200)
All other claims	292,600	290,000
	189,134,300	136,696,600
Net assets (deficiency)	($135,063,800)	($135,784,100)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$3,190,200	$783,700
Litigation recoveries	-	-
Salvage and other recoveries	1,625,500	241,400
	4,815,700	1,025,100
Expenses		
Loss and claims expenses	(21,516,700)	839,400
Administrative expenses	960,500	865,000
	(20,556,200)	1,704,400
Net income (loss)	$25,371,900	($679,300)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$83,802,000
Recoveries, net of expenses	55,830,000
Distributions	(139,008,200)
Monetary assets available for distribution	$623,800

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

2008 Report

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 consists 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, determine ultimate liability, and position the Estate for a final distribution in 2009. 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. The cost to keep the estate open beyond the immediate estate plan may not be justified.

Sable Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$15,014,100	$15,116,200
Recoverable from reinsurers	308,200	291,100
Other assets	4,700	4,700
	15,327,000	15,412,000
Liabilities		
Secured claims and accrued expenses	361,200	1,558,200
Claims against policies, before distributions	52,193,200	52,306,000
Less distributions to policyholders	(6,661,400)	(6,661,400)
All other claims	18,600	185,800
	45,911,600	47,388,600
Net assets (deficiency)	($30,584,600)	($31,976,600)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$841,900	$284,100
Litigation recoveries	-	-
Salvage and other recoveries	748,600	158,200
	1,590,500	442,300
Expenses		
Loss and claims expenses	(507,600)	1,587,600
Administrative expenses	281,500	246,900
	(226,100)	1,834,500
Net income (loss)	$1,816,600	($1,392,200)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$17,472,300
Recoveries, net of expenses	4,305,300
Distributions	(6,661,400)
Monetary assets available for distribution	$15,116,200

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>2008 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. The Appeal was heard on November 19, 2008 and both parties are awaiting the Court's opinion. U.S. Life has posted a surety bond in the amount of $600 million to preclude the Commissioner from executing on judgment.

The Commissioner has filed an application for an order authorizing the Commissioner to draw on U.S. Life's Special Schedule P Deposit, and to 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. The Court ruled in favor of the Commissioner's application and $53 million was released to CIGA in February 2009.

A sixth Early Access Distribution to IGAs totaling approximately $32 million was made in June 2008. Since liquidation of the SNICIL companies, the total Early Access Distributions to IGAs amount to approximately $472 million.

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 2009. The Estate's ultimate goal is to resolve its reinsurance program, complete final asset recoveries and position the Estate for closure.

California Compensation Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$65,926,100	$41,687,300
Recoverable from reinsurers	389,073,500	378,240,400
Other assets	354,500	143,100
	455,354,100	420,070,800
Liabilities		
Secured claims and accrued expenses	3,176,400	28,390,000
Claims against policies, before distributions	1,616,506,400	1,745,533,800
Less distributions to policyholders	(414,404,000)	(441,217,600)
All other claims	117,747,200	120,683,500
	1,323,026,000	1,453,389,700
Net assets (deficiency)	($867,671,900)	($1,033,318,900)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$4,287,700	$1,040,200
Litigation recoveries	-	-
Salvage and other recoveries	25,689,000	7,928,600
	29,976,700	8,968,800
Expenses		
Loss and claims expenses	(29,081,800)	169,373,200
Administrative expenses	2,126,400	2,321,900
	(26,955,400)	171,695,100
Net income (loss)	$56,932,100	($162,726,300)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$165,879,200
Recoveries, net of expenses	317,025,700
Distributions	(441,217,600)
Monetary assets available for distribution	$41,687,300

Combined Benefits Ins Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$3,087,400	$2,703,200
Recoverable from reinsurers	11,541,300	12,064,400
Other assets	3,100	-
	14,631,800	14,767,600
Liabilities		
Secured claims and accrued expenses	24,100	415,900
Claims against policies, before distributions [12]	29,406,800	25,581,700
Less distributions to policyholders	(17,215,900)	(17,215,900)
All other claims	4,092,800	3,590,600
	16,307,800	12,372,300
Net assets (deficiency)	($1,676,000)	$2,395,300

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$223,400	$46,100
Litigation recoveries	-	-
Salvage and other recoveries	1,338,100	16,200
	1,561,500	62,300
Expenses		
Loss and claims expenses	(1,177,300)	(3,932,400)
Administrative expenses	90,800	89,300
	(1,086,500)	(3,843,100)
Net income (loss)	$2,648,000	$3,905,400

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$11,115,400
Recoveries, net of expenses	8,803,700
Distributions	(17,215,900)
Monetary assets available for distribution	$2,703,200

[12] The Estate continues to be subject to reserve adjustment as future losses are considered by the affected guaranty associations.

Superior National Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$21,203,300	$21,798,700
Recoverable from reinsurers	175,270,100	184,940,400
Other assets	382,000	232,300
	196,855,400	206,971,400
Liabilities		
Secured claims and accrued expenses	1,883,000	7,123,700
Claims against policies, before distributions	758,579,300	730,358,600
Less distributions to policyholders	(108,339,400)	(164,251,500)
All other claims	28,629,500	28,747,300
	680,752,400	601,978,100
Net assets (deficiency)	($483,897,000)	($395,006,700)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$1,030,400	$717,400
Litigation recoveries	600	-
Salvage and other recoveries	19,294,900	58,376,300
	20,325,900	59,093,700
Expenses		
Loss and claims expenses	38,192,400	34,237,600
Administrative expenses	1,084,700	1,030,200
	39,277,100	35,267,800
Net income (loss)	($18,951,200)	$23,825,900

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$68,622,300
Recoveries, net of expenses	117,427,900
Distributions	(164,251,500)
Monetary assets available for distribution	$21,798,700

Superior Pacific Casualty Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$9,762,700	$6,632,900
Recoverable from reinsurers	21,587,300	22,367,700
Other assets	43,100	400
	31,393,100	29,001,000
Liabilities		
Secured claims and accrued expenses	11,000	1,648,900
Claims against policies, before distributions	161,772,800	169,027,700
Less distributions to policyholders	(25,630,600)	(30,600,400)
All other claims	68,312,700	68,312,700
	204,465,900	208,388,900
Net assets (deficiency)	($173,072,800)	($179,387,900)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$691,300	$135,500
Litigation recoveries	-	-
Salvage and other recoveries	2,339,600	306,800
	3,030,900	442,300
Expenses		
Loss and claims expenses	40,415,500	6,509,200
Administrative expenses	385,800	417,600
	40,801,300	6,926,800
Net income (loss)	($37,770,400)	($6,484,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$58,666,300
Recoveries, net of expenses	(21,433,000)
Distributions	(30,600,400)
Monetary assets available for distribution	$6,632,900

Commercial Compensation Casualty Co

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$3,800,500	$3,307,200
Recoverable from reinsurers	43,421,200	45,528,500
Other assets	111,500	28,800
	47,333,200	48,864,500
Liabilities		
Secured claims and accrued expenses	594,000	1,696,600
Claims against policies, before distributions	126,322,500	125,811,900
Less distributions to policyholders	(47,545,800)	(47,982,800)
All other claims	10,731,900	11,578,500
	90,102,600	91,104,200
Net assets (deficiency)	($42,769,400)	($42,239,700)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$215,800	$65,000
Litigation recoveries	-	-
Salvage and other recoveries	2,487,300	1,718,800
	2,703,100	1,783,800
Expenses		
Loss and claims expenses	(2,327,000)	30,200
Administrative expenses	132,900	110,300
	(2,194,100)	140,500
Net income (loss)	$4,897,200	$1,643,300

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$6,420,700
Recoveries, net of expenses	44,869,300
Distributions	(47,982,800)
Monetary assets available for distribution	$3,307,200

Western Employers Insurance Company
Conservation Order: April 2, 1991
Liquidation Order: April 19, 1991
Western Employers Insurance Company of America
Conservation Order: April 25, 1991
Liquidation Order: May 7, 1991

2008 Report

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.

Western Employers Insurance Company of American ("WEICA") is a wholly-owned subsidiary of WEIC. WEICA was licensed in eight states, with its principal place of business located in Fullerton, California. The company wrote only Workers' Compensation insurance. WEICA was included in its parent company's self-liquidation process. The "Claims Bar Date", or the final date to submit a claim against the Estates, was November 15, 1991.

Plans to determine WEICA's total estate liability, make a final distribution, and close the estate, have been implemented. The final distribution and closure are planned in 2009. This will not impair the ability to finalize tasks necessary to close the WEIC parent estate.

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 should sufficient assets be available at final distribution, the Estate will also consider making an interest payment to approved claimants.

Western Employers Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$105,056,500	$108,868,100
Recoverable from reinsurers	19,141,000	18,644,400
Other assets	10,332,100	10,332,000
	134,529,600	137,844,500
Liabilities		
Secured claims and accrued expenses	10,500	3,200
Claims against policies, before distributions	205,252,100	176,653,400
Less distributions to policyholders	(63,029,700)	(63,029,700)
All other claims	3,479,500	6,329,100
	145,712,400	119,956,000
Net assets (deficiency)	($11,182,800)	$17,888,500

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$5,623,200	$2,203,200
Litigation recoveries	-	-
Salvage and other recoveries	90,100	90,500
	5,713,300	2,293,700
Expenses		
Loss and claims expenses	86,796,500	(27,354,800)
Administrative expenses	712,400	577,100
	87,508,900	(26,777,700)
Net income (loss)	($81,795,600)	$29,071,400

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$74,867,900
Recoveries, net of expenses	97,029,900
Distributions	(63,029,700)
Monetary assets available for distribution	$108,868,100

Western Employers Ins Co of America

ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$11,404,300	$11,135,800
Recoverable from reinsurers	-	-
Other assets	200	-
	11,404,500	11,135,800
Liabilities		
Secured claims and accrued expenses	100	1,100
Claims against policies, before distributions	1,891,500	1,891,300
Less distributions to policyholders	(1,639,300)	(1,639,300)
All other claims	10,332,000	10,332,000
	10,584,300	10,585,100
Net assets (deficiency)	$820,200	$550,700

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$634,000	$95,700
Litigation recoveries	-	-
Salvage and other recoveries	-	-
	634,000	95,700
Expenses		
Loss and claims expenses	900	-
Administrative expenses	38,100	365,200
	39,000	365,200
Net income (loss)	$595,000	($269,500)

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$7,293,500
Recoveries, net of expenses	5,481,600
Distributions	(1,639,300)
Monetary assets available for distribution	$11,135,800

Western Growers Insurance Company
Liquidation Order: January 17, 2003

<u>2008 Report</u>

On January 17, 2003, the Orange County Superior Court entered an Order of Liquidation for Western Growers Insurance Company. WGIC wrote Workers' Compensation business in California and Arizona.

In 2004, the Commissioner obtained a court order to forego the comprehensive Proof of Claim process saving the Estate significant cost yet still protecting all recovery rights of the two participating guaranty associations. In 2008, the Liquidator continued to bill, collect, and seek commutation of remaining reinsurance coverage.

The Estate successfully met its goal of completing the commutation of the remaining reinsurance and completion of all of the Liquidator's administrative requirements.

The Estate completed a final distribution in December 2008 and a Declaration of Compliance was filed in February 2009. The estate has now been closed.

Western Growers Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$13,859,900	$182,100
Recoverable from reinsurers	3,671,900	-
Other assets	33,200	-
	17,565,000	182,100
Liabilities		
Secured claims and accrued expenses	205,400	1,700
Claims against policies, before distributions	51,257,000	43,588,700
Less distributions to policyholders	(2,587,500)	(18,101,100)
All other claims	-	-
	48,874,900	25,489,300
Net assets (deficiency)	($31,309,900)	($25,307,200)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$490,600	$3,000
Litigation recoveries	-	-
Salvage and other recoveries	227,900	90,600
	718,500	93,600
Expenses		
Loss and claims expenses	(8,167,200)	(6,068,400)
Administrative expenses	378,100	244,300
	(7,789,100)	(5,824,100)
Net income (loss)	$8,507,600	$5,917,700

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$4,924,900
Recoveries, net of expenses	13,358,300
Distributions	(18,101,100)
Monetary assets available for distribution	$182,100

Western International Insurance Company
Conservation Order: August 10, 1992
Liquidation Order: September 9, 1992

2008 Report

Western International Insurance Company ("WIIC") was domiciled and licensed in California. The company wrote primarily Property and Casualty insurance. WIIC was conserved on August 10, 1992 and placed into liquidation on September 9, 1992. CIGA is the only guaranty association affected. All CIGA claims and CLO in-house claims have already been adjusted. There are only sufficient funds to pay up to policyholder claims class. General Creditor claimants have been advised that there are no available funds to pay claims past the policyholder claims class.

During 2008, the Estate's goal was to resolve all final asset collections, determine final estate liability, and complete a final distribution to claimants. These goals were accomplished.

The Estate's current goal is to distribute newly found assets and file a Declaration of Compliance to close the Estate, both to be implemented in 2009.

Western International Ins Co
ASSETS AND LIABILITIES

	12/31/2007	12/31/2008
Assets		
Cash and investments	$10,445,200	$783,000
Recoverable from reinsurers	236,500	-
Other assets	-	-
	10,681,700	783,000
Liabilities		
Secured claims and accrued expenses	3,100	1,200
Claims against policies, before distributions	59,578,000	59,574,900
Less distributions to policyholders	(17,000,000)	(27,411,700)
All other claims	-	-
	42,581,100	32,164,400
Net assets (deficiency)	($31,899,400)	($31,381,400)

INCOME AND EXPENSES

	2007	2008
Income		
Investment income	$558,500	$307,100
Litigation recoveries	-	-
Salvage and other recoveries	-	-
	558,500	307,100
Expenses		
Loss and claims expenses	(329,400)	(3,100)
Administrative expenses	261,200	(207,800)
	(68,200)	(210,900)
Net income (loss)	$626,700	$518,000

CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

Beginning monetary assets at takeover	$16,336,000
Recoveries, net of expenses	11,858,700
Distributions	(27,411,700)
Monetary assets available for distribution	$783,000

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: