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ORIGINAL FILED
FEB 05 2007
**LOS ANGELES
SUPERIOR COURT**

7 Attorneys for Applicant
8 Insurance Commissioner of the State of California

9 SUPERIOR COURT OF THE STATE OF CALIFORNIA
10 FOR THE COUNTY OF LOS ANGELES
11

13 **INSURANCE COMMISSIONER OF THE STATE
14 OF CALIFORNIA,**

15 Applicant,

16 v.

17 **PAULA INSURANCE COMPANY,**

18 Respondent.

CASE NO.: BS 075685

NOTICE OF ERRATA

Date: n/a
Time:
Dept: 85
Judge: Dzintra I. Janavs

20 TO ALL INTERESTED PARTIES AND TO THEIR ATTORNEYS OF RECORD:

21 PLEASE TAKE NOTICE that the Status Report served on all interested parties on
22 January 29, 2007, through surprise and inadvertence did not include the Financial Statements of
23 Paula Insurance Company in Liquidation as of September 30, 2006 (the "Financial Statement")
24 as an attachment thereto. As such, the Financial Statement is hereto attached.

1 Dated: January 29, 2007

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8 Attorneys for Applicant
9 Insurance Commissioner
of the State of California

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ATTACHMENT

INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA
CONSERVATION & LIQUIDATION OFFICE

FINANCIAL STATEMENTS OF
PAULA Insurance Company in Liquidation

As of September 30, 2006

(Prepared on a Liquidation Basis of Accounting)

INDEX

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Date of Conservation: 4/26/2002
Date of Liquidation: 6/21/2002
Date of Report: 9/30/2006

INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA

PAULA Insurance Company in Liquidation

STATEMENT OF ASSETS AND LIABILITIES OF ESTATE IN LIQUIDATION

As of September 30, 2006

(Liquidation Basis of Accounting)

	At Conservation 04/26/02	From date of Conservation to 09/30/06	Change
ASSETS			
Participation in pooled investments, at market:			
Unrestricted	\$ -	\$ 60,833,783	\$ 60,833,783
Accrued investment income	476,016	306,151	(169,865)
Statutory deposits held by states	-	109,773	109,773
Other Invested assets	83,325,986	-	(83,325,986)
Recoverable from reinsurers	11,168,965	3,953,176	(7,215,789)
Salvage & subrogation recoveries	-	69,030	69,030
Premium balances	-	470,077	470,077
Receivable from Affiliates	32,857	251,830	218,973
Accounts Receivables	13,910,555	-	(13,910,555)
Other Receivables	912	23,213	22,301
Property and equipment (net of accumulated dep	1,934,092	-	(1,934,092)
Prepaid Expenses	255,428	60,485	(194,943)
Other Deposits	732,384	446,192	(286,192)
Other assets	3,190,225	-	(3,190,225)
Total assets	115,027,422	66,523,710	(48,503,711)
LIABILITIES			
Secured claims	62,966	1,395,619	1,332,653
Administrative expenses (Class 1)	-	555,327	555,327
Policyholders and Guaranty Associations (Class	128,064,200	293,879,751	165,815,551
Advances to Guaranty associations	-	(71,805,378)	(71,805,378)
Premium Tax Claims having preference (Class 3)	335,820	450,051	114,231
All other claims (Class 7)	4,817,401	5,415,595	598,194
Total liabilities	133,280,387	229,890,965	96,610,578
Net excess (deficiency) in assets	\$ (18,252,965)	\$ (163,367,255)	\$ (145,114,290)

INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA
 CONSERVATION & LIQUIDATION OFFICE

PAULA Insurance Company in Liquidation

STATEMENT OF REVENUES AND EXPENSES
 As of September 30, 2006

(Liquidation Basis of Accounting)

	<u>Year to-date</u> <u>09/30/06</u>	<u>From date of</u> <u>Conservation to</u> <u>09/30/06</u>
Revenues:		
Premium income, net of adjustments to unearned premium reserves	\$ (81,073)	\$ 2,793,965
Salvage and subrogation recoveries	530,673	3,963,366
Net investment income	4,210,405	9,402,784
Fees collected	15	19,602
Other income	-	804,090
Total revenues	<u>4,660,020</u>	<u>16,983,808</u>
Expenses:		
Claims expenses:		
Incurred losses and loss adjustment expenses	27,035,518	147,582,253
Other claims expenses	-	-
Total claims expense	<u>27,035,518</u>	<u>147,582,253</u>
Operating expenses:		
General and administrative expenses	139,695	4,755,503
Bad Debt Expense	1,507,003	3,065,415
Professional fees	82,837	1,360,210
Legal fees	3,641	257,280
Property management	-	54
Depreciation & amortization expense	4,339	123,971
Allocated expenses	361,914	3,233,257
Revaluation of assets net of gains/(losses) on sales	-	1,687,068
Other expenses	-	33,087
Total operating expenses	<u>2,099,429</u>	<u>14,515,844</u>
Total expenses	<u>29,134,947</u>	<u>162,098,098</u>
Excess (deficiency) of revenue over expenses before federal income taxes	<u>(24,474,927)</u>	<u>(145,114,290)</u>
Excess (deficiency) of revenue over expenses	<u>\$ (24,474,927)</u>	<u>\$ (145,114,290)</u>

DECLARATION OF SERVICE BY U.S. MAIL

Case Name: **INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA v.
PAULA INSURANCE COMPANY**

No.: **BS 075685**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar which member's direction this service is made. I am 18 years of age and older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service that same day in the ordinary course of business.


On February 5, 2007, I served the attached **NOTICE OF ERRATA** by placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid, in the internal mail collection system at the Office of the Attorney General at 300 South Spring Street, Los Angeles, California 90013-1230, addressed as follows:

SEE ATTACHED SERVICE LIST

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on February 5, 2007, at Los Angeles, California.

John R. Huetteman

Declarant



Signature

SERVICE LIST

BS 075685

INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA v. PAULA INSURANCE COMPANY

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11 FOR THE COUNTY OF LOS ANGELES

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13 **INSURANCE COMMISSIONER OF THE STATE**
14 **OF CALIFORNIA,**

CASE NO.: BS 075685

15 Applicant,

STATUS REPORT

16 v.

Date: n/a

Time:

17 **PAULA INSURANCE COMPANY,**

Dept: 85

Judge: Dzintra I. Janavs

18 Respondent.

19
20 Steve Poizner, Insurance Commissioner of the State of California ("Commissioner"), in
21 his capacity as Liquidator of PAULA Insurance Company ("PAULA"), submits this third Status
22 Report to inform the Court of estate matters.

23 **INTRODUCTION**

24 PAULA, an insurance company domiciled in California, was licensed to write disability,
25 liability, and workers' compensation classes of insurance. By orders of this Court, PAULA was
26 placed into conservation on April 26, 2002, and into liquidation on June 21, 2002.

27 ///

28 ///

1 At the time of PAULA's liquidation, there were approximately 8,700 workers' compensation policies
2 in force. Upon this Court's Liquidation Order and a finding of PAULA's insolvency, the insurance
3 guarantee association ("IGA") in each state in which PAULA issued policies became responsible for
4 administering (reviewing, approving, paying) claims of said state's residents.

5 The Commissioner submitted his first Status Report regarding PAULA to this Court on
6 May 22, 2003, and the second Status Report on July 14, 2004.

7 CLAIMS

8 There are approximately 900 Proofs of Claim ("POC") (Class 2/IGA claims) which remain
9 to be adjusted. The Commissioner has started the process of adjusting the POCs that were timely
10 returned.

11 The Commissioner has determined that there will be insufficient assets to allow for a
12 distribution to general creditors. The total amount claimed by general creditors is approximately
13 \$30.7 million. Accordingly, in July 2006, the Commissioner mailed "no asset" letters to the general
14 creditor claimants.

15 The Commissioner does not anticipate any significant Class 2 liability other than the IGA
16 claims because PAULA wrote primarily workers' compensation insurance, and the IGAs generally
17 cover all workers' compensation claims.

18 COLLECTIONS

19 The Commissioner continues to engage the services of a collection agency and collection
20 counsel to recover unpaid premiums owed to PAULA.

21 For the period starting June 2002 (liquidation date), to September 30, 2006, the total
22 amount collected through the Commissioner's collection efforts was approximately \$2.4 million.

23 ACCOUNTING

24 PAULA's Statement of Assets and Liabilities as of September 30, 2006, is appended
25 hereto. A summary of the financial condition of PAULA follows:

26 As of September 30, 2006, PAULA had approximately \$66.5 million in assets and had
27 approximately \$229.9 million in liabilities (\$163.4 million net deficiency).

28 ///

1 The largest claim (\$293.9 million) against PAULA's assets is from Class 2 claimants
2 (pursuant to Insurance Code Section 1033(a) (2)); however, that is slightly offset by the \$71.8
3 million the Commissioner released to various IGAs.

4 REINSURANCE

5 PAULA had three main reinsurance contracts at the time of liquidation. The
6 Commissioner successfully negotiated and completed commutation agreements with two of the three
7 reinsurers.

8 Everest Reinsurance Company ("Everest Re") is the sole remaining reinsurer that has not
9 commuted its reinsurance contract with PAULA. From the date of liquidation to September 30,
10 2006, the Commissioner billed and collected \$9.4 million from Everest Re while he concurrently
11 pursued a commutation agreement with the reinsurer.

12 The Commissioner submitted multiple commutation proposals to Everest Re, but has yet
13 to receive a reasonable counterproposal. The Commissioner's latest proposal is for a \$4 million
14 settlement to conclude all known and unknown liabilities. Since it appears that commutation is not
15 likely in the immediate future, the Commissioner will resume billing Everest Re to bring its account
16 current while also continuing to pursue a commutation agreement.

17 ADMINISTRATION

18 A. Distribution of Assets

19 The Insurance Commissioner is contemplating an interim distribution of assets to all
20 approved Class 2 claimants, but has not yet determined the appropriate distribution percentage for
21 each claimant. Once the distribution percentage is calculated, the Commissioner will file the
22 appropriate motion seeking this Court's approval for distribution.

23 B. The Alaska Insurance Guarantee Association Loan Has Been Repaid in Full


24 In September 2003, the Administrator for the Alaska Insurance Guarantee Association
25 (hereinafter the "AIGA") informed the Commissioner that the AIGA had a liquidity crisis with
26 regard to making workers' compensation payments. Due to the critical nature of workers'
27 compensation payments, the Commissioner agreed to loan the AIGA \$500,000 until such time that
28 the AIGA could alleviate its crisis by a legislative solution in 2004.

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The Alaska IGA made all scheduled interest payments in accordance with the terms of the loan agreement. In December 2005, the principal balance of the loan was repaid in full.

Dated: January 29, 2007

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W. DEAN FREEMAN
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MARLA K. MARKMAN
Deputy Attorney General



By: MARLA K. MARKMAN
Deputy Attorney General

Attorneys for Applicant
Insurance Commissioner
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John R. Huetteman

Declarant

John Huetteman

Signature

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