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EXEMPT from filing fees per Govt. Code § 6103

SUPERIOR COURT OF THE STATE OF CALIFORNIA

CITY AND COUNTY OF SAN FRANCISCO

DAVE JONES, INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA,

Applicant,

v.

MAJESTIC INSURANCE COMPANY, and DOES 1-50, inclusive,

Respondents.

Case No. CPF-11-511261

SUPPLEMENTAL DECLARATION OF DAVID E. WILSON IN SUPPORT OF INSURANCE COMMISSIONER DAVE JONES' MOTION FOR ORDER APPROVING REHABILITATION PLAN FOR MAJESTIC INSURANCE COMPANY

Date: June 2, 2011
Time: 9:30 a.m.
Dept: 301
Judge: Hon. Peter J. Busch

I, DAVID E. WILSON, hereby declare and state as follows:

1. I am the Chief Executive Officer and Special Deputy Insurance Commissioner of the Conservation & Liquidation Office ("CLO") of the California Department of Insurance ("CDI") and have held this position since 2005, when I was appointed as CEO of the CLO by the California Insurance Commissioner and confirmed by the California State Senate. Prior to the Conservation of Majestic Insurance Company ("Majestic"), I was appointed Special Insurance Examiner to assist the Insurance Commissioner in his ongoing examination of Majestic. I am also the Court-appointed Deputy Conservator of Majestic. In the foregoing capacities I am knowledgeable about the financial affairs of Majestic. I make this declaration in support of the Insurance Commissioner Dave Jones' Reply Memorandum In Support Of Motion For Order Approving Rehabilitation Plan For Majestic Insurance Company ("Rehabilitation Plan"). The following facts are known by me to be true and correct and of my own personal knowledge, except to those which I have expressed as being based upon my information and belief, and if called upon to testify thereto I would and could competently do so.

2. Attached as Exhibit A hereto is a true and correct copy of the Quarterly Statement as of March 31, 2011 of the Condition and Affairs of the Majestic Insurance Company ("Quarterly Statement"). According to the Quarterly Statement, over the first quarter of 2011, Majestic's surplus as regards policyholders dropped from $57.9 million as of December 31, 2010 to $43.3 million as of March 31, 2011, without accounting for the $46.4 million reserve deficiency calculated by CDI. Ex. A, p. 3. When Majestic's reserve deficiency is included in the calculation, Majestic's surplus at the end of March 2011 was negative $3 million. Ex. A, p. 6 (note 1). The decline in Majestic's financial condition is attributable to losses incurred by insurance operations of approximately $1.5 million per month, the write-off of certain of Majestic's equipment leases, and certain other factors.

3. The decline in Majestic's surplus over the first quarter of 2011 highlights the need for the expeditious approval and implementation of the Commissioner's Rehabilitation Plan. Unlike a life insurance company, which may be able to operate its business under conservation for many years without materially harming its policyholders, Majestic, as a workers'

compensation insurance provider, risks serious damage to its enterprise value with every passing week. Life insurance companies base their business on lifelong policies, however, Majestic's policies typically have only a one-year duration. As a result, even Majestic's long-term policyholders can readily abandon Majestic if they perceive a risk to its financial stability. The viability of the Rehabilitation Plan relies on the ability of the Commissioner, as Conservator, to maintain the enterprise value of Majestic. With any substantial delay in the implementation of the Rehabilitation Agreement with AmTrust North America, Inc. the Commissioner's ability to implement the Rehabilitation Plan will evaporate, resulting in a forced liquidation of Majestic.

4. The failure of the agreement ("Merger Agreement") under which Majestic would have been purchased by Bayside Capital Partners LLC ("Bayside") was not the result of delay on the Commissioner's part in providing any necessary approval. Rather, the Merger Agreement fell through when Bayside was unable or willing to remedy several deficiencies in the Merger Agreement and chose to revoke its offer to purchase Majestic. On September 21, 2010, while the CDI's examination of Majestic was ongoing, Majestic entered into an agreement with Bayside under which Bayside would merge with Majestic Capital, Ltd. The Merger Agreement contained serious deficiencies. In a letter dated December 6, 2010, the CDI notified Bayside – through one of its members, Lancer Financial Group Companies – of several of these deficiencies, including the lack of viability of Bayside's plan of operation given the financial condition of Majestic and the California workers' compensation insurance market generally, the apparent inability of the proposed management for Majestic to develop or implement a reasonable business plan, Bayside's lack of experience in the workers' compensation insurance market, and the lack of capital commitment by Bayside, which the CDI considered necessary to correct Majestic's surplus and mitigate the impact of impending litigation and settlement costs. A true and correct copy of the December 6, 2010 letter is attached as Exhibit B to this declaration. The CDI letter also notified Bayside that these issues would have to be resolved in order to avoid potential disapproval of the Merger Agreement under multiple parts of California Insurance Code section 1215.2(d).

5. Bayside was either unable or unwilling to remedy these deficiencies. In a March 18, 2011 letter to Majestic Capital, Ltd., Bayside revoked its offer to purchase Majestic citing "the material deterioration in the Company's capital surplus . . . the landlord's final rejection of [Majestic's] Parents terms for modification of [a lease agreement] . . . and . . . the adverse conditions articulated by the California Department of Insurance." A true and correct copy of Bayside's March 18, 2011 letter is attached as Exhibit C to this declaration.

Executed this 25th day of May, 2011, at San Francisco, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

David E Wilson

David E. Wilson

OHS WEST:261153431.1

Exhibit A

PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION

4 2 2 6 9 2 0 1 1 2 0 1 0 0 1 0 1

QUARTERLY STATEMENT

AS OF MARCH 31, 2011

OF THE CONDITION AND AFFAIRS OF THE

MAJESTIC INS CO

NAIC Group Code 0000 (Current Period), 0000 (Prior Period) NAIC Company Code 42269 Employer's ID Number 95-3653107

Organized under the Laws of California, State of Domicile or Port of Entry California

Country of Domicile US

Incorporated/Organized March 17, 1980 Commenced Business March 22, 1980

Statutory Home Office 101 California St., 22nd Floor, San Francisco, California 94111 (Street and Number, City or Town, State and Zip Code)

Main Administrative Office 101 California St., 22nd Floor, San Francisco, California 94111 (Street and Number, City or Town, State and Zip Code) (415)362-7000 (Area Code) (Telephone Number)

Mail Address 101 California St., 22nd Floor, San Francisco, California 94111 (Street and Number or P.O. Box, City or Town, State and Zip Code)

Primary Location of Books and Records 101 California St., 22nd Floor, San Francisco, California 94111 (Street and Number, City or Town, State and Zip Code)

(415)362-7000 (Area Code) (Telephone Number)

Internet Website Address www.majesticinsurance.com

Statutory Statement Contact Grace Pan, Ms (Name) (415)362-7000 (Area Code) (Telephone Number) (Extension)

gpan@majesticinsurance.com (E-Mail Address) (415)247-7295 (Fax Number)

OFFICERS

(Not Applicable)

OTHER OFFICERS

(Not Applicable)

DIRECTORS OR TRUSTEES

Not Applicable

State of California County of San Francisco

Subscribed and sworn to (or affirmed) before me on this 9 day of May, 2011, by David E. Wilson proved to me on the basis of satisfactory evidence to be the person(a) who appeared before me.

Signature Tracie Day

(Seal)

State of California
County of San Francisco } SS

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

David E Wilson

David E. Wilson
Special Deputy Insurance Commissioner

~~Subscribed and sworn to before me this day of May, 2011~~

TRACIE DAY
Commission # 1899200
Notary Public - California
San Francisco County
My Comm. Expires Aug 12, 2014

a. Is this an original filing? Yes (X) No ( )
b. If no: 1. State the amendment number
2. Date filed
3. Number of pages attached

ASSETS

	Current Statement Date 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Col. 1 minus Col. 2)	4 December 31 Prior Year Net Admitted Assets
1. Bonds	236,818,420		236,818,420	257,749,646
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less $ ... encumbrances)				
4.2 Properties held for the production of income (less $ encumbrances)				
4.3 Properties held for sale (less $ .. encumbrances)				
5. Cash ($ 9,201,940), cash equivalents ($ 93,386) and short-term investments ($ 2,393,230)	11,688,556		11,688,556	15,186,658
6. Contract loans (including $ ... premium notes)				
7. Derivatives				
8. Other invested assets				
9. Receivables for securities	12,005,608		12,005,608	
10. Securities lending reinvested collateral assets				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Line 1 to Line 11)	260,512,584		260,512,584	272,936,304
13. Title plants less $ charged off (for Title insurers only)				
14. Investment income due and accrued	2,128,303		2,128,303	2,553,604
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	4,087,649	842,804	3,244,845	2,628,198
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 1,472,843 earned but unbilled premiums)	1,472,843	216,697	1,256,146	581,365
15.3 Accrued retrospective premiums	2,093,259	112,222	1,981,037	2,013,354
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	6,532,163		6,532,163	5,764,920
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset				
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software				
21. Furniture and equipment, including health care delivery assets ($)	1,311,811	1,311,811		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				
24. Health care ($) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	7,656,367	447,706	7,208,661	8,894,705
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 12 to Line 25)	285,794,979	2,931,240	282,863,739	295,372,450
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Totals (Line 26 and Line 27)	285,794,979	2,931,240	282,863,739	295,372,450
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Line 1101 through Line 1103 plus Line 1198) (Line 11 above)				
2501. Miscellaneous Receivable	447,706	447,706		
2502. Advance Policy Surcharges Paid	5,747,737		5,747,737	7,196,685
2503. Assessment Receivable	1,460,924		1,460,924	1,698,020
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above)	7,656,367	447,706	7,208,661	8,894,705

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year $ 10,664,747)	129,770,057	131,122,718
2. Reinsurance payable on paid losses and loss adjustment expenses	87,631	8,720
3. Loss adjustment expenses	25,114,329	25,335,911
4. Commissions payable, contingent commissions and other similar charges	515,416	1,197,950
5. Other expenses (excluding taxes, licenses and fees)	10,625,574	5,260,102
6 Taxes, licenses and fees (excluding federal and foreign income taxes)	2,272,315	2,169,055
7.1 Current federal and foreign income taxes (including $ on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money $ and interest thereon $		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of $ 1,278,456 and including warranty reserves of $)	7,934,047	7,419,953
10. Advance premium	11,164	139,638
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)	6,774,849	5,784,901
13. Funds held by company under reinsurance treaties	53,334,190	55,954,843
14. Amounts withheld or retained by company for account of others	956,413	929,518
15. Remittances and items not allocated		
16. Provision for reinsurance	829,497	829,497
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18 Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates	595,647	543,976
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes $ and interest thereon $		
25 Aggregate write-ins for liabilities	702,836	733,864
26 Total liabilities excluding protected cell liabilities (Line 1 through Line 25)	239,523,965	237,430,846
27. Protected cell liabilities		
28. Total liabilities (Line 26 and Line 27)	239,523,965	237,430,846
29. Aggregate write-ins for special surplus funds		
30. Common capital stock	3,000,000	3,000,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	46,950,000	46,950,000
35. Unassigned funds (surplus)	(6,610,227)	7,991,604
36. Less treasury stock, at cost:		
36.1 shares common (value included in Line 30 $)		
36.2 shares preferred (value included in Line 31 $)		
37 Surplus as regards policyholders (Line 29 through Line 35, less Line 36)	43,339,773	57,941,604
38. Totals	282,863,738	295,372,450
DETAILS OF WRITE-INS		
2501. Accrued Retro Premium Payable	338,366	354,726
2502. Excess of Statutory Reserves over Statement reserves		
2503. Escheatable Funds	364,470	379,138
2598. Summary of remaining write-ins for Line 25 from overflow page		
2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above)	702,836	733,864
2901. Excess of statutory reserves (Schedule P)		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Line 2901 through Line 2903 plus Line 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Line 3201 through Line 3203 plus Line 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written $ 18,772,301)	19,055,041	28,613,732	94,938,466
1.2 Assumed (written $ 1,455,111)	1,754,167	112,490	2,685,717
1.3 Ceded (written $ 3,961,480)	4,805,219	16,605,262	50,609,885
1.4 Net (written $ 16,265,932)	16,003,989	12,120,960	47,014,298
DEDUCTIONS:			
2. Losses incurred (current accident year $ 11,106,138):			
2.1 Direct	13,134,828	21,088,290	71,471,583
2.2 Assumed	888,209	144,367	1,753,209
2.3 Ceded	3,456,106	11,885,160	39,224,748
2.4 Net	10,566,931	9,347,497	34,000,044
3. Loss adjustment expenses incurred	3,541,265	4,483,814	13,978,990
4. Other underwriting expenses incurred	8,509,244	7,095,886	30,118,549
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Line 2 through Line 5)	22,617,440	20,927,197	78,097,583
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(6,613,451)	(8,806,237)	(31,083,285)
INVESTMENT INCOME			
9. Net investment income earned	1,570,439	1,961,598	6,820,191
10. Net realized capital gains (losses) less capital gains tax of $ (669,076)	(1,242,570)	373,070	3,260,111
11. Net investment gain (loss) (Line 9 plus Line 10)	327,869	2,334,668	10,080,302
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ amount charged off $ 24,123)	(638,816)	(246,191)	(1,527,783)
13. Finance and service charges not included in premiums			
14. Aggregate write-ins for miscellaneous income	(8,674,875)	(2,755)	15,321
15. Total other income (Line 12 through Line 14)	(9,313,691)	(248,946)	(1,512,462)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 8 plus Line 11 plus Line 15)	(15,599,273)	(6,720,515)	(22,515,445)
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(15,599,273)	(6,720,515)	(22,515,445)
19. Federal and foreign income taxes incurred	669,076		(1,755,444)
20. Net income (Line 18 minus Line 19) (to Line 22)	(16,268,349)	(6,720,515)	(20,760,001)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	57,941,604	75,674,441	75,674,441
22. Net income (from Line 20)	(16,268,349)	(6,720,515)	(20,760,001)
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of $			
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax	858,270	1,481,388	6,402,052
27. Change in nonadmitted assets	841,247	914,780	(4,117,251)
28. Change in provision for reinsurance		1,159,711	934,363
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders	(33,000)		(192,000)
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus			
38. Change in surplus as regards policyholders (Line 22 through Line 37)	(14,601,832)	(3,164,636)	(17,732,837)
39. Surplus as regards policyholders, as of statement date (Line 21 plus Line 38)	43,339,772	72,509,805	57,941,604
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. TOTALS (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)			
1401. Miscellaneous Income	(243)	(2,755)	15,321
1402. Extraordinary write-off Policy Administration System	(8,674,632)		
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)	(8,674,875)	(2,755)	15,321
3701. Aggregate Write-ins for Gains and Losses in Surplus (gross of tax)			
3702. Excess Reserve over Statutory Reserve			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. TOTALS (Line 3701 through Line 3703 plus Line 3798) (Line 37 above)			

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	10,741,141	10,806,479	52,361,649
2. Net investment income	(398,650)	2,366,466	8,500,361
3. Miscellaneous income	(17,886)	(248,945)	(1,512,462)
4. Total (Line 1 through Line 3)	10,324,605	12,924,000	59,349,548
5. Benefit and loss related payments	12,686,834	9,727,754	46,068,278
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	7,362,238	15,303,470	55,737,567
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of $ tax on capital gains (losses)		212,440	(4,959,712)
10. Total (Line 5 through Line9)	20,049,072	25,243,664	96,846,133
11. Net cash from operations (Line 4 minus Line 10)	(9,724,467)	(12,319,664)	(37,496,585)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	24,323,070	24,254,307	275,865,781
12.2 Stocks			
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets			
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds	(12,400,790)	71,944	71,944
12.8 Total investment proceeds (Line 12.1 through Line 12.7)	11,922,280	24,326,251	275,937,725
13. Cost of investments acquired (long-term only):			
13.1 Bonds	5,736,290	43,931,234	254,898,027
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets	(29,050)	18,477	47,527
13.6 Miscellaneous applications			
13.7 Total investments acquired (Line 13.1 through Line 13.6)	5,707,240	43,949,711	254,945,554
14. Net increase or (decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	6,215,040	(19,623,460)	20,992,171
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders	33,000		192,000
16.6 Other cash provided (applied)	44,329	7,583,760	(16,081)
17 Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	11,329	7,583,760	(208,081)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18 Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	(3,498,098)	(24,359,364)	(16,712,495)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	15,186,654	31,899,149	31,899,149
19.2 End of period (Line 18 plus Line 19.1)	11,688,556	7,539,785	15,186,654

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001			
20.0002			
20.0003			
20.0004			
20.0005			
20.0006			
20.0007			
20.0008			
20.0009			
20.0010			

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

On April 21, 2011, an Order appointing Conservator and Restraining Orders ("Conservation Order") was entered by the Superior Court of the State of California with respect to Majestic Insurance Company, a California Corporation. Among other reasons, the verified application of the Insurance Commissioner of the State of California requesting entry of the Conservation Order alleged that Majestic was found to be in such condition that its further transaction of business will be hazardous to its policyholders, creditors and the public.

The Commissioner of Insurance was appointed as Conservator of Majestic and directed to conduct the business of Majestic. The Conservator is authorized, in his discretion, to operate the business of Majestic, or so much of the business as he deems appropriate, and to pay or defer payment of some or all proper claims, expenses, liabilities and obligations of Majestic, in whole or in part, accruing prior or subsequent to his appointment. The Conservator has continued to operate Majestic's business in substantially the manner the company was operating prior to conservation, solely for the purpose of preserving Majestic's business assets and going-concern value in order to facilitate a Plan of Rehabilitation for Majestic (the "Plan").

Immediately after the entry of the Conservation Order, the Conservator filed a motion seeking court approval of the Plan. . The Plan provides for the assumption of 100% of Majestic's workers' compensation claim liabilities by an A-rated insurance company affiliate of AmTrust North America, Inc. ("AmTrust") via a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). Under the Reinsurance Agreement, AmTrust (through an insurance company affiliate, Technology Insurance Company) will assume the majority of Majestic's assets and liabilities relating to its workers' compensation business. Majestic's in-force policies and expired policies with reported claims will be novated to Technology Insurance Company. The agreement between Majestic and AmTrust also provides that all reinsurance contracts providing coverage for the business written by Majestic shall inure to the benefit of AmTrust.

In addition, the California Department of Insurance (CDI) conducted an examination of Majestic for the period January 1, 2005 through December 31, 2010. CDI found Majestic's recorded loss and loss adjustment expense reserves to be deficient by approximately $40.9 million. Also, due to the increase in reserves, a premium deficiency reserve was required in the amount of $5.5 million. After these examination adjustments, Majestic's Risk-Based Capital (RBC) fell within the Mandatory Control Level RBC. The CDI Examination determined that Majestic was operating in a hazardous financial condition in accordance with California Insurance Code Section (CICS) 1011(d). These findings were incorporated into the Commissioner's application for the Conservation Order.

However, AmTrust's agreement under the Plan to assume all of Majestic's workers' compensation reserve liabilities without limit is subject to the Conservator's agreement to preserve Majestic's going concern value (and the value of the operating assets to be purchased by AmTrust under the Plan) by continuing to operate **Further, the assets to be transferred to Technology Insurance Company pursuant to the Reinsurance Agreement is to be set based on the reserves of Majestic before the above CDI examination adjustments. Consequently, the March 31, 2011 financial statements do not reflect the reserve adjustments discussed above. If they were recorded, the "Surplus as regards policyholders" would be a negative of $3,060,227, compared to the recorded amount of $43,339,773.**

A. Accounting Practices

No change

B. Use of Estimates in the Preparation of the Financial Statements

No change

C. Accounting Policies

No change

Note 2 – Accounting Changes and Correction of Errors

A. Accounting Changes Other Than Codification and Correction of Errors

Not applicable

Note 3 – Business Combinations and Goodwill

A. Statutory Purchase Method

Not applicable

B. Statutory Mergers

Not applicable

C. Writedowns for Impairment of Investments in Affiliates

Not Applicable

Note 4 – Discontinued Operations

Not Applicable

Note 5 – Investments

A. Mortgage Loans

Not applicable

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

Not applicable

D. Loan-Backed Securities

The Company uses the trade date for applying the retrospective adjustment method if is applicable. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from broker dealer survey values.

E. Repurchase Agreements and/or Securities Lending Transactions

Not applicable

F. Write downs for Impairments of Real Estate, Real Estate sales, Retail Land Sales Operations and Real Estate with Participating Mortgage Loan Features

Not applicable

G. Low Income Housing Tax Credits

Not applicable

Note 6 – Joint Ventures, Partnerships and Limited Liability Companies

A. Detail for Those Greater than 10% of Admitted Assets

Not applicable

B. Writedowns for Impairment of Joint Ventures, Partnerships and LLCs.

Not applicable

Note 7 – Investment Income

A. Accrued Investment Income

The Company does not admit investment income due and accrued if amounts are over 90 days past due (180 days for mortgage loans).

B. Amount Nonadmitted

Not applicable

Note 8 – Derivative Instruments

Not Applicable

Note 9 – Income Taxes

A. Components of Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs):

NOTES TO FINANCIAL STATEMENTS

The Company recognizes deferred tax assets ((DTA's") and liabilities ("DTL's") for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and permitted tax basis amounts. The Amount of net DTA's that may be reported in the financial statements is subject to admissibility tests established by Statutory Accounting Principles (SAP) and relates to the Company's ability to realize the future benefit resulting from the net DTA. Amounts in excess of the statutory limitations are treated as non-admitted assets and charged directly to Policyholders' Surplus. Based upon the guidance provided by SAP, limitations on business strategy assumptions that may be realized in the future as stand alone tax payer and as a member of a consolidated group filing Federal Income Taxes under a Tax Sharing Agreement, the Company could not satisfactorily conclude that any amount of the DTA could be recovered in the time frames established by SAP and has therefore recognized the entire net DTA of $24,164,468 as a Statutory Valuation Allowance and no admitted DTA was recognized as of March 31, 2011.

	As of Mar. 31, 2011			As of Dec. 31, 2010		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred tax asssets						
Discounting of unpaid losses and LAE	$ 5,546,205		$ 5,546,205	$ 6,071,274	$ -	$ 6,071,274
Change in unearned premium reserve	2,529,733		2,529,733	2,078,386		2,078,386
Nonadmitted assets	1,025,934		1,025,934	1,635,664		1,635,664
Compensation,benefit and other accruals	3,348,493		3,348,493	680,706		680,706
Net operating loss ("NOL") carry-forward	12,509,489		12,509,489	9,797,388		9,797,388
Fixed assets	-		-	-		-
Investments	659,820	-	659,820	-	-	-
Gross deferred tax assets	25,619,674	-	25,619,674	20,263,418	-	20,263,418
Statutory valuation allowance ("VA")	24,164,469	-	24,164,469	19,081,676	-	19,081,676
Adjusted gross deferred tax assets	1,455,205	-	1,455,205	1,181,742	-	1,181,742
Nonadmitted	-		-	-		-
Admitted deferred tax assets	1,455,205	-	1,455,205	1,181,742	-	1,181,742
Deferred tax liabilities:			-			-
Investments		-	-		-	-
IRC 481 adjustment	-		-	87,054		87,054
Accrued premium acquisition expense	1,403,793		1,403,793	1,039,150		1,039,150
Bond market discount	11,207		11,207	27,682		27,682
Fixed assets	40,205		40,205	27,856		27,856
Deferred tax liabilities:	1,455,205	-	1,455,205	1,181,742	-	1,181,742
Net deferred tax asset admitted	$ -	$ -	$ -	$ -	$ -	$ -

B. Unrecognized DTLs

Not Applicable

C. Current Tax and Change in Deferred Tax

The Company realized net taxable income from underwriting operations and net investment income during the three month period ended March 31, 2011, of $4,791,720 and an extra-ordinary charge of $8,674,632 relating to a lease default settlement. See Note 20-A. Current income taxes incurred consist of the following major components:

	As of Mar. 31, 2011	As of Dec. 31, 2010
Federal income tax expense (benefit) on ordinary income	324,020	$ (10,006,224)
Federal income taxes (benefit) on net capital gains	(669,076)	1,755,444
Federal income taxes (benefit) on Extraordinary Item	(3,036,121)	
Prior year under (over) accrual		(61,399)
Current income tax incurred prior to NOL adjustment	(3,381,177)	(8,312,179)
Change to NOL tax carry forward benefit	3,381,177	8,312,179
Federal income tax (benefit) expense (allowed by tax carryback)	$ -	$ -

The change in net deferred income taxes is comprised of the following: (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement).

	As of Mar. 31, 2011			As of Dec. 31, 2010			
	Ordinary	Capital	Total	Ordinary	Capital	Total	Change
Gross deferred tax assets before NOL & VA	$ 13,110,185	$ -	$ 13,110,185	$10,466,030	$ -	$10,466,030	$ 2,644,155
NOL carry forward	12,509,489		12,509,489	9,797,388		9,797,388	2,712,101
Adjusted gross deferred tax assets before VA	25,619,674	-	25,619,674	20,263,418	-	20,263,418	5,356,256
Gross deferred tax liabilities	1,455,205	-	1,455,205	1,181,742	-	1,181,742	273,463
Net deferred tax assets (liabilities) before VA	$ 24,164,469	$ -	$ 24,164,469	$19,081,676	$ -	$19,081,676	$ 5,082,793
Tax on change in unrealized gains							$ -
Tax on change on deferred tax on operations							2,370,692
Tax on change on NOL carryforward on operations							2,712,101
Gross deferred tax change on operations							$ 5,082,793

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate.

NOTES TO FINANCIAL STATEMENTS

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes. The significant items causing this difference are as follows:

	As of Mar. 31, 2010	Effective Tax Rate
Provision computed at statutory rate	$ (5,693,922)	35 0%
Tax exempt income deduction	(9,692)	0 1%
Dividend deduction		
Non-deductible expenses	11,092	-0 1%
Book over tax reserve	(525;069)	3.2%
Unearned premium (net of Sec 481 PAC adjusment)	86,704	-0.5%
Cumulative effect of change in accounting method	87,054	-0.5%
Impairment write down on lease	3,459,820	-21 3%
Other	(128,088)	0 8%
Total statutory income tax expense on operations before NOL	(2,712,101)	16 7%
Losses utilized by consolidated affiliates - indirect & rate difference		
NOL carryforward	2,712.101	-16 7%
Total statutory income tax expense on operations	-	0 0%

Federal income tax incurred	(5,023,447)	30 9%
Federal income expense on realized investment gains/(losses)	(669,076)	4.1%
Change in net deferred income tax (before NOL tax benefits)	2,370,692	-14 6%
Less: tax on change in non-admitted assets	609,730	-3 7%
Total statutory income tax expense on operations	$ (2,712,101)	16 7%
NOL carryforward	2,712,101	-16 7%
Total statutory income tax expense on operations	-	0 0%

E. Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits

The Company incurred a tax basis net operating loss ("NOL") 7,748,860 during the three month period ended March 31, 2011. The Company also has available NOL carryforwards from prior years of $29,180,110.

Prior to 2009, the Internal Revenue Code limited the carryback of current year NOL to the three prior years. The Code was changed in 2009 and an entity may carryback net operating losses five years. This permitted the Company to recover taxes paid the IRS prior to acquisition of EIH by Majestic Capital Ltd ("Capital") formerly CRM Holdings Ltd and Majestic USA Capital, Inc. ("MUSAC") formerly CRM USA Holdings, Inc. A certain amount of taxes paid by the Company since the acquisition were off set by the net tax benefit the combined group received from the NOL's of certain affiliates and the tax sharing agreement between CRM USA and affiliated companies limited the amount NOL carryback afforded Majestic. Following is a summary of the NOL carryback benefits recorded as of March 31, 2011 and the amount of NOL available for offset against future taxable income.

Income/Loss Years	Prior YearTaxable Income	Affiliated lossesApplied to Income	Net Operating Losses Carrybacks	Federal IncomeTax Benefit
2005	$ 2,359,499	$ -	$ 2,359,499	$ 802,230
2006	5,167,216	-	5,167,216	1,773,803
2007	17,752,165	(9,341,589)	6,328,381	2,214,933
2008	6,328,381	(6,328,381)	0	
Total Federal Tax NOL Carryback Benefit	$ 31,607,261	$(15,669,970)	$ 13,855,096	$ 4,790,966
Losses Carried to Consolidated return- Indirect	$ -	$ -	$ 293,494	$ 99,788
2009 Net Operating Losses			(18,752,834)	(6,375,964)
2010 Net Operating Losses			(24,575,866)	(8,657,960)
2011 Net Operating Losses			(7,748,860)	(2,712,101)
NOL Carryforwards Available 3/31/2011			$(36,928,970)	$ (12,855,270)

NOL Carryforwards expiriiong on or before 2029	$ (4,604,244)
NOL Carryforwards expiriiong on or before 2030	(24,575,866)
NOL Carryforwards expiriiong on or before 2031	(7,748,860)

F. Consolidated Federal Income Tax Return

(1) The Company's federal income tax return is consolidated with the following entity:

Embarcadero Insurance Holdings, Inc and MUSAC.

(2) The Company participates in a Tax Allocation Agreement with MUSAC. and its subsidiaries. (collectively "MUSAC"). Pursuant to this agreement the Company and MUSAC will report and pay federal, state and local income taxes on a consolidated basis. Each subsidiary will pay to MUSAC their pro rata share of the consolidated tax liability based upon the subsidiary's contribution to taxable income. The Company's obligation to pay any obligation under the Tax Allocation Agreement is subject to the provision of the

Plan, and may be deferred in the discretion of the Conservator in order to ensure equity among and proper treatment of the Company's creditors. The Company and any of its affiliates may recoup federal taxes paid in prior years in the event of future net losses, or net losses carried forward to future net income subject to federal income taxes.

Note 10 – Information Concerning Parent, Subsidiaries and Affiliates

A. Nature of Relationships

The Company is a wholly owned subsidiary of Embarcadero Insurance Holdings, Inc. (EIH); a California domiciled insurance company. On November 13, 2006, EIH was 100% purchased through a Stock Purchase Agreement by CRM Holdings, Ltd. ("CRMH") and its wholly owned subsidiary, CRM USA Holdings, Inc. The transaction was approved by the California Department of Insurance on November 3, 2006 and completed on November 14, 2006. Subsequent to the consummation of the acquisition, EIH became a wholly-owned subsidiary of CRM USA Holding, Inc. On May 6, 2010, CRM Holdings, Ltd. changed its name to Majestic Capital Ltd. ("Capital"). At the same time CRM USA Holdings, Inc. a wholly owned subsidiary, changed its name to Majestic USA Capital, Inc ("MUSAC").

As described in Note 1, the Company is under the control of and its business is being conducted by the California Insurance Commissioner, acting in his capacity as statutory conservator under the Conservation Order.

On April 29, 2011, Capital and its subsidiaries exclusive of Majestic, filed petitions for relief (collectively, the "Filing") under Chapter 11 of the United States Bankruptcy Code. This Filing will have no effect on the Plan or the agreement between Majestic and AmTrust.

B. Detail of Transactions Greater than ½% of Admitted Assets

On January 1, 2008, the Company entered into a 40% Quota Share Reinsurance agreement with Twin Bridges, Ltd (Bermuda), an affiliate. Under the terms of the agreement, the Company ceded 40% of direct written premiums after deducting premiums paid for reinsurance in excess of the Company's retention limit. This treaty applied only to the primary workers, compensation coverage and did not include excess workers' compensation and employer's liability coverage provided by the Company. On April 1, 2008, the treaty was amended to a 5% quota share treaty and all unearned premiums in excess of 5% of the subject unearned premiums was returned to the Company. Twin Bridges will remain liable for 40% of all incurred losses retained by the Company and subject to the quota share treaty from January 1, through March 31, 2008. Subsequent to March 31, 2008, Twin Bridges is liable for 5% of subject losses. The agreement provides 32% of underwriting ceding commission and an additional 6% commission to cover claim handling expenses. On September 30, 2010, this agreement was terminated on a cut-off basis. Total written premiums ceded under this agreement during the three months ended March 31, 2010, $1,246,149. Total ceded paid losses and LAE recovered under the agreement during the three month periods ended March 31, 2011 and 2010 were $1,122,242 and $1,312,860, respectively. The Contract includes a fund held provision to secure the payment of ceded loss and LAE reserves and the ceded unearned premiums. The funds withheld under this agreement were $8,788,018 as of March 31, 2011 compared to $9,977,236 as of December 31, 2010.

On January 1, 2007, the Company entered into a Quota Share Reinsurance agreement with its affiliate, Twin Bridges Ltd, (the "assuming Insurer"), a Bermuda based company. Pursuant to this contract, as amended effective July 1, 2007, Twin Bridges has assumed a portion of the net liabilities of the Company relative to losses incurred on excess workers' compensation business for self-insured employers and group self-insurers, including, but not limited to, such business managed by Compensation Risk Managers, LLC, Poughkeepsie, NY and Compensation Risk Managers of California, LLC, Irvine, California. The coverage under this contract is as follows: as respects specific excess business, 90% of the difference between $2,000,000 and the insured's self-insured retention; as respects aggregate excess workers' compensation insurance, 90% of the original policy limit, not to exceed $5,000,000; and as respects employers' liability, 90% of the original policy limit, not to exceed $5,000,000. There were no premium cessions under this agreement in 2011 and premiums ceded during the three month period ended March 31, 2010 were $243,996. The liabilities of Twin Bridges under this contract for unearned premiums, losses and loss adjustment expenses were $19,580,974 and were secured by $19,537,059 of funds withheld as of March 31, 2011.

Since August 1, 2007, Twin Bridges has participated, in some degree, in all the subsequent excess of loss reinsurance contracts. Pursuant to the "Excess of Loss Reinsurance Agreement" dated August 1, 2007, Twin Bridges began providing coverage of $1.5 million excess of $500,000 each occurrence on primary workers' compensation business written by the Company in New York and Florida. This agreement terminated on June 30, 2008 and was replaced with a new agreement dated July 1, 2008. Under the terms of the new agreement, Twin Bridges provides 4% of the reinsurance coverage; $1.5 million excess of $500 thousand each occurrence, for all primary workers' compensation insurance underwritten by Majestic. This contract expired on June 30, 2009 and replaced with a new Excess of Loss Reinsurance Agreement on July 1, 2009. Retention of this contract remains the same as expiring treaty. Under the term of this new contract, Twin Bridges participates 2.75% of the reinsurance coverage in the $3 million excess of $2 million layer. The 2.75% Twin Bridges participation expired on June 30, 2010. Liabilities of Twin Bridges under this contract as of March 31, 2011, was $1,846,580 and was collateralized by funds withheld in the amount of $2,788,875.

See Note 23 – "Reinsurance" for additional detail relating to the affiliated reinsurance transactions.

C. Change in Terms of Intercompany Arrangements

No change subsequent to last report date.

D. Amounts Due to or From Related Parties

Amounts due (To) From Affiliates March 31,2011	
Affiliate	Amount
Twin Bridges	($153,232)
CRMH	(1,714)
CRM USA	(440,700)
Net Due Affiliates	(595,646)

The amount due Twin Bridges represents interest accrued on the funds withheld under the reinsurance agreements (See comments in Note 10-B). The amount due CRMH is primarily for the "Employee Stock Purchase Plan" discussed in Note 12. The Company owes CRM USA $440,770 thousand under the "Administrative Services Agreement" (See Note 10-F below).

E. Guarantees or Contingencies for Related Parties

Not applicable

F. Management, Service Contracts, Cost Sharing Agreements

The Company entered into a Broker Agreement with its affiliate, Compensation Risk Managers of California, LLC ("CRM of CA") on January 1, 2007. Under this agreement, CRM of CA would provide brokerage services to the Company and receive compensation in the form of commission from the Company for the services rendered under the agreement. The Company incurred no commission expense in the first three months of 2011, and incurred $22,427 in the first three months of 2010.

On November 6, 2007, the Company entered into an Administrative Services Agreement with MUSAC, effective January 1, 2008, pursuant to which MUSAC will perform or arrange various administrative services for the Company, including but not limited to, information systems, claims adjusting, loss control, and accounting and financial and executive management services. The Company incurred expenses of $593,025 during the first three months of 2011 compared to $1,216,783 for the respective period in 2010 under this agreement.

These agreements, as well as all other executory contracts to which the Company is a party, are subject to assumption or rejection at the discretion of the Conservator pursuant to the Conservation Order.

G. Nature of Relationships that Could Affect Operations

All outstanding shares of the Company are owned by its Parent.

H. Amount Deducted for Investment in Upstream Company

Not applicable

I. Detail of Investments in Affiliates Greater than 10% of Admitted Assets

Not Applicable

J. Writedown for Impairments of Investments in Subsidiary, Controlled or Affiliated Companies

Not Applicable

K. Foreign subsidiary Valued Using CARVM

Not Applicable

L. Downstream Holding Company Valued Using Look-Through Method

Not Applicable

Note 11 – Debt

A. Capital Notes

Not applicable

B. All Other Debt

Not applicable

Note 12 – Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Post-retirement Benefit Plans

A. Defined Benefit Plans

Not applicable

B. Defined Contribution Plans

Substantially all of the Company's employees are eligible to participate in a defined contribution retirement plan through the plans sponsor, MUSAC. Employees may contribute up to certain limits prescribed by the Internal Revenue Service. A portion of these contributions is matched by the Company up to 6% of the employee's salary as of 12/31/2009. Effective 1/1/2010, the Company match was reduced to 4% of the employee's salary. Effective 4/19/2010, the Company match was further reduced to 2% of the employee's salary. The Company match is funded every two weeks and allocated to the Company based on employee contributions. Employees become vested with respect to the Company's contribution ratably over three years. The Company's share of this savings plan expense was $39,853 and $87,823for the first three months of 2011 and 2010, respectively. The Company has no legal obligation for benefits under this plan.

C. Multi-employer Plans

Not applicable

D. Consolidated/Holding Company Plans

Under a restricted stock plan approved by MUSAC's Board of Directors and its stockholders in March 2007, key employees of the Company are awarded shares of Capital's common stock, par value $0.01per share with restricted ownership rights. The stocks granted to the employees will vest over three years after the grant date. The fair value of restricted stock awards is measured based on the closing price of Majestic's common stock on the grant date and is recognized as compensation expense over the vesting period of the awards.

As of March 31, 2011, the liabilities of Majestic included a balance of $78,690 representing the balance due for outstanding vesting rights. Due to the absence of a market for Capital's common stock, the Company wrote off this liability subsequent to March 31, 2011.

E. Post-employment Benefits and Compensated Absences

The Company has no obligations to current or former employees for benefits after their employment but before their retirement other than for compensation related to earned vacation. The liability for earned but untaken vacation has been accrued.

Note 13 – Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

A. Outstanding Shares

The Company has 50,000 shares of $75 par value common stock authorized and 40,000 shares issued and outstanding. The Company has no preferred stock authorized, issued or outstanding.

B. Dividend Rate of Preferred Stock

Not applicable

C. Dividend Restrictions & D. Amount of Ordinary Dividends that May Be Paid

Dividends on common stock are paid as declared by the Board of Directors of the Company. Under the California Insurance Code, in a given year the Company may pay ordinary dividends without the prior approval of the Insurance Commissioner up to an amount which is the greater of its statutory net income for the preceding year or 10% of its policyholders' surplus at the at the end of the preceding year, less dividends made within the preceding twelve months. Accordingly, the maximum amount of ordinary dividends that could have been paid by the Company during 2010 was $7,567,444. The paid a dividend of $100,000 and $92,000on or about September 28, 2010 November 17, 2010. The Company also paid a dividend of $33,000 on February 11, 2011. The maximum dividend that may be paid by the Company subsequent to December 31, 2010 through February 17, 2011 was $5,794,160. Subsequent to March 31, 2011, the company may pay a dividend of $5,761,160.

Due to the Company being placed in conservation subsequent to March 31, 2011, it is anticipated that there will be no dividends paid in the remainder of 2011.

E. Restrictions on Profits

NOTES TO FINANCIAL STATEMENTS

Within the limitations of (C) above, there were no additional restrictions placed on the portion of the Company's profits that may be paid as ordinary dividends to stockholders.

F. Restrictions on Surplus

Within the limitations of (C) above, there were no additional restrictions placed on the portion of the Company's surplus including for whom surplus is being held.

G. Mutual Surplus Advances

Not applicable

H. Company Stock Held for Special Purposes

Not applicable

I. Changes in Special Surplus Funds

Not applicable

J. Changes in Unassigned Funds

The following table presents the changes in components of unassigned surplus other than results incurred from underwriting or investment activities subsequent to the adoption of the Codification of the Statutory Accounting Principles excluding any increase or decrease directly related to the adoption of the Codification as of January 1, 2001.

Description	Cumulative Increase	Current Year
Aggregate write-ins for gain or loss	(5,289,315)	-
Change in deferred taxes	19,499,948	5,138,034
Statutory valuation reserve	(19,499,948)	(5,138,034)
Nonadmitted assets	(2,931,240)	841,247
Dividend to stockholder	(7,175,000)	(33,000)
Provision for reinsurance	(829,498)	-

The non-admitted assets include the non-admitted deferred tax assets (see Note 9) and exclude non-admitted invested assets, if there is any.

K. Surplus Notes

Not applicable

L. and M. Quasi Reorganizations

Not applicable

Note 14 – Contingencies

A. Contingent Commitments

In the ordinary course of the claim settlement process, the Company has settled various claims through structured settlement agreements with certain claimants. The Company has incurred cumulative annuity premium costs of $10,376,201, representing the present value of future payments over the term of the various claims. The expected cost to settle these claims was $34,255,548. As of March 31, 2011, the Company has a contingent liability balance of $29,414,906 should the issuers of these annuities fail to perform under the terms of the annuities.

Following is a list of insurers with total annuity balances due greater than 1% of Policyholders' Surplus

Life Insurance Company and Location	Value of Annuities Purchased as of March 31, 2011
American General Life Insurance Co., Amarillo TX	$13,701,547
Genworth Life Insurance Company, Lynchburg, VA	9,590,937
Libery Life Assurance Company Of Boston, Dover, NH	2,776,398
Aegon Financial Services Group, Inc., Louisville, KY	914,876
Metrpolitan Life Insurance Company, Lexington, KY	785,658
Aviva Life & Annuity Company, Boston, MA	645,387
Others	1,000,103
	$29,414,906

NOTES TO FINANCIAL STATEMENTS

The Company is subject to various assessments by the states and/or federal agencies (funds) in which it writes business. These assessments are for the general welfare and protection of workers compensation policyholders. The assessments may be based on the workers compensation premiums written by the Company in a calendar year or the outstanding loss reserves as of a year end date and assessment rates established by the various state or federal agencies. The Company is permitted by the insurance departments to pass certain assessments through to the policyholders. These assessments are billed to the policyholder with premiums as they become due. The accrual for all assessments occurs at the time the premiums are written or losses incurred. Because assessments are generally paid before the policy surcharges are collected, the payment of the assessment may result in a receivable from policyholders that will be taken on future policy surcharges to be collected. As of March 31, 2011, the Company had recorded assessments paid to insurance departments in excess of billed policyholder surcharges of $5,747,737 which consists of $3,435,698 and $2,312,039 derived from State of NY and CA, respectively. This excess assessment amount is presented as a write in asset with the caption "Advance Policy Surcharges".

The Company does not believe it has any assessments which have not been properly accounted for and recorded.

C. Gain Contingencies

Not applicable

D. All Other Contingencies

Pursuant to the Conservation Order, continued prosecution of the lawsuits described in this Note 14, and the filing of any other claims, lawsuits or actions against the Company outside of the conservation proceedings pending in the San Francisco Superior Court related to the Company ("Conservation Court") is enjoined. Alternative remedies for the assertion of any and all such claims is provided for under the Conservator's Rehabilitation Plan.

On November 2, 2009, an action entitled Healthcare Industry Trust of New York, et al. v. Compensation Risk Managers, LLC, et al., was filed in the New York Supreme Court, Albany County. The complaint names 40 or more defendants, including Majestic Insurance Company, and seeks damages in excess of $91 million resulting from the closure of the Healthcare Industry Trust of New York, a group self-insurer formerly managed by Majestic's affiliate, Compensation Risk Managers, LLC ("CRM"). The only allegation of misconduct by Majestic is that it charged excessive premiums for excess worker's compensation insurance, causing unjust enrichment of Majestic in an unknown amount. The complaint also alleges that Majestic is the alter ego of CRM and related defendants, so that Majestic should be held liable for their obligations. Majestic denies all liability in connection with this matter.

On or about December 9, 2009, an action entitled The New York State Workers' Compensation Board, etc. v. Compensation Risk Managers, LLC, et al., was filed in the New York Supreme Court, Albany County. The complaint names fifteen defendants, including Majestic Insurance Company, and seeks damages of $405 million plus interest, attorney's fees and punitive damages resulting from the closure of several group self-insurance trusts formerly managed by CRM. This is supported by unspecific allegations that Majestic and other defendants made misrepresentations, committed deceptive business practices in violation of Section 349 of the New York General Business law, and engaged in false advertising in violation of Section 350 of the General Business Law. There are no specific allegations of misconduct on the part of Majestic. Majestic denies all liability in connection with this matter.

On October 28, 2010, an action entitled California Plastering, Inc., et al. v. Pridemark-Everest Insurance Services, Inc. was filed in the Orange County, California Superior Court. The plaintiffs are eleven former member employers of the Contractors Access Program of California ("CAP"), a workers' compensation group self-insurer formerly administered by Compensation Risk Managers of California, LLC ("CRM CA"). The complaint names nine defendants, including Majestic Insurance Company, and seeks damages in excess of $30 million, restitution and other relief as the result of the defendants' alleged mismanagement and wrongful conduct with respect to CAP. Majestic is alleged to have aided and abetted the misconduct of the other defendants and committed unfair business practices. Majestic denies all liability in connection with this matter.

On December 20, 2010, Bickmore Risk Services, as the conservator of CAP, filed an action entitled Contractors Access Program of California v. Majestic Capital, Ltd., et al. alleging mismanagement of CAP by CRM and related entities. The complaint named several defendants including various CRM entities and Majestic Insurance Company. The allegations involving Majestic included a contention that the excess insurance policies written by Majestic for CAP were not priced at competitive rates and an alter ego and/or agency theory of liability. The complaint sought damages of not less than $34 million. Majestic denies all liability in connection with this matter.

On January 27, 2011, four employer members of CAP filed an action entitled Mark Tanner Construction, Inc., et al. v. Majestic Capital, Ltd., et al. seeking recovery of damages in excess of $25 million allegedly caused by misconduct of the defendants in the management of CAP. The defendants include Majestic Insurance Company. Majestic denies all liability in connection with this matter.

NOTES TO FINANCIAL STATEMENTS

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company. The Company is contingently liable under certain structured settlement agreements (see Note 26A).

Note 15 – Leases

A. Lessee Leasing Arrangements

No significant change

B. Lessor Leasing Arrangements

Not applicable

Note 16 – Information about Financial Instruments with Off-Balance Sheet Risk and with Concentrations of Credit Risk

A. Financial Instruments with Off-Balance Sheet Risk

Not applicable

B. Financial Instruments with Concentrations of Credit Risk

Not applicable

Note 17 – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

A. Transfers of Receivables Reported as Sales

Not applicable

B. Transfers and Servicing of Financial Assets

Not applicable

C. Wash Sales

Not applicable

Note 18 – Gain or Loss from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare of Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

Note 19 – Direct Premiums Written / Produced by Managing General Agents / Third Party Administrators

The company had no premiums written through managing general agents or third party administrators.

Note 20 – Other Items

A. Extraordinary Items

Relative to the imminent bankruptcy filing of Majestic Capital, LTD and Majestic USA Capital, Inc. as set forth in a press release dated March 21, 2011, the lessor on various operating leases engaged in by the Company determined that the lease agreements were in material uncured default. The lessor subsequently declared the subject leases in default and the entire indebtedness under all lease schedules became immediately due and payable and sought to recover the Casualty Loss Value of the property.

On April 1, 2011, the lessor drew down the letters of credits that were issued as collateral under the lease terms on the event of default. The aggregate value of the letters of credit was $8,000,000 and allegedly represented the Casualty Loss Value of the property as determined by addendum to the lease. The Company at that time considered the draw as termination of the lease and recognized the $8 million as impaired assets as of March 31, 2011 and recorded an extraordinary charge to net income as of that date. However, the Conservator is investigating the legality of the actions of the lessor, and the recognition of impairment and the recording of an extraordinary charge is without prejudice to the Conservator's available remedies against the lessor.

Subsequent to the receipt of the Conservation Order on April 21, 2011, the Company recorded an additional extraordinary charge to the net income in the amount of $674,632 relating to thefurther impairment of certain Prepaids and Other Assets associated with a system implementation project which was terminated due to the conservation action. Both amounts are presented in the March 31, 2011 Statement of Income in Line 14-Aggregate write-ins for miscellaneous income.

B. Troubled Debt Restructuring for Debtors

Not applicable

C. Other Disclosures

No significant Items

D. Uncollectible Premiums Receivable

No significant change.

E. Business Interruption Insurance Recoveries

Not applicable.

F. State Transferable Tax Credits

Not applicable

G. Subprime Mortgage Related Risk Exposure

Not applicable

Note 21 – Events Subsequent

No significant Items

Note 22 – Reinsurance

A. Unsecured Reinsurance Recoverables

No significant change

B. Reinsurance Recoverables in Dispute

No significant change

C. Reinsurance Assumed and Ceded and Protected Cells

The.Company entered into a quota share reinsurance contract effective April 1, 2010 with insurance subsidiaries of AmTrust Financial Services, Inc. (AmTrust). Under this Contract, the Company assumes 90% of the first $500,000 of loss per occurrence on business in the states of Arizona, California, Nevada and Oregon which is originated by the Company and written by AmTrust. Premiums on the covered business may not exceed $40 million in any calendar year. AmTrust receives a ceding commission of 7.0% on the Company's share of premiums. The Company also reimburses AmTrust for the Company's share of producer commissions, taxes and other premium-based expenses. The Company performs management services on the covered business, including marketing, underwriting, claims handling and loss control. The Company's obligations to AmTrust are secured by funds held in a reinsurance trust account. This Contract may be terminated by the parties effective on December 31, 2011 or at any subsequent year-end, or earlier by AmTrust upon the occurrence of certain events. As of March 31, 2011, the Company recorded assumed written premium of $1,347,848 from Amtrust & its affiliates.

In addition to those reinsurance transactions with affiliates mentioned in the above Note 10 –B, the Company has reinsurance with other non-affiliated reinsurers. The Company has historically maintained an excess of loss treaty with a loss retention limit of $500,000 on a per occurrence basis on the primary workers' compensation coverage provided to various policyholders for the period from January 1, 2007 to June 30, 2010. Effective July 1, 2010, the loss retention limit was increased to $600,000. Relative to this retention limit the Company reduced its excess of loss reinsurance on a per occurrence from $70 million to $50 million. Prior to January 1, 2007, the Company's retention limit was $600,000.

On July 1, 2009, the Company obtained an 80% participation in a 43% Quota share treaty with two unaffiliated non admitted reinsurers. Under the terms of this treaty the Company cedes 34.4% of net premiums written after deducting the premiums ceded to the excess of loss treaties. The reinsurers' will have a 34.4% participation in

NOTES TO FINANCIAL STATEMENTS

all losses retained by the Company. This treaty has a fund held clause and under the terms of the contract, unauthorized reinsurers are responsible for providing collateral against the net reinsurance assets recorded by the Company relative to the treaty. The treaty has a sliding commission rate with a 27.5% maximum commission and a 22.0% minimum rate. The maximum commission applies if the loss ratio does not exceed 69.5% and decreases with each 1% increase to a maximum loss ratio of 76.5%. This contract was terminated on June 30, 2010, on run off basis.

The Company also, as of July 1, 2009, entered into a 15% quota share treaty. This treaty excludes all policies written in the State of New York and applies to all other net premiums after deducting the premiums ceded under the excess of loss reinsurance agreements. The maximum deduction from the net direct premiums for the excess of loss treaty is limited to a maximum rate of 9.4755% of net direct premiums. The treaty provides for a 25.75% ceding commission credit to Majestic. This contract was terminated on June 30, 2010, on run off basis.

On July 1, 2008, the company entered into a 40% Quota Share Reinsurance agreement with Max Bermuda Ltd. ("Max") As defined in the agreement, the company cedes 40% of the net retained written after deducting the ceded excess of loss premiums. The Reinsurer will have a 40% participation in all losses incurred and retained by the Company subsequent to July 1, 2008. This treaty includes a 30% ceding commission to reimburse the Company for acquisition and certain administrative costs. This treaty was terminated on June 30, 2009, on a cut off basis.

Following is a summary of the ceded reinsurance assets and liabilities (including both affiliated and nonaffiliated) as of March 31, 2010 and December 31, 2010, together with a comparative summary of the reinsurance transactions for the nine month periods ended Maarch 31, 2011 and 2010.

Summary of Reinsurance (000 Omitted)									
2011									
	Non-affiliated Reinsurer				Affiliated Reinsurer				
	Primary WC		Excess WC		Primary WC		Excess WC		Total
Outstanding As of March 31, 2011									
Ceded Unearned Premiums		1,278				0		$	2,202
Loss and Loss Expenses Recoverable		122,066		8,759		12,303		19,581	166,761
Reinsurance Premiums Payable		5,122		81,912		2,080		997	5,785
Collateral Held Pending Recoveries		22,287		0		11,577		19,537	55,965
Transactions for Three Months Ended March, 31									
Ceded Written Premiums	$	3,961	$	-	$	-	$	-	$ 3,961
Ceded Earned Premiums		4,805		-		-		-	4,806
Ceded Loss & ALAE Recoveries		3,240		(220)		155		393	3,568
Ceding Commissions		388		-		-		0	388
Net (Gain) Loss From Reinsurance	$	1,177	$	220	$	(155)	$	(393)	$ 849

2010									
	Non-affiliated Reinsurer				Affiliated Reinsurer				
	Primary WC		Excess WC		Primary WC		Excess WC		Total
Outstanding As of December 31									
Ceded Unearned Premiums	$	2,202	$	-	$	-	$	-	$ 6,710
Loss and Loss Expenses Recoverable		126,006		8,980		12,575		19,201	95,561
Reinsurance Premiums Payable		4,963		82		1,341		(601)	10,165
Collateral Held Pending Recoveries		23,974		-		12,766		19,215	74,103
Transactions for Three Months Ended March 31, 2010									
Ceded Written Premiums	$	14,907	$	(9)	$	1,259	$	3,978	$ 20,135
Ceded Earned Premiums		15,080		8		1,278		239	16,605
Ceded Loss & ALAE Recoveries		12,433		(167)		1,332		(506)	13,091
Ceding Commissions		2,871		-		372		36	3,280
Net (Gain) Loss From Reinsurance	$	(224)	$	176	$	(427)	$	709	$ 234

1. Commission on Unearned Premiums

   As of March 31, 2011, relative to the assumed and ceded quota share unearned premium, the Company had net unrecorded commission equity of $178,469 compared to a net commission liability of $3.748 at the beginning of the year. The following table summarizes ceded and assumed unearned premiums and the related commission equity at the end of current quarter

	Assumed		Ceded		Assumed less Ceded	
	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
All other	$ (3,617,707)	$ 253,239	$ 324,334	$ (74,771)	$ (3,293,373)	$ 178,469
Direct Unearned Premiums	$ (5,594,796)					

2. Additional or Return Commission Accruals

   No change

3. Risks Attributed To Protected Cells.

   Not applicable.

D. Uncollectible Reinsurance

The Company did not incur any uncollectible reinsurance costs in the nine months ending September 30, 2010.

E. Commutation of Ceded Reinsurance

Not applicable

F. Retroactive Reinsurance

Not applicable

G. Reinsurance Accounted for as a Deposit

Not applicable.

Note 23 – Retrospectively Rated Contracts and Contracts Subject to Re-determination

A. Method Used to Estimate

The Company sells workers compensation policies for which the original premium may be adjusted based on the actual loss experience during the term of the coverage (Retrospective Rated Contracts). These contracts are written with minimum and maximum premium limits. The Company reviews the loss experience of all active retrospective contracts throughout the year on an individual basis. The Company reviews the reported losses as to the outstanding case reserves, paid losses and ALAE and may make adjustments to the loss experience based upon expected future development of known losses or the expectation that additional losses will be reported. The Company will accrue a receivable if the loss experience is unfavorable or a liability for a premium refund, if there has been favorable loss experience

B. Method Used to Record

The Company records the retrospective premium accruals as earned by adjusting change in unearned premiums. These amounts are not recorded as premiums written until they are billed to the policyholders. Return premiums are recorded as liabilities and additional premiums are recorded as assets.

C. Amount and Percent of Net Retrospective Premiums

No significant change

D. Calculation of Nonadmitted Accrued Retrospective Premiums

No significant change

Note 24 – Changes in Incurred Losses and Loss Adjustment Expenses

The Company recorded net incurred loss and loss adjusting expense of $14,108,196in the first three months of 2011 compared to $13,831,311 for the same period in 2010. The current accident year loss ratio was 88.0% compared to 99.5% for the same period of the prior year. The net loss ratio as presented in the statutory "Statement of Income" was 102.1% compared to 88.0% for the same period of the prior year. The table below is a comparative summary of the incurred losses for the period ending March 31, 2011 and 2010.

As of March 31, 2011	
Net loss and loss expense incurred for current accident year	$ 14,108,196
Net loss and loss expense incurred for prior accident years	-
Total Net Loss and Loss Expense Incurred	$ 14,108,196
As of March 31, 2010	
Net loss and loss expense incurred for current accident year	$ 11,817,008
Net loss and loss expense incurred for prior accident years	2,014,304
Total Net Loss and Loss Expense Incurred	$ 13,831,311

Note 25 – Intercompany Pooling Arrangements

Not applicable

Note 26 – Structural Settlements

A. Reserves Released due to Purchase of Annuities

In the course of the claim settlement process, The Company has settled various claims through structured settlement agreements with certain claimants. The Company has purchased annuities from life insurers under which the claimants are payees (see Note 14E). The Company has incurred cumulatively annuity premium costs of $10,215,537 representing the present value of future payments over the term of the various claims. These annuities have been used to reduce unpaid losses by $34,027,536 as of the end of March 31, 2011. The

Company has a contingent liability of $29,414,906 should the issuers of these annuities fail to perform under the terms of the annuities. In the event the Company is required to provide benefits due to a failure of the issuer of an annuity, reinsurers would be required to pay their fair share of the loss according to the coverage provided by the reinsurance agreement in force at the time the loss was incurred. The Company does not believe this presents a material exposure to surplus as of March 31, 2011.

B. Annuity Insurers with Balances due Greater than 1% of Policyholders' Surplus

No significant change

Note 27 – Health Care Receivables

Not applicable

Note 28 – Participating Policies

Not applicable

Note 29 – Premium Deficiency Reserves

Not applicable

Note 30 – High Deductibles

Not applicable

Note 31 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

A. Tabular Discounts

The Company does not discount unpaid losses or loss adjustment expenses.

B. Non-Tabular Discounts

Not applicable

C. Changes in Discount Assumptions

Not applicable

Note 32 – Asbestos and Environmental Reserves

A. Asbestos Reserves

There are no material amounts of losses applicable to Asbestos claims.

B. Ending Reserves for Asbestos Claims for Bulk and IBNR Losses and LAE Included in A above:

Not applicable

C. Ending Reserves for Asbestos Claims for Loss Adjustment Expenses Included in A above (Case, Bulk and IBNR):

Not applicable

D. Environmental

The Company does not underwrite environmental coverage.

E. Ending Reserves for Environmental Claims for Bulk and IBNR Losses and LAE Included in D above:

Not applicable

F. Ending Reserves for Environmental Claims for Loss Adjustment Expenses Included in D above (Case, Bulk and IBNR)

Not applicable

Note 33 – Subscriber Savings Accounts

Not applicable

NOTES TO FINANCIAL STATEMENTS

Note 34 – Multiple Peril Crop

Not Applicable

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes ( ) No (X)

1.2 If yes, has the report been filed with the domiciliary state? Yes ( ) No ( )

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes ( ) No (X)

2.2 If yes, date of change:

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes ( ) No (X)

If yes, complete the Schedule Y - Part 1 - organizational chart

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes ( ) No (X)

4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes ( ) No ( ) N/A (X)

If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2010

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2010

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 04/08/2011

6.4 By what department or departments?

CALIFORNIA DEPARTMENT OF INSURANCE

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes ( ) No (X) N/A ( )

6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes ( ) No (X) N/A ( )

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes ( ) No (X)

7.2 If yes, give full information

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes ( ) No (X)

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes ( ) No (X)

8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

GENERAL INTERROGATORIES (continued)

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes (X) No ( )
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:

9.2 Has the code of ethics for senior managers been amended? Yes ( ) No (X)

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes ( ) No (X)

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s)

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes ( ) No (X)

10.2 If yes, indicate the amounts receivable from parent included in the Page 2 amount: $

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes ( ) No (X)

11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: $

13. Amount of real estate and mortgages held in short-term investments: $

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes ( ) No (X)

14.2 If yes, please complete the following:

	1 Prior Year-End Book/ Adjusted Carrying Value	2 Current Quarter Book/ Adjusted Carrying Value
14.21 Bonds	$	$
14.22 Preferred Stock	$	$
14.23 Common Stock	$	$
14.24 Short-Term Investments	$	$
14.25 Mortgage Loans on Real Estate	$	$
14.26 All Other	$	$
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Line 14.21 to Line 14.26)	$	$
14.28 Total Investment in Parent included in Line 14.21 to Line 14.26 above	$	$

15.1 Has the reporting entity entered into any hedging transactions reported on schedule DB? Yes ( ) No (X)

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes ( ) No ( )

If no, attach a description with this statement.

GENERAL INTERROGATORIES (continued)

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes (X) No ( )

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following

1 Name of Custodian(s)	2 Custodian Address
COMERICA BANK	PO BOX 75000, DETROIT, MI 48275-4195
STATE STREET BANK	801 PENNSYLVANIA AVE, KANSAS CITY, MO 64105

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes ( ) No (X)

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
105900	Gen Re-New England Asset	76 Batterson Park Rd., Farmington, Ct 06032

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes (X) No ( )

17.2 If no, list exceptions:

GENERAL INTERROGATORIES (continued)

PART 2

PROPERTY AND CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes ( ) No ( ) N/A (X)

   If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes ( ) No (X)

   If yes, attach an explanation.

3.1 Have any of the reporting entity's primary reinsurance contracts been cancelled? Yes ( ) No (X)

3.2 If yes, give full and complete information thereto

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves") discounted at a rate of interest greater than zero? Yes ( ) No (X)

4.2 If yes, complete the Discount Schedule.

5. Operating Percentages:

   5.1 A&H loss percent %

   5.2 A&H cost containment percent %

   5.3 A&H expense percent excluding cost containment expenses %

6.1 Do you act as a custodian for health savings accounts? Yes ( ) No (X)

6.2 If yes, please provide the amount of custodial funds held as of the reporting date. $

6.3 Do you act as an administrator for health savings accounts? Yes ( ) No (X)

6.4 If yes, please provide the balance of the funds administered as of the reporting date. $

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Schedule F - Ceded Reinsurance

NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

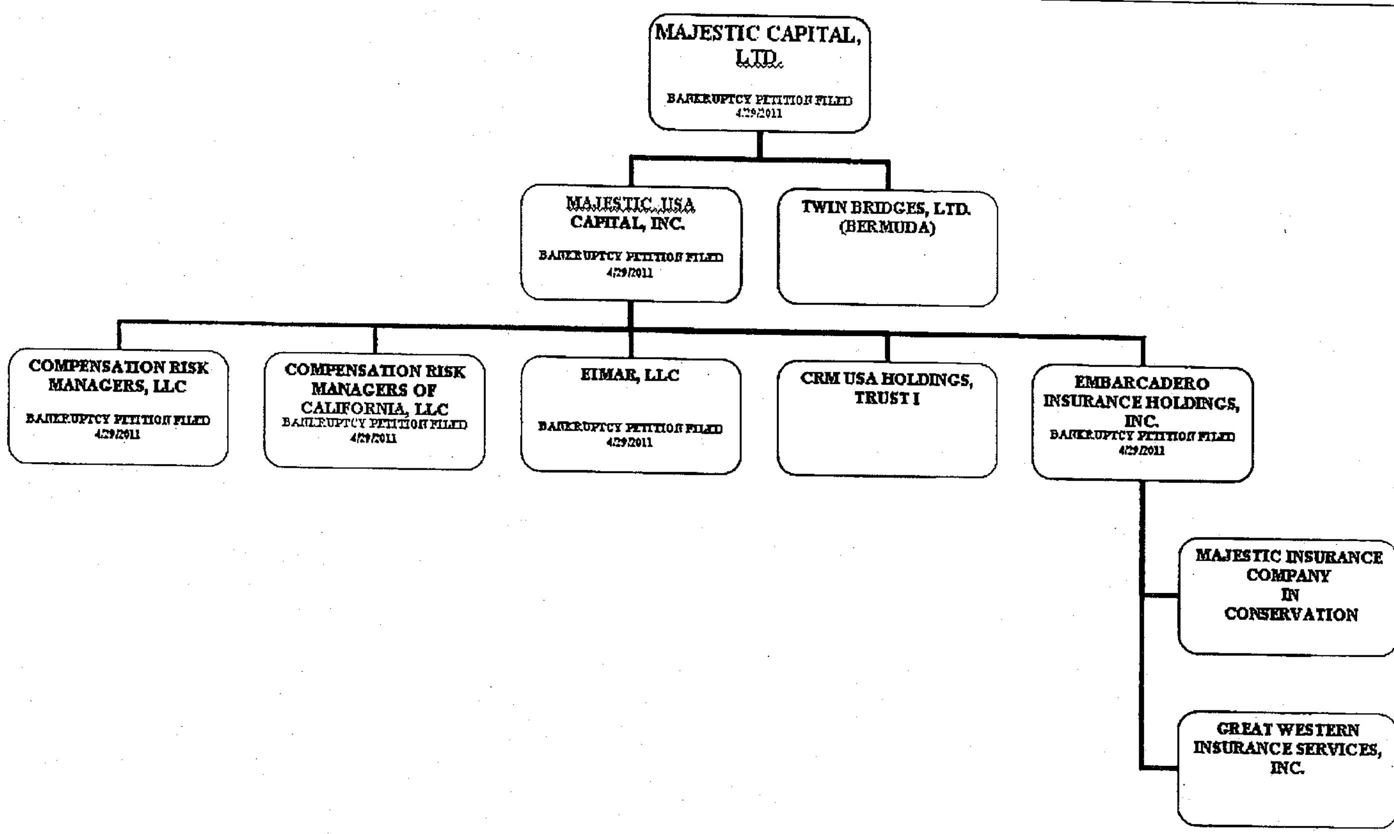
States, etc		1 Active Status	Direct Premiums Written 2 Current Year To Date	Direct Premiums Written 3 Prior Year To Date	Direct Losses Paid (Deducting Salvage) 4 Current Year To Date	Direct Losses Paid (Deducting Salvage) 5 Prior Year To Date	Direct Losses Unpaid 6 Current Year To Date	Direct Losses Unpaid 7 Prior Year To Date
1. Alabama	AL	N						
2. Alaska	AK	L				142	846,982	795,916
3. Arizona	AZ	L	754,782	1,118,305	529,177	503,835	4,196,265	4,313,435
4. Arkansas	AR	N						
5. California	CA	L	13,270,717	21,080,996	12,608,672	12,413,038	177,438,255	189,779,763
6. Colorado	CO	N						
7. Connecticut	CT	N						
8. Delaware	DE	N						
9. District of Columbia	DC	N						
10. Florida	FL	L	53,760	172,411	39,946	76,471	1,172,096	2,130,230
11. Georgia	GA	N						
12. Hawaii	HI	L			34,160	240,462	2,372,486	2,473,673
13. Idaho	ID	L						
14. Illinois	IL	L						
15. Indiana	IN	N						
16. Iowa	IA	N						
17. Kansas	KS	N						
18. Kentucky	KY	N						
19. Louisiana	LA	N						
20. Maine	ME	N						
21. Maryland	MD	N						
22. Massachusetts	MA	N						
23. Michigan	MI	N						
24. Minnesota	MN	N						
25. Mississippi	MS	N						
26. Missouri	MO	N						
27. Montana	MT	L						
28. Nebraska	NE	N						
29. Nevada	NV	L	(18,234)	116,298	46,169	74,958	657,870	1,029,506
30. New Hampshire	NH	N						
31. New Jersey	NJ	L	2,075,223	2,986,428	2,105,473	2,372,565	23,628,632	23,748,487
32. New Mexico	NM	L						
33. New York	NY	L	2,630,394	3,059,476	3,654,744	3,160,197	55,373,449	55,643,779
34. North Carolina	NC	N						
35. North Dakota	ND	N						
36. Ohio	OH	N						
37. Oklahoma	OK	N						
38. Oregon	OR	L	5,660	13,922	29,826	29,863	2,492,004	1,539,877
39. Pennsylvania	PA	N						
40. Rhode Island	RI	N						
41. South Carolina	SC	N						
42. South Dakota	SD	N						
43. Tennessee	TN	N						
44. Texas	TX	L						
45. Utah	UT	L						
46. Vermont	VT	N						
47. Virginia	VA	L						
48. Washington	WA	L			38,211	246,150	2,117,026	2,516,299
49. West Virginia	WV	N						
50. Wisconsin	WI	N						
51. Wyoming	WY	N						
52. American Samoa	AS	N						
53. Guam	GU	N						
54. Puerto Rico	PR	N						
55. U.S. Virgin Islands	VI	N						
56. Northern Mariana Islands	MP	N						
57. Canada	CN	N						
58. Aggregate Other Alien	OT	XXX						
59. Totals		(a) 17	18,772,302	28,547,836	19,086,378	19,117,681	270,295,065	283,970,965
DETAILS OF WRITE-INS								
5801.		XXX						
5802.		XXX						
5803.		XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page		XXX						
5899. TOTALS (Line 5801 through Line 5803 plus Line 5898) (Line 58 above)		XXX						

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer;
(E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of "L" responses except for Canada and Other Alien

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



PART 1 - LOSS EXPERIENCE

Line of Business	Current Year to Date			4
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	Prior Year to Date Direct Loss Percentage
1. Fire				
2. Allied lines				
3. Farmowners multiple peril				
4. Homeowners multiple peril				
5. Commercial multiple peril				
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine				
10. Financial guaranty				
11.1 Medical professional liability-occurrence				
11.2 Medical professional liability-claims made				
12. Earthquake				
13. Group accident and health				
14. Credit accident and health				
15. Other accident and health				
16. Workers' compensation	19,055,041	13,134,828	68.9	73.7
17.1 Other liability-occurrence				
17.2 Other liability-claims made				
17.3 Excess Workers' Compensation				
18.1 Products liability-occurrence				
18.2 Products liability-claims made				
19.1, 19.2 Private passenger auto liability				
19.3, 19.4 Commercial auto liability				
21. Auto physical damage				
22. Aircraft (all perils)				
23. Fidelity				
24. Surety				
26. Burglary and theft				
27. Boiler and machinery				
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance-Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance-Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business				
35. TOTALS	19,055,041	13,134,828	68.9	73.7
DETAILS OF WRITE-INS				
3401.				
3402.				
3403.				
3498. Summary of remaining write-ins for Line 34 from overflow page				
3499. Totals (Line 3401 through Line 3403 plus Line 3498) (Line 34)				

PART 2 - DIRECT PREMIUMS WRITTEN

Line of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year to Date
1. Fire			
2. Allied lines			
3. Farmowners multiple peril			
4. Homeowners multiple peril			
5. Commercial multiple peril			
6. Mortgage guaranty			
8. Ocean marine			
9. Inland marine			
10. Financial guaranty			
11.1 Medical professional liability-occurrence			
11.2 Medical professional liability-claims made			
12. Earthquake			
13. Group accident and health			
14. Credit accident and health			
15. Other accident and health			
16. Workers' compensation	18,772,301	18,772,301	28,547,836
17.1 Other liability-occurrence			
17.2 Other liability-claims made			
17.3 Excess Workers' Compensation			
18.1 Products liability-occurrence			
18.2 Products liability-claims made			
19.1, 19.2 Private passenger auto liability			
19.3, 19.4 Commercial auto liability			
21. Auto physical damage			
22. Aircraft (all perils)			
23. Fidelity			
24. Surety			
26. Burglary and theft			
27. Boiler and machinery			
28. Credit			
29. International			
30. Warranty			
31. Reinsurance-Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance-Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance-Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business			
35. TOTALS	18,772,301	18,772,301	28,547,836
DETAILS OF WRITE-INS			
3401.			
3402.			
3403.			
3498. Summary of remaining write-ins for Line 34 from overflow page			
3499. Totals (Line 3401 through Line 3403 plus Line 3498) (Line 34)			

PART 3 (000 Omitted)
LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

		1	2	3	4	5	6	7	8	9	10	11	12	13
	Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Column 1 plus Column 2	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Column 4 plus Column 5	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Column 7 plus Column 8 plus Column 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings) / Deficiency (Column 4 plus Column 7 minus Column 1)	Prior-Year-End IBNR Loss and LAE Reserves Developed (Savings) / Deficiency (Column 5 plus Column 8 plus Column 9 minus Column 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings) / Deficiency (Column 11 plus Column 12
1	2008 + Prior	59,151	27,632	86,783	7,671		7,671	54,997	15	24,099	79,111	3,517	(3,518)	(1)
2.	2009	21,941	12,934	34,675	3,507		3,507	20,625		10,744	31,369	2,191	(2,190)	1
3	Subtotals 2009 + prior	81,092	40,566	121,658	11,178		11,178	75,622	15	34,843	110,460	5,708	(5,708)	
4	2010	15,449	19,354	34,803	3,387		3,387	16,379		15,037	31,416	4,317	(4,317)	
5	Subtotals 2010 + prior	96,541	59,920	156,461	14,565		14,565	92,001	15	49,880	141,896	10,025	(10,025)	
6	2011	XXX	XXX	XXX	XXX	1,104	1,104	XXX	3,993	8,997	12,990	XXX	XXX	XXX
7.	Totals	96,541	59,920	156,461	14,565	1,104	15,669	92,001	4,008	58,877	154,886	10,025	(10,025)	
8.	Prior Year-End Surplus As Regards Policy-holders	57,942										Column 11, Line 7 As % of Column 1, Line 7	Column 12, Line 7 As % of Column 2, Line 7	Column 13, Line 7 As % of Column 3, Line 7
												1. 10.4 %	2 (16.7)%	3. %
														Column 13, Line 7 / Line 8
														4. %

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	Responses
1. Will the Trusted Surplus Statement be filed with the state of domicile and the NAIC with this statement?	NO

EXPLANATION:

BARCODE

Document Identifier 490

4 2 2 6 9 2 0 1 1 4 9 0 0 0 0 0 1

2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	NO

EXPLANATION

BARCODE:

Document Identifier 455:

4 2 2 6 9 2 0 1 1 4 5 5 0 0 0 0 1

3 Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	NO

EXPLANATION:

BARCODE:

Document Identifier 365:

4 2 2 6 9 2 0 1 1 3 6 5 0 0 0 0 1

4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?	NO

EXPLANATION:

BARCODE:

Document Identifier 505:

4 2 2 6 9 2 0 1 1 5 0 5 0 0 0 0 1

SCHEDULE A - VERIFICATION

Real Estate

NONE

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after ac		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		
5. Deduct amounts received on disposals		
6. Total foreign exchange change in book/ac		
7. Deduct current year's other than temporar		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at end of current period (Line 1 plus Line 2 plus Line 3 plus Line 4 minus Line 5 plus Line 6 minus Line 7 plus Line 8)		
10. Deduct total nonadmitted amounts		
11. Statement value at end of current period (Line 9 minus Line 10)		

SCHEDULE B - VERIFICATION

Mortgage Loans

NONE

	1 Year To Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding		
2. Cost of acquired:		
2.1. Actual cost at time of acquisition		
2.2. Additional investment made after a		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and mort		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		
11. Book value/recorded investment excluding accrued interest at end of current period (Line 1 plus Line 2 plus Line 3 plus Line 4 plus Line 5 plus Line 6 minus Line 7 minus Line 8 plus Line 9 minus Line 10)		
12. Total Valuation Allowance		
13. Subtotal (Line 11 plus Line 12)		
14. Deduct total nonadmitted amounts		
15. Statement value at end of current period (Line 13 minus Line 14)		

SCHEDULE BA - VERIFICATION

Other Long-Term Invested Assets

NONE

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December		
2. Cost of acquired		
2.1. Actual cost at time of acquisition		
2.2. Additional investment made after a		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and depreciation		
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Line 1 plus Line 2 plus Line 3 plus Line 4 plus Line 5 plus Line 6 minus Line 7 minus Line 8 plus Line 9 minus Line 10)		
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)		

SCHEDULE D - VERIFICATION

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	257,749,647	275,423,672
2. Cost of bonds and stocks acquired	5,736,290	186,803,506
3. Accrual of discount	8,276	49,464
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals	(26,479)	5,015,553
6. Deduct consideration for bonds and stocks disposed of	24,323,070	207,766,320
7. Deduct amortization of premium	441,044	1,776,228
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized	1,885,200	
10. Book/adjusted carrying value at end of current period (Line 1 plus Line 2 plus Line 3 plus Line 4 plus Line 5 minus Line 6 minus Line 7 plus Line 8 minus Line 9)	236,818,420	257,749,647
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	236,818,420	257,749,647

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity

During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	262,298,999	15,893,639	38,367,686	(2,314,637)	237,510,315			262,298,999
2. Class 2 (a)	2,047,848		250,000	(3,127)	1,794,721			2,047,848
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	264,346,847	15,893,639	38,617,686	(2,317,764)	239,305,036			264,346,847
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds and Preferred Stock	264,346,847	15,893,639	38,617,686	(2,317,764)	239,305,036			264,346,847

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation:
NAIC 1 $ 2,486,616 ; NAIC 2 $; NAIC 3 $; NAIC 4 $; NAIC 5 $; NAIC 6 $

SCHEDULE DA - PART 1

Short-Term Investments Owned End of Current Quarter

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999 Totals	2,393,230	XXX	2,393,230	18	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book / adjusted carrying value, December 31 of prior year	6,503,849	23,453,840
2. Cost of short-term investments acquired	2,364,459	65,351,267
3. Accrual of discount		
4. Unrealized valuation increase (decrease)		
5 Total gain (loss) on disposals		
6 Deduct consideration received on disposals	6,475,078	82,301,258
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Line 1 + Line 2 + Line 3 + Line 4 + Line 5 - Line 6 - Line 7 + Line 8 - Line 9)	2,393,230	6,503,849
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	2,393,230	6,503,849

Page SI04

Schedule DB, Part A, Verification

NONE

Schedule DB, Part B, Verification

NONE

Page SI05

Schedule DB, Pt. C, Section 1, Replicated (Synthetic Assets) Open

NONE

Page SI06

Sch DB, Pt C, Sn 2, Replication (Syn Assets) Transactions Open

NONE

Page SI07

Schedule DB, Verification

NONE

SCHEDULE E - VERIFICATION

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	93,352	93,207
2. Cost of cash equivalents acquired	7,699,538	92,093,516
3. Accrual of discount	203	5,856
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals	32	2
6. Deduct consideration received on disposals	7,699,739	92,099,229
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Line 1 + Line 2 + Line 3 + Line 4 + Line 5 - Line 6 - Line 7 + Line 8 - Line 9)	93,386	93,352
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	93,386	93,352

Page E01
Sch. A, Pt. 2, Real Estate Acquired
NONE

Sch. A, Pt. 3, Real Estate Disposed
NONE

Page E02
Schedule B, Part 2, Mortgage Loans Acquired
NONE

Schedule B, Part 3, Mortgage Loans Disposed
NONE

Page E03
Sch. BA, Pt. 2, Other Long-Term Invested Assets Acquired
NONE

Sch. BA, Pt. 3, Other Long-Term Invested Assets Disposed
NONE

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired by the Company During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
Bonds - U.S. States, Territories and Possessions									
13063B-HZ-8	CALIFORNIA ST		03/09/2011	SALOMON SMITH BARNEY		2,209,912	2,200,000.00	24,271	1FE
1799999 - Subtotal - Bonds - U.S. States, Territories and Possessions						2,209,912	2,200,000.00	24,271	
Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions									
25477G-CT-0	DISTRICT COLUMBIA INCOME TAX R		02/01/2011	BARCLAYS CAPITAL		1,135,629	1,100,000.00	8,360	1FE
3199999 - Subtotal - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions						1,135,629	1,100,000.00	8,360	
Bonds - Industrial and Miscellaneous (Unaffiliated)									
264399-EM-4	DUKE ENERGY CAROLINAS		01/20/2011	JEFFERIES & COMPANY INC		1,296,959	1,150,000.00	19,301	1FE
931142-BY-8	WAL-MART STORES INC		01/31/2011	BANK OF AMERICA		1,093,790	1,000,000.00	4,000	1FE
3899999 - Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated)						2,390,749	2,150,000.00	23,301	
8399997 - Subtotal - Bonds - Part 3						5,736,290	5,450,000.00	55,932	
8399999 - Subtotal - Bonds						5,736,290	5,450,000.00	55,932	
9999999 - TOTALS						5,736,290		55,932	

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of
by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change In Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
Bonds - U.S. Governments																					
3134A4-VJ-0	FEDERAL HOME LOAN MORTGAGE CORPORATIO		01/18/2011	MATURITY		1,550,000	1,550,000.00	1,539,303	1,549,870		130		130		1,550,000				36,813	01/18/2011	1
3620AA-GN-2	GOVERNMENT NATL MTG ASSOC #723905		03/28/2011	VARIOUS		2,567,788	2,485,815.00	2,602,337	2,596,564		(2,502)		(2,502)		2,594,062		(26,274)	(26,274)	27,924	06/01/2040	1
3620AG-P3-3	GOVERNMENT NATL MTG ASSOC #729542		03/01/2011	PAYDOWN		27,282	27,282.00	28,560	27,288		(6)		(6)		27,282				167	06/01/2040	1
3620AU-UY-8	GOVERNMENT NATL MTG ASSOC #740499		03/01/2011	PAYDOWN		9,489	9,489.00	9,934	9,491		(2)		(2)		9,489				71	07/01/2040	1
3620AV-PL-0	GOVERNMENT NATL MTG ASSOC #741227		03/01/2011	PAYDOWN		80,016	80,016.00	83,767	80,043		(27)		(27)		80,016				606	06/01/2040	1
3620C0-5R-5	GOVERNMENT NATL MTG ASSOC #745256		03/28/2011	VARIOUS		2,558,211	2,486,635.00	2,603,196	2,598,355		(13,685)		(13,685)		2,584,669		(26,459)	(26,459)	26,663	06/01/2040	1
3620C3-BH-4	GOVERNMENT NATL MTG ASSOC #747140		03/01/2011	PAYDOWN		9,414	9,414.00	9,855	9,414		(1)		(1)		9,414				71	07/01/2040	1
3620C3-TH-5	GOVERNMENT NATL MTG ASSOC #747652		03/01/2011	PAYDOWN		78,323	78,323.00	81,995	78,355		(32)		(32)		78,323				456	07/01/2040	1
36241K-V6-2	GOVERNMENT NATL MTG ASSOCIATION #7824		03/01/2011	PAYDOWN		184,041	184,041.00	191,287	184,140		(100)		(100)		184,041				1,386	09/01/2037	1
36241K-V7-0	GOVERNMENT NATL MTG ASSOCIATION #7824		03/01/2011	PAYDOWN		242,240	242,240.00	251,778	242,393		(153)		(153)		242,240				1,415	03/01/2038	1
36294R-UP-2	GOVERNMENT NATL MTG ASSOC #657690		03/28/2011	VARIOUS		2,567,307	2,486,865.00	2,603,437	2,597,648		(2,982)		(2,982)		2,594,666		(27,359)	(27,359)	27,758	06/01/2040	1
36296P-J4-4	GOVERNMENT NATL MTG ASSOC #696983		03/28/2011	VARIOUS		2,568,961	2,486,908.00	2,603,482	2,598,532		(930)		(930)		2,597,602		(28,641)	(28,641)	27,940	06/01/2040	1
0599999 - Subtotal - Bonds - U.S. Governments						12,443,071	12,127,027.00	12,608,931	12,572,092		(20,289)		(20,289)		12,551,804		(108,733)	(108,733)	151,269		
Bonds - U.S. Special Revenue and Special Assessment and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions																					
31283K-QJ-0	FEDERAL HOME LN MTG CORP #G11357		03/01/2011	PAYDOWN		6,651	6,651.00	7,148	6,664		(13)		(13)		6,651				60	11/01/2016	1
31283K-ZP-6	FEDERAL HOME LN MTG CORP #G11650		03/01/2011	PAYDOWN		8,295	8,295.00	8,827	8,306		(10)		(10)		8,295				65	03/01/2019	1
3128MM-KB-8	FEDERAL HOME LN MTG CORP #G18289		03/01/2011	PAYDOWN		6,122	6,122.00	6,361	6,124		(2)		(2)		6,122				34	04/01/2023	1
31294K-L8-6	FEDERAL HOME LN MTG CORP #E01251		03/01/2011	PAYDOWN		6,814	6,814.00	7,322	6,826		(13)		(13)		6,814				59	03/01/2017	1
31400E-W2-2	FEDERAL NATIONAL MTG ASSOC #685665		03/01/2011	PAYDOWN		9,663	9,663.00	10,276	9,677		(14)		(14)		9,663				77	07/01/2017	1
31419H-G3-0	FEDERAL NATIONAL MTG ASSOC #AE6517		03/01/2011	PAYDOWN		9,175	9,175.00	9,491	9,179		(4)		(4)		9,175				59	08/01/2040	1
3199999 - Subtotal - Bonds - U.S. Special Revenue and Special Assessment and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions						46,720	46,720.00	49,425	46,777		(57)		(57)		46,720				354		
Bonds - Industrial and Miscellaneous (Unaffiliated)																					
026609-AM-9	AMERICAN HOME PRODUCTS CORPORATION		03/15/2011	MATURITY		700,000	700,000.00	732,879	701,988		(1,988)		(1,988)		700,000				24,325	03/15/2011	1FE
134429-AM-1	CAMPBELL SOUP COMPANY		02/15/2011	MATURITY		1,000,000	1,000,000.00	1,044,760	1,001,674		(1,674)		(1,674)		1,000,000				33,750	02/15/2011	1FE
13973X-AC-7	CAPITAL AUTO REC ASSET TR 2007-1 A4A		03/15/2011	PAYDOWN		369,661	369,661.00	381,444	370,650		(989)		(989)		369,661				3,043	09/15/2011	1FE
17275R-AB-8	CISCO SYSTEMS INC		02/22/2011	MATURITY		1,000,000	1,000,000.00	994,068	999,788		212		212		1,000,000				26,250	02/22/2011	1FE
191216-AH-3	COCA COLA COMPANY		03/15/2011	MATURITY		700,000	700,000.00	707,889	700,479		(479)		(479)		700,000				20,125	03/15/2011	1FE
233882-AF-6	DAIMLER CHRYSLER AUTO TR 2007-A A4A		03/31/2011	VARIOUS		2,740,808	2,699,725.00	2,838,086	2,752,794		(18,853)		(18,853)		2,733,941		6,867	6,867	41,283	05/08/2012	1FE
34528X-AF-6	FORD CREDIT AUTO OWNER TR 08 C A4A		02/16/2011	WELLS FARGO FINANCIAL		2,069,531	2,000,000.00	2,133,125	2,064,787		(8,592)		(8,592)		2,056,195		13,337	13,337	19,207	09/15/2012	1FE
437076-AN-2	HOME DEPOT INC		03/01/2011	MATURITY		250,000	250,000.00	247,430	249,899		101		101		250,000				6,500	03/01/2011	2FE
771196-AQ-5	ROCHE HLDGS INC		03/24/2011	SECURITY CALLED BY ISSUER at 110.250		1,003,279	910,000.00	959,389	943,534		(2,307)		(2,307)		941,227		62,052	62,052	22,750	03/01/2014	1FE
87612E-AC-0	TARGET CORPORATION		01/15/2011	MATURITY		1,000,000	1,000,000.00	1,030,545	1,000,323		(323)		(323)		1,000,000				31,750	01/15/2011	1FE
931142-BV-4	WAL-MART STORES INC		02/15/2011	MATURITY		1,000,000	1,000,000.00	964,595	998,753		1,247		1,247		1,000,000				20,625	02/15/2011	1FE
3899999 - Subtotal - Bonds - Industrial and Miscellaneous (Unaffiliated)						11,833,279	11,629,387.00	12,034,211	11,784,668		(33,644)		(33,644)		11,751,024		82,255	82,255	249,607		
8399997 - Subtotal - Bonds - Part 4						24,323,070	23,803,134.00	24,692,567	24,403,538		(53,990)		(53,990)		24,349,548		(26,478)	(26,478)	401,230		
8399999 - Subtotal - Bonds						24,323,070	23,803,134.00	24,692,567	24,403,538		(53,990)		(53,990)		24,349,548		(26,478)	(26,478)	401,230		
9999999 - TOTALS						24,323,070		24,692,567	24,403,538		(53,990)		(53,990)		24,349,548		(26,478)	(26,478)	401,230		

(a) For all common stock bearing the NAIC market indicator 'U' provide: the number of such issues

Page E06
Schedule DB, Part A, Section 1
NONE

Financial or Economic Impact of the Hedge
NONE

Page E07
Schedule DB, Part B, Section 1
NONE

Schedule DB, Part B, Section 1, Broker Name
NONE

Schedule DB, Part B, Financial or Economic Impact of the Hedge
NONE

Page E08
Schedule DB, Part D
NONE

Page E09
Schedule DL, Part 1
NONE

Page E10
Schedule DL, Part 2
NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1 Depository		2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
Name	Location and Supplemental Information	Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6 First Month	7 Second Month	8 Third Month	*
Open Depositories									
Wells Fargo Bank	San Francisco, CA					7,028,958	4,137,568	6,072,389	
State Street Bank	Kansas City, MO					19,056	15,172	10,272	
HSBC Bank	San Francisco, CA					1,119,311	321,774	565,528	
Citibank	San Francisco, CA					2,604,364	3,025,101	2,445,857	
Comerica Bank	Detroit, MI						1,244,517		
Bank of Hawaii	Honolulu, HI					39,884	117,436	107,895	
0199999 - TOTAL - Open Depositories						10,811,572	8,861,567	9,201,940	
0399999 - TOTAL Cash on Deposit						10,811,572	8,861,567	9,201,940	
0599999 - TOTALS						10,811,572	8,861,567	9,201,940	

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due and Accrued	8 Amount Received During Year
Other Cash Equivalents							
Wells Fargo Bank CD		03/08/2011	0.200	06/08/2011	68,386	7	34
First National Bank of Alaska		01/05/2011	0.200	07/05/2011	25,000	11	25
8599999 - Other Cash Equivalents					93,386	18	59
8699999 - Total Cash Equivalents					93,386	18	59

Exhibit B

DEPARTMENT OF INSURANCE

Legal Division, Corporate Affairs Bureau
45 Fremont Street, 24th Floor
San Francisco, CA 94105

Martha Melendez
Senior Staff Counsel
TEL: 415-538-4114
FAX: 415-904-5896
E-Mail: melendezm@insurance.ca.gov
www.insurance.ca.gov

December 6, 2010

Shirley B. Ortego
Vice President and Associate General Counsel
Lancer Financial Group Companies
370 West Park Avenue
Long Beach, NY 11561

SUBJECT: Lancer Financial Group Companies' Application for approval of Indirect Acquisition and Control of Majestic Insurance Company, a California commercially domiciled insurer, pursuant to California Insurance Code section 1215.2 /IDB No. 10-7912

Dear Ms. Ortego:

This letter is to advise you that the application for approval of the acquisition and control of Majestic Insurance Company ("Majestic") by Lancer Financial Group ("LFG") or ("Applicant"), accepted for filing on November 8, 2010 presents the following deficiencies under California Insurance Code section 1215.2(d):

1. The Applicant's Plan of Operation is not viable based on Majestic's current expense ratio and the overall state of the workers' compensation insurance market in California. The premium projections assume a retention rate of 75% of the renewals and a 50% increase in new business for 2011. Moreover, the 2011 loss ratio is assumed to be 72% which is substantially lower than the current accident year loss and loss adjustment expense ratio. These numbers together with the current year expense ratio of 65% are discouraging and do not provide credible support for the Applicant's projections for Majestic and raises the possibility of disapproval of the Application under CIC section 1215.2 (d) (1).
2. The Applicant intends to maintain, post-acquisition, the current management team that is operating Majestic. The Application delineates that several members of proposed senior management (James J. Scardino and Chester J. Walczyk) are named defendants in pending litigation brought by the New York State Attorney General as well as the New York State Workers' Compensation Board to recover funding deficits in the alleged amount of $450 million against Majestic Capital's subsidiary, Compensation Risk Managers, LLC. Although not named as individual defendants, litigation filed this past October in the California Superior Court, County of Orange by California Plaster, Inc., et al., alleges similar funding deficit claims. Based on the allegations contained in these actions, the Department is concerned that the proposed management for Majestic is

incapable of developing or implementing a reasonable business plan. CIC section 1215.2 (d) (5) authorizes disapproval if the Commissioner finds that that the competence, character and integrity of those persons who would control the operation of the insurer indicate that *it would not be in the best interest of policyholders, or the public for them to do so.*

3. In addition to the concerns set forth in items 1 and 2, LFG management's experience is in the business of automobile insurance and hence does not have any expertise to offer to the Majestic management in the California workers' compensation market. *This raises a material issue under CIC section 1215.2 (d) (5) which expressly indicates that the "experience "of those persons who would control the operation would not be in the best interest of the policyholders or the public.*
4. It is also noted that given the combined loss and expense ratios, Majestic's surplus capital is rapidly being depleted. For example, Majestic's surplus has decreased by 39% since December 31, 2008 and net cash flow from operations is (-$37 million) for the first nine months of 2010. There is no proposal for correcting or bolstering Majestic's surplus (in the form of a capital commitment) to insure that Majestic has sufficient adequate surplus during the time it will take to implement a realistic business plan.
5. The financial condition of Bayside Capital Partners LLC (Bayside"), following the change of control, will not improve the current adverse condition at Majestic. The acquisition will be accomplished through the purchase of all the issued and outstanding capital stock of Majestic Capital Ltd ("MCL") and its subsidiaries by Bayside with the entire purchase funded by a Loan in the approximate amount of $7.8 million. Pursuant to the agreement, Bayside's parent company, LFG is committed to loan Bayside an amount equal to the transaction consideration. Further, pursuant to the Loan Commitment letter, the terms of the loan is payable by Bayside "On demand"; given the fact that Bayside was formed for the purpose of acquiring Majestic; there is no evidence of a source of repayment independent of the future income of Majestic. *The terms of the transaction as structured raises issues that the financial condition of the acquirer might jeopardize the financial condition of the insurer pursuant to CIC section 1215.2 (d)(3).*
6. In addition, the proposed acquisition does not contain a commitment of new capital to adequately support the current adverse financial condition of Majestic and to mitigate the impact of pending litigation costs and settlement amounts in the near future.

In summary, the Application submitted raises a host of material deficiencies that must be resolved in order to preclude disapproval under CIC section 1215.2 (d). Accordingly, the Applicant must address the issues of management, capital contribution as well as a viable plan of operation to the Department within 12 days of the receipt of this letter. According to the current Form A, the Applicant has not presently met the mandates required for approval of the Application under California Insurance Code section 1215.2. Please do not hesitate to contact me to discuss any of the issues raised in our review of the above-referenced application.

Very truly yours,

STEVE POIZNER
Insurance Commissioner

By:

Martha Melendez
Senior Staff Counsel

cc: Susan J. Stapp, Assistant Chief Counsel
Woody Girion, Chief, Financial Analysis Division
Al Bottalico, Field Examination Division
Ben Chan, FSB-Troubled Company Bureau

#610384v1

Exhibit C

BAYSIDE EQUITY HOLDINGS LLC
370 West Park Avenue
Long Beach, New York 11561

March 18, 2011

VIA E-MAIL

Majestic Capital, Ltd.
PO Box HM 2062
Hamilton HM HX, Bermuda
Attn: General Counsel

Re: **Agreement and Plan of Merger and Amalgamation, dated as of September 21, 2010, among Bayside Equity Holdings LLC, Majestic Acquisition Corp. and Majestic Capital, Ltd. (the "Agreement"; each capitalized term used herein and not otherwise defined shall have the meaning given such term in the Agreement)**

Ladies and Gentlemen:

As you are aware, there are several conditions to the obligation of each of Parent and M&A Sub to effect the Transaction that are incapable of being satisfied, due to among other things (x) the material deterioration in the Company's capital surplus, including during the last two quarters of 2010, as reported by the Company, (y) the landlord's final rejection of Parent's terms for modification of the Agreement of Lease dated August 5, 2005, between Oakwood Partners L.L.C. and Compensation Risk Managers, LLC, as amended, and (z) the adverse conditions articulated by the California Department of Insurance to James Scardino and relayed by Mr. Scardino to Parent.

Against that background, Parent hereby terminates the Agreement and abandons the transactions contemplated thereby.

Sincerely,

John A. Petrilli
Duly Authorized

cc: Louis J. Viglotti, Esq.
Peter S. Kolevzon, Esq.

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