

**THE STATE OF NEW HAMPSHIRE**

**MERRIMACK, SS**

**SUPERIOR COURT**

**Docket No. 03-E-0106**

**In the Matter of the Liquidation of  
The Home Insurance Company**

**Docket No. 03-E-0112**

**In the Matter of the Liquidation of  
US International Reinsurance Company**

**LIQUIDATOR'S THIRTY-SEVENTH REPORT**

I, Roger A. Sevigny, Insurance Commissioner for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home") and US International Reinsurance Company ("USI Re") (collectively, the "Companies"), hereby submit this Thirty-Seventh Report on the liquidations of the Companies, as of June 11, 2010, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005. This report is divided into two parts, the first concerning the liquidation of Home and the second of USI Re.

**A. The Home Insurance Company**

1. Proofs of claim. The claim filing deadline in the Home liquidation was June 13, 2004. The Liquidator has received a total of 29 new proofs of claim for Home between the last Liquidator's report and June 1, 2010. The proofs of claim submitted now total 20,413 for Home, with stated amounts totaling \$19.6 billion. Approximately 15% of the proofs of claim contained a stated amount, with the balance indicating an unstated or unknown amount. These numbers include as a single proof of claim (a) multiple proofs received from a claimant that appear to assert the same claim, and (b) claims filed on behalf of mass tort claimants against a single

insured. It is difficult to summarize the proofs of claim in advance of the claim determination process because (a) those proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

2. Claim determinations and reports. The process of determining proofs of claim continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 275 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of June 1, 2010, the Liquidator has issued 9,599 determinations for Home totaling approximately \$985.9 million. The determinations are comprised of 7,846 final and 1,753 partial determinations. Partial determinations address proofs of claim shown to include a verified paid loss along with a remaining unliquidated exposure.

The Liquidator continues to file reports of claims and recommendations when a sufficient number of claim determinations have passed the 60-day period for objections under RSA 402-C:41, I. Since the last Liquidator's report, the Liquidator has submitted two further reports of claims and recommendations to the Court reflecting a total of approximately \$10.5 million in determinations. The Liquidator has now presented and the Court has approved claims recommendations, including settlements, for a total of 8,940 claims involving a total allowed amount of approximately \$941.6 million. As of June 8, 2010, there is one report of claims and recommendations pending with the Court totaling approximately \$1.3 million.

3. Requests for review and objections. A notice of determination is sent to a claimant when the Liquidator determines a claim. Each notice of determination includes instructions on how to dispute the determination under New Hampshire statutes and the Claim

Procedures Order. Since inception, 407 claimants have filed requests for review and 128 of these have been sent notices of redetermination. Included among the requests for review are 167 requests filed by guaranty associations concerning the priority of certain claim expenses and unallocated expenses. Claimants have filed 46 objections with the Court to commence disputed claim proceedings. As of June 15, 2010, there are three disputed claim proceedings pending before the Referee, plus one (2005-HICIL-4) that has been stayed. The disputed claims procedures order provides for review of the Referee's reports by motion to recommit. There are six such motions pending.

4. Financial reports. The unaudited March 31, 2010 financial statements for Home are attached as Exhibit A to this report. The March 31, 2010 Home statements reflect \$1,004,852,121 in assets under the Liquidator's direct control at March 31, 2010, and \$26,655,755 in reinsurance collections, net investment income, and other receipts and \$8,220,513 in operating disbursements from January 1 through March 31, 2010. A copy of the audited December 31, 2009 financial statements for Home is attached as Exhibit C to this report.

5. 2010 Budget. A comparison of the actual and budgeted general and administrative expenses of the liquidations (both Home and USI Re), on an incurred basis, through March 31, 2010 is attached as Exhibit E. As of March 31, 2010, actual expenses were below budget by approximately \$83,000 or 1.6%, with favorable variances in nearly all categories. Rent expense exceeded the budget by approximately \$212,000 due to expenses related to the NY office relocation which were not included in the initial 2010 budget. Those expenses are presently estimated at approximately \$400,000, which will be more than offset by cost savings from the new lease. Information technology related expenses associated with upgrade of equipment purchased at the beginning of the liquidation have been included in the

budget. Below is a comparison of the annual budgeted and actual operating expenses (in millions) beginning January 1, 2004:

Year	Budget	Actual
2004	\$33.8	\$26.9
2005	\$26.8	\$26.2
2006	\$25.6	\$23.5
2007	\$22.8	\$21.5
2008	\$21.4	\$20.6
2009	\$20.6	\$20.0
2010	\$19.8	

The Liquidator filed a copy of the 2010 Expense Budget on November 2, 2009 as page 11 of the Exhibit to the Liquidator's Filing Regarding Status Report.

6. Investment update. A summary of Home's holdings of bonds and short-term investments as of March 31, 2010 is attached as Exhibit F, and a report listing the individual holdings of Home as of that date is attached as Exhibit G (the groupings on Exhibit F differ from those on Exhibit G). The book value of Home's bonds and short-term investments managed by Conning Asset Management ("Conning") at March 31, 2010, was approximately \$953 million compared to their market value on that date of \$988 million. This represented an unrealized gain of \$35 million, a increase of \$4 million since the end of the fourth quarter due to a decrease in interest rates. Short-term holdings in the Conning-managed portfolio at March 31, 2010 were \$12 million at market value. The portfolio is expected to generate \$40 million of cash from net investment income in 2010, although dropping yields on reinvested assets represents a challenge in meeting investment income goals.

The average credit rating for the Conning-managed portfolio holdings continues to be AA by Moody's and S&P. The Liquidator also continues to maintain, outside of Conning's control, investments in US Treasury bills and notes. As of March 31, 2010, such investments had a

market value of approximately \$9.6 million for Home. These assets, along with sweep bank accounts, will be used to fund operating requirements.

As of June 3, 2010, the Conning-managed portfolio had an unrealized gain (market value above book value) of \$38.9 million as the portfolio continued to benefit from lower rates and tighter credit spreads. As of June 4, 2010, the Liquidator and Conning believe that, with the exception of one bond involving a potential loss of approximately \$2,500 based on conservative projections, all securities in the portfolio will pay full amounts of principal in spite of fluctuating market values.

Market values of the portfolio can fluctuate widely as credit spreads change and as indicators of a recession coincide with the inflationary effects of large new issuances of government debt. Market value sensitivities analysis performed by Conning indicated that market values could potentially fluctuate \$20-23 million downwards or upwards if interest rates increased or decreased 100 basis points, respectively. Consistent with the investment guidelines, the Liquidator and Conning continue to focus on (1) preservation of capital on investments, (2) maintaining a high quality portfolio, and (3) consistent with objectives (1) and (2), maximizing current income.

7. Early access distributions to guaranty funds. As described in the Liquidator's previous reports, the Liquidator has made early access distributions to guaranty funds in 2005, 2006, 2007, 2008 and 2009 after obtaining approval from the Court and the required "claw back" agreements with the guaranty funds requiring the return of any amounts advanced that exceed the eventual distribution percentage for their creditor class. See RSA 402-C:29, III. The cash payments from the Home liquidation to guaranty funds for these five early access distributions total \$187.2 million. On March 17, 2010, the Court issued an order approving the sixth early

access distribution to insurance guaranty funds. The distribution is subject to waiver of federal priority claims from the United States which was received on May 25, 2010 and execution of the “claw back” agreement by the guaranty funds. The Liquidator expects to pay the distribution during June, 2010.

8. Significant litigation.

Massachusetts Second Injury and COLA Reimbursement. The Liquidator commenced an administrative proceeding before the Massachusetts Department of Industrial Accidents (the “DIA”) seeking second-injury reimbursement from the Workers’ Compensation Trust Fund, an entity controlled by the DIA, as well as cost of living adjustment reimbursement for payments to Massachusetts workers’ compensation claimants.

Minnesota Special Funds Reimbursement. The Liquidator commenced an action in the Ramsey County District Court, Minnesota, seeking second-injury reimbursement from the Minnesota Department of Labor and Industry with respect to payments Home made to various Minnesota workers’ compensation claimants under policies Home issued prior to June 1995. The court heard oral argument on the parties’ summary judgment motions on May 3, 2010.

9. California Subpoenas. For over three years, the Liquidator has been addressing discovery issues arising from actions in California, including requests for documents from the Department of Insurance, from Home and from REM, which acted for Home from 1995 to 2003. The parties to those actions, the “California Plaintiffs” and defendants Zurich Insurance Company and its affiliates (“Zurich”), and the Liquidator entered a stipulation approved by this Court governing the Liquidator’s production in response to subpoenas issued in 2006. In 2009, the California Plaintiffs and Zurich separately sought to obtain additional documents, and the Liquidator produced additional documents in late 2009 and early 2010. In total, 95,614 pages of

documents have been produced in connection with the California consolidated actions. In light of certain requests, the Commissioner/Liquidator also filed a motion for order governing confidentiality of regulatory documents with the Court on October 30, 2009. The California Plaintiffs filed their opposition on November 9, 2009 and Zurich filed a limited objection on November 16, 2009. The Commissioner/Liquidator filed his reply on November 25, 2009. On February 19, 2010 the Court issued its Order regarding the confidentiality of regulatory documents. Zurich filed a motion for reconsideration on March 1, 2010, and the Liquidator filed his objection on March 10, 2010. The California plaintiffs have been pursuing documents from REM, including motion practice, in California. On May 26, 2010, the Special Deputy Liquidator was deposed in connection with the California consolidated actions and a similar action pending in Minnesota.

10. Reinsurance commutations and settlements.

The Liquidator reports, in accordance with the Court's March 23, 2004 order, that since the last report, he has completed a commutation with the Taiping Reinsurance Company Ltd., as described in the confidential appendix. A proposed commutation with State Farm Fire & Casualty Co. has been agreed and is expected to be presented to the Court shortly.

11. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the Liquidator submits a confidential schedule of asset dispositions (including compromises) and obligation assumptions since the last report which is filed under seal as an appendix to this report.

12. Ancillary proceedings in the United States. Ancillary receiverships for Home remain pending in Oregon, New York, and Massachusetts.

13. Relocation of New York Office. The Liquidator is preparing to relocate Home's New York office to another office building in the same general area. The selection process for the new office space has been completed, and the lease agreement for the property was approved by the Court on April 21, 2010. The Liquidator expects the relocation will reduce the square footage by at least one third (with options to further reduce the footprint at various timeframes during the lease period) and substantially reduce annual lease costs from those under the existing lease which terminates December 31, 2010. The move is expected to occur in the third quarter, 2010.

**In the Matter of the Liquidation of  
US International Reinsurance Company**

1. Proofs of claim. The claim filing deadline in the USI Re liquidation was June 13, 2004. On August 19, 2008, the Court entered an Order Approving Claim Amendment Deadline that established December 31, 2008 as the Claim Amendment Deadline for the final submission or amendment of proofs of claim in the USI Re liquidation. The Order provided that proofs of claim and amendments received by the Liquidator after the Claim Amendment Deadline will be deemed to prejudice the orderly administration of the liquidation and shall not be considered. As of June 1, 2010, no new proofs of claim have been received since the Claim Amendment Deadline. A total of 294 proofs of claim have been submitted in the liquidation, with a total amount claimed of approximately \$79.5 million.

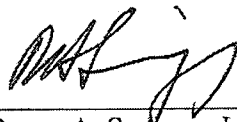
2. Claim determinations and reports. The process of determining proofs of claim continues. As of June 1, 2010, notices of determination issued from the beginning of the process have addressed 288 proofs of claim. Seven claimants have filed requests for review, and the



Liquidator has issued two notices of re-determination, which the claimants accepted. Since the last Liquidator's report, the Liquidator has submitted two further reports of claims and recommendations to the Court reflecting a total of approximately \$20.2 million in determinations. As of June 1, 2010, the Liquidator has presented and the Court has approved claims recommendations, including settlements, for a total of 241 claims involving a total allowed amount of approximately \$39.9 million.

3. Financial reports and investments. The unaudited March 31, 2010 financial statements for USI Re are attached as Exhibit B to this report. A copy of the audited December 31, 2009 financial statements for USI Re are attached as Exhibit D to this report. The March 31, 2010 USI Re statements reflect \$5,390,678 in assets under the Liquidator's direct control at March 31, 2010, and \$17,994 in reinsurance collections and net investment income and \$67,656 in operating disbursements from January 1 through March 31, 2010. As shown on Exhibit F, USI Re's investments consist of approximately \$4.4 million of U.S. Treasury notes and bills.

Respectfully submitted,



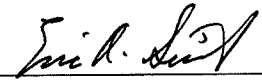
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Roger A. Sevigny, Liquidator

June 28, 2010

**CERTIFICATE OF SERVICE**

I hereby certify that on June 29<sup>th</sup>, 2010, a copy of the Liquidator's Thirty-Seventh Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: June 29<sup>th</sup>, 2010

  
\_\_\_\_\_  
Eric A. Smith  
NH Bar ID No. 16952

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

In the Matter of the Liquidation of  
The Home Insurance Company  
Docket No. 03-E-0106

In the Matter of the Liquidation of  
US International Reinsurance Company  
Docket No. 03-E-0112

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Exhibits:

- A – 3/31/10 Financial Statement – Home
- B – 3/31/10 Financial Statement – USI Re
- C – 12/31/09 Audited Financial Statement – Home
- D – 12/31/09 Audited Financial Statement – USI Re
- E – Comparison of actual and budgeted general and administrative expenses through 3/31/10
- F – Companies' holdings of bonds and short- term investments as of 3/31/10
- G—Home individual holdings report as of 3/31/10

Confidential Appendix

**THE HOME INSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

**March 31, 2010 and December 31, 2009  
(Unaudited)**



## The Home Insurance Company In Liquidation

### Statement of Net Assets (Modified Cash Basis) (Unaudited)

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$933,001,027	\$917,276,479
Short-term investments	24,573,032	9,509,750
Cash and cash equivalents	38,343,029	50,365,241
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<b>995,917,088</b>	<b>977,151,470</b>
Common stocks, marketable, at market value (Note 2)	213,487	229,120
Interest income due and accrued	8,898,874	8,572,125
Receivable from US International Reinsurance Company (Note 4)	16,301	32,417
<b>Total unrestricted liquid assets</b>	<b>1,005,045,750</b>	<b>985,985,132</b>
Unrestricted illiquid assets: ( Note 1)		
Common stocks	-	87,065
Limited partnership interests	1,388,452	1,688,725
<b>Total unrestricted illiquid assets</b>	<b>1,388,452</b>	<b>1,775,790</b>
Restricted liquid assets - cash (Note 5)	429,225	429,225
<b>Total assets, excluding certain amounts</b>	<b>1,006,863,427</b>	<b>988,190,147</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	2,004,044	4,863,942
Claims checks payable (Note 1)	7,262	19,148
<b>Total liabilities</b>	<b>2,011,306</b>	<b>4,883,090</b>
<b>Net assets, excluding certain amounts</b>	<b>\$1,004,852,121</b>	<b>\$983,307,057</b>

See accompanying notes.

## The Home Insurance Company in Liquidation

### Statements of Receipts and Disbursements, and Changes in Cash, Bonds, Short-Term Investments and Cash Equivalents (Modified Cash Basis) (Unaudited)

	<u>January 1, 2009 To March 31, 2010</u>	<u>January 1, 2008 To December 31, 2009</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections - unrestricted	\$ 17,149,374	\$ 53,578,957
Net investment income	9,003,366	38,584,120
Agents' balances	216,957	1,733,335
Salvage, subrogation and other claim recoveries	140,895	3,047,638
Proceeds from distribution by subsidiary (Note 1)	86,984	-
Receivable collected from USI Re	32,417	124,690
Miscellaneous income	20,954	103,914
Realized capital gains on sale of bonds (Note 1)	-	1,233,527
All other	4,808	136,739
<b>Total cash receipts</b>	<u>26,655,755</u>	<u>98,542,920</u>
<b>Cash operating disbursements:</b>		
Human resources costs (Note 3)	5,869,044	13,294,606
Consultant and outside service fees	962,480	2,890,835
General office and rent expense	649,792	2,484,211
Legal and audit fees	231,698	848,739
Investment expenses	200,836	755,962
Losses and loss expenses paid (Note 1)	167,266	1,702,299
Administration costs	59,182	222,637
Computers and equipment cost	40,114	468,542
Capital contribution	31,000	10,000
Realized capital losses on sale of bonds (Note 1)	-	2,713,430
All other	9,101	30,948
<b>Total cash operating disbursements</b>	<u>8,220,513</u>	<u>25,422,209</u>
Excess of receipts over operating disbursements	<u>18,435,242</u>	<u>73,120,711</u>
Distributions (Refunds) to (from) state guaranty associations (Note 8)	(330,376)	21,930,072
Class I Distributions	-	2,932,508
Excess of receipts and refunds over disbursements and distributions	<u>18,765,618</u>	<u>48,258,131</u>
Beginning cash and marketable securities, at cost	<u>977,580,695</u>	<u>929,322,564</u>
<b>Ending cash and marketable securities, at cost</b>	<u>\$ 996,346,313</u>	<u>\$ 977,580,695</u>

See accompanying notes.

## The Home Insurance Company in Liquidation

### Statement of Changes in Net Assets (Modified Cash Basis) (Unaudited)

	January 1, 2010 To March 31, 2010	January 1, 2009 To December 31, 2009
Net Assets, beginning of period	\$983,307,057	\$930,693,586
Excess of unrestricted and restricted receipts and refunds over disbursements and distributions	18,765,618	48,258,131
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(15,633)	(48,817)
Surplus notes, illiquid (Note 1)	-	(146,800)
Common stock, illiquid (Note 1)	(87,065)	(14,930)
Limited partnership interests, illiquid	(300,273)	(326,006)
Interest income due and accrued	326,749	1,511,245
Due from USI Reinsurance	(16,116)	9,329
Incurred but unpaid administrative and investment expenses (Note 3)	2,859,898	216,062
Notices of Determination approved for Class I creditors (Note 8)	-	2,932,508
Claims checks payable	11,886	222,749
Net Assets, end of period	\$1,004,852,121	\$983,307,057

See accompanying notes.

The Home Insurance Company in Liquidation ("Home")  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements

March 31, 2010

**1) Basis of Accounting**

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire Statute establishing creditor classes in insurer insolvencies, RSA 402-C:44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, early access distributions, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

The amount shown for losses and loss expenses paid primarily represents (1) loss expenses accorded administrative expense priority by the rehabilitation order and liquidation order, and (2) expenses relating to obtaining claim recoveries. Checks issued for such losses and loss expenses that are not cashed are reflected as liabilities.

Unrestricted illiquid assets represent investments in common stock and limited partnership interests which are not liquid since these are not publicly traded. In February 2010, Home received approximately \$87,000 as the final distribution in the voluntary dissolution of a subsidiary classified as unrestricted illiquid common stock. In September 2009, Home received approximately \$215,000 as full payment for a surplus note with a carrying value of approximately \$147,000.

Realized capital gains and losses on sale of bonds are calculated based on original cost of the bonds. Proceeds received above or below cost on maturity of bonds are included as part of net investment income.

This statement does not include any assets of Home's branches outside of the United States.

The Home Insurance Company in Liquidation ("Home")  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements (continued)

**2) Marketable Securities**

The carrying values and estimated fair values of marketable bonds and common stock by major category are summarized as follows:

	<b>March 31, 2010</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Marketable Bonds:				
U.S. Treasury notes	\$ 91,451,100	\$ 3,356,709	\$ (39,444)	\$ 94,768,365
Government agencies	143,712,810	1,773,100	(267,010)	145,218,900
Corporate	507,377,304	17,618,226	(2,169,610)	522,825,920
Mortgage Backed	134,917,260	5,782,710	(385,325)	140,314,645
Asset Backed	<u>55,542,553</u>	<u>2,441,348</u>	<u>(170,736)</u>	<u>57,813,165</u>
Total Marketable Bonds	<u>\$ 933,001,027</u>	<u>\$ 30,972,093</u>	<u>\$ (3,032,125)</u>	<u>\$ 960,940,995</u>

Total Common Stock	\$ 1,907,248	\$ -	\$ (1,693,761)	\$ 213,487
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The amortized cost of unrestricted marketable bonds is \$925,855,385. Based on such amortized cost, gross unrealized gains are \$36,087,512 and gross unrealized losses are \$1,001,902.

	<b>December 31, 2009</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Marketable Bonds:				
U.S. Treasury notes	\$ 91,451,099	\$ 3,185,069	\$ (8,594)	\$ 94,627,574
Government agencies	127,608,960	1,911,690	-	129,520,650
Corporate	492,442,784	15,213,334	(3,483,193)	504,172,925
Mortgage Backed	147,241,676	5,207,287	(519,159)	151,929,804
Asset Backed	<u>58,531,960</u>	<u>2,627,139</u>	<u>(224,414)</u>	<u>60,934,685</u>
Total Marketable Bonds	<u>\$ 917,276,479</u>	<u>\$ 28,144,519</u>	<u>\$ (4,235,360)</u>	<u>\$ 941,185,638</u>

Total Common Stock	\$ 1,907,248	\$ -	\$ (1,678,128)	\$ 229,120
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The amortized cost of unrestricted marketable bonds is \$910,193,779. Based on such amortized cost, gross unrealized gains are \$32,586,300 and gross unrealized losses are \$1,594,441.

The Home Insurance Company in Liquidation (“Home”)  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements (continued)

**2) Marketable Securities (continued)**

The carrying value and fair values of marketable bonds by contractual maturity are as follows:

<b>Marketable Bonds</b>	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
March 31, 2010		
One year or less	\$ 54,450,430	\$ 54,827,058
Over one year through five years	656,693,340	674,565,509
Over five years through twenty years	31,397,444	33,420,618
Mortgage Backed	134,917,260	140,314,645
Asset Backed	<u>55,542,553</u>	<u>57,813,165</u>
Total	<u>\$ 933,001,027</u>	<u>\$ 960,940,995</u>

<b>Marketable Bonds</b>	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
December 31, 2009		
One year or less	\$ 74,679,591	\$ 74,187,819
Over one year through five years	590,833,276	605,437,074
Over five years through twenty years	45,989,976	48,696,256
Mortgage Backed	147,241,676	151,929,804
Asset Backed	<u>58,531,960</u>	<u>60,934,685</u>
Total	<u>\$ 917,276,479</u>	<u>\$ 941,185,638</u>

The Home Insurance Company in Liquidation ("Home")  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements (continued)

**3) Incurred But Unpaid Administrative Expenses and Investment Expenses**

Accrued administrative expenses incurred in the normal course of Home's liquidation, but unpaid as of March 31, 2010, are as follows:

Human resources costs	\$ 724,306
Consultant and outside service fees	487,178
General office and rent expense	347,288
Legal and auditing fees	182,329
Other administration costs	54,881
Computer and equipment costs	<u>5,876</u>
Total accrued administrative expenses	<u>\$1,801,858</u>
Accrued investment expenses	<u>202,186</u>
Total accrued expenses	<u>\$2,004,044</u>

The amount of accrued expenses at December 31, 2009 was \$4,863,942 and net assets for 2010 increased by \$2,859,898 due to the decrease in the accrual.

Substantially all full-time employees of Home are covered by various employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on December 28, 2009. The costs of these plans are primarily payable in 2011, but are based on 2010 service and were being accrued over the service period in 2010. Accrued administrative expense includes \$724,223 of incentive plan costs.

**4) Receivable from US International Reinsurance Company (USI Re)**

At March 31, 2010 and December 31, 2009, Home had amounts receivable of \$16,301 and \$32,417, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$32,417 and \$124,690 for such expenses in 2010 and 2009, respectively.

The Home Insurance Company in Liquidation (“Home”)  
(Modified Cash Basis)  
(Unaudited)

(Notes to Financial Statements (continued))

**5) Restricted Funds**

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Restricted funds related to reinsurance recoveries total \$429,225 at the end of March 31, 2010.

**6) Securities on Deposit**

Investments on deposit at the original cost with various states were \$1,838,354 at March 31, 2010 and December 31, 2009, and \$73,947,287 at June 11, 2003, respectively. As described in Note 1, the Liquidator does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

Various states have withdrawn such deposits at par value of \$48,102,110, and market value as of March 31, 2010 of \$49,516,486, for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

**7) Early Access Distribution**

On January 12, 2009, the Court approved a fifth early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2008. The Liquidator paid \$21,930,072 in March 2009 relating to this early access distribution. The Liquidator also received \$330,376 from various states in 2010 as a refund of previous early access distributions. Early access payments through March 31, 2010 were \$187.2 million. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.



The Home Insurance Company in Liquidation ("Home")  
(Modified Cash Basis)  
(Unaudited)

(Notes to Financial Statements (continued))

**7) Early Access Distribution (continued)**

Early access distributions and related advances are not recorded as assets in the accompanying Statement of Net Assets although they represent payments in advance of distributions to other claimants. Early access distributions and related advances will ultimately be credited against amounts payable to Guaranty Associations to ensure pro rata distributions amongst members of the same class of creditor of Home. The following summary represents early access distributions and related advances that are not reflected in the Statement of Net Assets.

Early Access Distributions paid in cash	\$187,228,630
Assets withdrawn from special deposits held by states to pay Home claims (market value, see note 6)	49,516,486
Other deemed Early Access advances paid in cash	<u>3,152,304</u>
Total	<u>\$239,897,420</u>

**8) Allowed Claims**

As of March 31, 2010, the Liquidator has allowed, and the Court has approved, \$17,622,716 of Class I claims, \$823,960,089 of Class II claims, \$90,141,108 of Class V claims and \$5,315 of Class VIII claims. Class I claims for Guaranty Association administrative costs of \$2,932,508 were paid on March 18, 2009. It is management's judgment that there will not be sufficient assets to make distributions on allowed claims below the Class II priority. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.

**US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

**March 31, 2010 and December 31, 2009  
(Unaudited)**

## US International Reinsurance Company In Liquidation

### Statement of Net Assets (Modified Cash Basis) (Unaudited)

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Bonds, at cost (Note 3)	\$ -	\$ 1,540,653
Short-term investments	2,510,752	2,509,290
Cash	<u>2,564,014</u>	<u>1,075,019</u>
<b>Total unrestricted liquid bonds, short-term investments and cash at cost</b>	<b>5,074,766</b>	<b>5,124,962</b>
Interest income due and accrued	-	6,801
<b>Total unrestricted liquid assets</b>	<b><u>5,074,766</u></b>	<b><u>5,131,763</u></b>
Restricted liquid assets:		
Short-term investments	<u>338,152</u>	<u>337,618</u>
<b>Total restricted liquid bonds and short-term investments at cost</b>	<b>338,152</b>	<b>337,618</b>
<b>Total assets, excluding certain amounts</b>	<b><u>5,412,918</u></b>	<b><u>5,469,381</u></b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses (Note 6)	5,939	12,306
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	16,301	32,417
<b>Net assets, excluding certain amounts</b>	<b><u>\$ 5,390,678</u></b>	<b><u>\$ 5,424,658</u></b>

See accompanying notes.

**US International Reinsurance Company In Liquidation**

**Statements of Receipts and Disbursements, and  
Changes in Cash, Bonds, Short-Term Investments and Cash Equivalents  
(Modified Cash Basis)  
(Unaudited)**

	<u>January 1, 2010 To March 31, 2010</u>	<u>January 1, 2009 To December 31, 2009</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections	\$ 290	\$ 109,098
Net investment income	17,704	34,854
All other	-	912
<b>Total cash and marketable securities received</b>	<u>17,994</u>	<u>144,864</u>
<b>Cash operating disbursements:</b>		
Consultant and outside service fees	15,586	59,621
Net payments to Home Insurance Company (Note 2)	32,417	124,690
Cost in excess of proceeds on maturity of bonds	19,653	-
All other	-	19,766
<b>Total cash operating disbursements</b>	<u>67,656</u>	<u>204,077</u>
Excess disbursements over receipts	(49,662)	(59,213)
Beginning cash and marketable securities, at cost	5,462,580	5,521,793
<b>Ending cash and marketable securities, at cost</b>	<u>\$ 5,412,918</u>	<u>\$ 5,462,580</u>

See accompanying notes.

## US International Reinsurance Company in Liquidation

### Statement of Changes in Net Assets (Modified Cash Basis) (Unaudited)

	January 1, 2010 To March 31, 2010	January 1, 2009 To December 31, 2009
Net Assets, beginning of period	\$5,424,658	\$5,512,878
Excess disbursements over receipts	(49,662)	(59,213)
Other changes in net assets:		
Interest income due and accrued	(6,801)	(16,562)
Incurred but unpaid administrative expenses	6,367	(3,116)
Payable to The Home Insurance Company in Liquidation	16,116	(9,329)
Net Assets, end of period	<u>\$5,390,678</u>	<u>\$5,424,658</u>

US International Reinsurance Company in Liquidation (“USI Re”)  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements

March 31, 2010

**1) Basis of Accounting**

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire Statute establishing creditor classes in insurer insolvencies, RSA 402-C:44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

**2) Net Liabilities to Home Insurance Company**

At March 31, 2010 and December 31, 2009, the Liquidator accrued liabilities of \$16,301 and \$32,417, respectively, to Home for USI Re’s allocated share of various administrative expenses incurred. The amount paid to Home was \$32,417 and \$124,690 for such expenses in 2010 and 2009, respectively.

US International Reinsurance Company in Liquidation ("USI Re")  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements (continued)

**3) Marketable Securities**

For the period ending March 31, 2010, USI Re investments are comprised of short term and cash equivalent securities including certain restricted short-term investments. There were no unrestricted or restricted marketable bonds.

The carrying values and estimated fair values of marketable bonds at December 31, 2009, by major category, are summarized as follows:

<b>Unrestricted Marketable Bonds</b>	<b>December 31, 2009</b>			<b>Fair Value</b>
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
U.S. Treasury notes	\$ 1,540,653	\$ -	\$ (13,767)	\$ 1,526,886

The carrying value and fair values of marketable bonds by contractual maturity are as follows:

<b>Marketable Bonds</b>	<b>Unrestricted</b>		<b>Restricted</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
December 31, 2009				
One year or less	\$ 1,540,653	\$ 1,526,886	\$ -	\$ -

**4) Securities on Deposit**

Investments on deposit with various states were \$502,451 at March 31, 2010 and December 31, 2009, and \$4,964,360 at June 13, 2003, respectively. As described in Note 1, the Liquidator does not record the amount of these assets as such amounts have not been settled and agreed to with the states.

At March 31, 2010 and December 31, 2009, the Statement of Restricted and Unrestricted Net Assets reflect, for New Mexico, restricted short term investments of \$338,152 and \$337,618, respectively. These funds are held for the policyholders and creditors as such amounts have not been settled and agreed to with New Mexico.

US International Reinsurance Company in Liquidation (“USI Re”)  
(Modified Cash Basis)  
(Unaudited)

Notes to Financial Statements (continued)

**5) Incurred But Unpaid Administrative Expenses**

USI Re incurred administrative expenses relating to outside service fees of \$5,939 in the normal course of liquidation that were unpaid as of March 31, 2010.

**6) Allowed Claims**

As of March 31, 2010, the Liquidator has allowed, and the Court has approved, \$23,673,477 of Class V claims. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.



**FINANCIAL STATEMENTS  
(MODIFIED-CASH BASIS)**

**The Home Insurance Company in Liquidation  
Years Ended December 31, 2009 and 2008  
With Report of Independent Auditors**

# The Home Insurance Company in Liquidation

## Financial Statements (Modified-Cash Basis)

Years Ended December 31, 2009 and 2008

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## Report of Independent Auditors

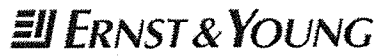
Special Deputy Liquidator  
The Home Insurance Company in Liquidation

We have audited the accompanying statements of restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of The Home Insurance Company in Liquidation (the Liquidating Company) as of December 31, 2009 and 2008, and the related statements of restricted and unrestricted cash receipts and disbursements and changes in fixed-income securities, short-term investments and cash and cash equivalents (modified-cash basis), and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended. These financial statements are the responsibility of the Liquidating Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Liquidating Company's internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Liquidating Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared on a modified-cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of The Home Insurance Company in Liquidation as of December 31, 2009 and 2008, the restricted and unrestricted cash receipts and disbursements and changes in fixed-income securities, short-term investments and cash and cash equivalents (modified-cash basis), and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended, on the basis of accounting described in Note 1.



This report is intended solely for the information and use of the Liquidating Company, the New Hampshire Department of Insurance, the Insurance Commissioner of the State of New Hampshire (the Liquidator), and the Liquidation Court to whose jurisdiction the Liquidating Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

June 14, 2010

## The Home Insurance Company in Liquidation

### Statements of Restricted and Unrestricted Net Assets, Excluding Certain Amounts (Modified-Cash Basis)

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Unrestricted fixed-income securities, short-term investments, and cash and cash equivalents, at cost:		
Fixed-income securities	\$ 917,276,479	\$ 780,430,643
Short-term investments	9,509,750	49,738,716
Cash and cash equivalents	50,365,241	98,735,353
Total unrestricted fixed-income securities, short-term investments, and cash and cash equivalents, at cost	977,151,470	928,904,712
Common stock, marketable, at fair value	229,120	277,937
Interest income due and accrued	8,572,125	7,060,880
Total unrestricted liquid assets	985,952,715	936,243,529
Unrestricted illiquid assets:		
Surplus notes	-	146,800
Common stock	87,065	101,995
Limited partnership interest	1,688,725	2,014,731
Total unrestricted illiquid assets	1,775,790	2,263,526
Restricted liquid assets:		
Cash	429,225	417,852
Total restricted liquid assets	429,225	417,852
Due from affiliate	32,417	23,088
Total restricted and unrestricted assets, excluding certain amounts	988,190,147	938,947,995
<b>Liabilities</b>		
Incurred but unpaid administrative expenses, loss adjustment expenses and investment expenses	4,863,942	5,080,004
Notices of Determination approved for Class I creditors	-	2,932,508
Claim checks payable	19,148	241,897
Total liabilities	4,883,090	8,254,409
Restricted and unrestricted net assets, excluding certain amounts	\$ 983,307,057	\$ 930,693,586

*See accompanying notes.*

## The Home Insurance Company in Liquidation

### Statements of Restricted and Unrestricted Cash Receipts and Disbursements, and Changes in Fixed-Income Securities, Short-Term Investments and Cash and Cash Equivalents (Modified-Cash Basis)

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Cash receipts:		
Reinsurance collections	\$ 53,578,957	\$ 81,976,956
Net investment income	38,584,120	42,279,695
Salvage, subrogation and other claim recoveries	3,047,638	1,392,218
Agents' balances	1,733,335	3,052,546
Realized capital gains on sale of fixed-income securities	1,233,527	2,482,643
Receivable collected from affiliate	124,690	112,391
Repatriation from Canadian branch	—	3,330,950
Proceeds from distribution by subsidiary	—	1,570,697
Other	240,653	1,386,757
Total cash receipts	98,542,920	137,584,853
Cash operating disbursements:		
Human resources costs	13,294,606	13,729,509
Consultant and outside service fees	2,890,835	3,145,835
Realized capital losses on sale of fixed-income securities	2,713,430	5,805,941
General office and rent expense	2,484,211	2,744,142
Losses and loss expenses paid	1,702,299	735,735
Legal fees	848,739	1,183,683
Investment expenses	755,962	671,771
Computers and other equipment expense	468,542	527,214
Administration costs	222,637	208,533
Other	40,948	61,004
Total cash operating disbursements	25,422,209	28,813,367
Excess of cash receipts over cash operating disbursements	73,120,711	108,771,486
Distribution to state guaranty associations	(21,930,072)	(33,805,882)
Class I distributions	(2,932,508)	—
Cash receipts in excess of disbursements and distributions	48,258,131	74,965,604
Beginning restricted and unrestricted fixed-income securities, short-term investments, and cash and cash equivalents, at cost	929,322,564	854,356,960
Ending restricted and unrestricted fixed-income securities, short-term investments, and cash and cash equivalents, at cost	\$ 977,580,695	\$ 929,322,564

*See accompanying notes.*

The Home Insurance Company in Liquidation

Statements of Changes in Restricted and Unrestricted  
Net Assets, Excluding Certain Amounts  
(Modified-Cash Basis)

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Restricted and unrestricted net assets, excluding certain amounts, beginning of year	<b>\$ 930,693,586</b>	\$ 859,513,686
Unrestricted and restricted cash receipts in excess of cash operating disbursements	<b>48,258,131</b>	74,965,604
Other changes in restricted and unrestricted net assets:		
Fair value of marketable common stock, liquid	<b>(48,817)</b>	276,859
Surplus notes, illiquid	<b>(146,800)</b>	-
Common stock, illiquid	<b>(14,930)</b>	(1,643,256)
Limited partnership interest, illiquid	<b>(326,006)</b>	110,736
Interest income due and accrued	<b>1,511,245</b>	(444,666)
Due from affiliate	<b>9,329</b>	(2,968)
Incurred but unpaid administrative expenses, loss adjustment expenses and investment expenses	<b>216,062</b>	989,252
Notices of Determination approved for Class I creditors	<b>2,932,508</b>	(2,851,898)
Claim checks payable	<b>222,749</b>	(219,763)
Restricted and unrestricted net assets, excluding certain amounts, end of year	<b>\$ 983,307,057</b>	\$ 930,693,586

*See accompanying notes.*

# The Home Insurance Company in Liquidation

## Notes to Financial Statements (Modified-Cash Basis)

Year Ended December 31, 2009

### **1. Background and Significant Accounting Policies**

The Home Insurance Company (the Company) was declared insolvent on June 11, 2003, and the liquidation of the Company was ordered (the Liquidation Order) by the Merrimack County Superior Court of the State of New Hampshire (the Liquidation Court). The Insurance Commissioner of the State of New Hampshire (the Liquidator) was appointed Liquidator of the Company. The liquidation of the Company (since June 11, 2003, The Home Insurance Company in Liquidation) is being conducted in accordance with New Hampshire statutes governing insurance insolvency proceedings. The Company has issued no new insurance policies since 1995, and it was placed in supervision by the New Hampshire Insurance Department in 1997. The principal activities since the date of the Liquidation Order (insolvency) consist of determining claims under policies issued prior to the date of insolvency, recovering reinsurance balances for losses ceded under reinsurance agreements, and collecting assets to distribute to creditors. On June 13, 2003, the Liquidation Court issued a revised Liquidation Order, which did not change the effective date of the insolvency.

The following represents the significant accounting policies affecting The Home Insurance Company in Liquidation (the Liquidating Company) that are used in preparing the accompanying financial statements. These policies differ from accounting principles generally accepted in the United States.

#### **Basis of Accounting**

The Liquidating Company's financial statements are prepared using a modified cash basis of accounting, which differs from U.S. generally accepted accounting principles (GAAP). Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization by the Liquidating Company is expected to occur, primarily liquid and illiquid investments, cash and certain receivables are recorded. Liabilities that have been acknowledged by the Liquidating Company are prioritized into 10 creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies (Revised Statutes Section (RSA) 402-C:44). Since only Class I liabilities are currently being paid, only incurred but unpaid Class I (Administration Costs) liabilities, which is a creditor class superior to all other classes, are presented in the financial statements. These financial statements reflect the restricted and unrestricted net assets and the cash receipts, cash disbursements and other changes in net assets on the basis described above.



# The Home Insurance Company in Liquidation

## Notes to Financial Statements (continued) (Modified-Cash Basis)

### **1. Background and Significant Accounting Policies (continued)**

Under this basis of accounting, the Liquidating Company does not record the amounts of certain assets, such as reinsurance recoverable, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance policy claims and losses, as such amounts have not been settled and agreed to with third parties or the Liquidation Court.

These statements do not include any assets of the Liquidating Company's branches outside of the United States, which are subject to liquidation proceedings in those locations and are not under the control of the Liquidator. In 2008, the Canadian Provisional Liquidator of the Liquidating Company's Canadian branch repatriated approximately \$3.3 million in U.S. dollars to the Liquidator.

"Restricted" is a term used to denote certain assets held and managed by the Liquidating Company for parties at interest. The right of ownership to these assets is conditional upon future events. Accordingly, such amounts are shown separately where appropriate (see Note 6).

#### **Use of Estimates**

The preparation of financial statements requires the use of estimates and assumptions by management that effect amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates as more information becomes known.

#### **Fixed-Income Securities**

Fixed-income securities are carried at cost. Amounts received over or under original cost are treated as a gain or loss upon disposition and are treated as net investment income at maturity. Fixed-income securities are generally held until maturity. The types of fixed income securities that the Liquidating Company may invest in are prescribed by order of the Liquidation Court and consist principally of U.S. government and U.S. government agency securities and other high-credit quality corporate, mortgage-backed, and asset-backed debt instruments. The Liquidating Company accrues interest income on fixed income securities as the realization of such amounts is expected to occur.

# The Home Insurance Company in Liquidation

## Notes to Financial Statements (continued) (Modified-Cash Basis)

### **1. Background and Significant Accounting Policies (continued)**

#### **Cash and Cash Equivalents**

Cash equivalents are presented at cost, which approximates fair value. Cash equivalents consist principally of money market accounts, commercial paper and U.S. Treasury Bills with maturities at the date of acquisition of less than 90 days.

#### **Short-Term Investments**

Short-term investments are reported at cost, which approximates fair value and consists primarily of U.S. Treasury securities with maturities at the date of acquisition between 90 days and one year.

#### **Marketable Common Stock**

Marketable common stock is carried at fair value based upon the closing price on a national exchange.

#### **Illiquid Common Stock**

Common stock that is illiquid is comprised of an investment in a 71%-owned company. Carrying value of this instrument is equal to the percentage of equity owned. In February 2010, the Liquidating Company received an approximately \$87,000 distribution for the final voluntary dissolution of this subsidiary.

#### **Surplus Notes**

In September 2009, the Liquidating Company received approximately \$215,000 as full payment for a surplus note with a carrying value of approximately \$147,000 as of December 31, 2008.

#### **Limited Partnership Interest**

Limited partnership interest is an illiquid asset that comprises an 18% investment in a partnership. The carrying value of this investment is equal to the percentage of equity owned as determined based on the most recently available K-1 partnership tax form.

## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### **1. Background and Significant Accounting Policies (continued)**

##### **Due from Affiliate**

Due from affiliate represents amounts receivable from US International Reinsurance Company in Liquidation (USI Re), a wholly owned subsidiary of the Liquidating Company. At December 31, 2009 and 2008, the receivable relates to expenses incurred by the Liquidating Company on behalf of USI Re for administrative expenses. In 2009 and 2008, USI Re paid the Liquidating Company \$124,690 and \$112,391, respectively, for administrative expenses.

##### **Losses and Loss Expenses Paid**

The amount shown for losses and loss expenses paid in the statement of restricted and unrestricted cash receipts and disbursements, and changes in fixed-income securities, short-term investments and cash and cash equivalents primarily represents (1) loss expenses accorded administrative expense priority by the rehabilitation order and Liquidation Order, and (2) expenses relating to obtaining claim recoveries. Checks issued for such losses and loss expenses that are not cashed are reflected as liabilities.

##### **Employee Benefits**

Substantially all full-time employees of the Liquidating Company are covered by various employee incentive plans, which were approved by the Liquidation Court. The costs incurred for these plans are based on the years of service but are paid in the subsequent year. The amount accrued was \$3,394,668 and \$3,836,891 at December 31, 2009 and 2008, respectively. The amount paid in 2009 and 2008 was \$3,536,191 and \$3,846,447, respectively.

##### **Priority of Claims and Distributions to Creditors**

The Liquidating Company will distribute funds to policyholder/creditors in accordance with RSA 402-C:44, which governs asset distributions from the estate of the Liquidating Company. The RSA establishes the following classes of creditors:

# The Home Insurance Company in Liquidation

## Notes to Financial Statements (continued) (Modified-Cash Basis)

### 1. Background and Significant Accounting Policies (continued)

**Class I:** Payment of all administration expenses of closing the business and liquidating the Company.

**Class II:** Payment of policy claims (excluding any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the claimant).

**Class III:** Claims of the federal government.

**Class IV:** Debts due to employees for services performed.

**Class V:** All other claims, including claims of any state or local government, not falling within other classes.

**Class VI:** Claims based solely on judgments.

**Class VII:** Interest on claims already paid.

**Class VIII:** Miscellaneous subordinated claims.

**Class IX:** Preferred ownership claims, including surplus or contribution notes, or similar obligations, and premium funds on assessable policies.

**Class X:** The claims of shareholders or other owners.

The claims of a higher class of creditor (e.g., Class I) must be paid in full before a lower creditor class becomes eligible for payment. The Liquidating Company is currently paying only Class I (Administration Costs) creditors. It is anticipated that additional payments will be made to Class II creditors in the future, after the Liquidation Court's approval. However, the Liquidating Company has advanced early access distributions to insurance guaranty associations (Guaranty Associations) for Class II claims which will be credited against amounts payable to such Guaranty Associations when payments are made to all Class II creditors (see Note 8). It is management's judgment that there will not be sufficient assets to pay any claims below Class II.

As of December 31, 2009, the Liquidator has allowed, and the Liquidation Court has approved, \$17,622,716 of Class I claims, \$653,919,215 of Class II claims, \$83,619,526 of Class V claims and \$5,315 of Class VIII claims. The Class I claims that were unpaid in 2008, were paid in 2009, and include \$2,932,508 for Guaranty Associations' administrative costs. It is management's judgment that there will not be sufficient assets to make distributions on allowed claims below the Class II priority.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued)  
(Modified-Cash Basis)

**1. Background and Significant Accounting Policies (continued)**

Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.

**2. Marketable Securities**

The carrying values and fair values of unrestricted fixed-income securities and liquid common stock by major category are summarized as follows:

	December 31, 2009			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Unrestricted marketable securities</b>				
Fixed-income securities:				
U.S. Treasury notes	\$ 91,451,099	\$ 3,185,069	\$ (8,594)	\$ 94,627,574
Government agencies	127,608,960	1,911,690	-	129,520,650
Corporate	492,442,784	15,213,334	(3,483,193)	504,172,925
Mortgage-backed	147,241,676	5,207,287	(519,159)	151,929,804
Asset-backed	58,531,960	2,627,139	(224,414)	60,934,685
<b>Total</b>	<b>\$ 917,276,479</b>	<b>\$ 28,144,519</b>	<b>\$ (4,235,360)</b>	<b>\$ 941,185,638</b>
 Common stock	 \$ 1,907,248	 \$ -	 \$ (1,678,128)	 \$ 229,120

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued)  
(Modified-Cash Basis)

**2. Marketable Securities (continued)**

The amortized cost of unrestricted marketable fixed-income securities is \$910,193,779 at December 31, 2009. Based on such amortized cost, gross unrealized gains are \$32,586,300 and gross unrealized losses are \$1,594,441.

	<b>December 31, 2008</b>			<b>Fair Value</b>
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
<b>Unrestricted marketable securities</b>				
Fixed-income securities:				
U.S. Treasury notes	\$ 101,230,702	\$ 6,855,262	\$ (88,342)	\$ 107,997,622
Government agencies	152,697,020	6,452,965	-	159,149,985
Corporate	285,741,224	2,269,299	(14,442,797)	273,567,726
Mortgage-backed	175,749,674	2,933,985	(4,859,025)	173,824,634
Asset-backed	65,012,023	-	(4,277,210)	60,734,813
<b>Total</b>	<b>\$ 780,430,643</b>	<b>\$ 18,511,511</b>	<b>\$(23,667,374)</b>	<b>\$ 775,274,780</b>
 Common stock	 \$ 1,907,248	 \$ -	 \$ (1,629,311)	 \$ 277,937

The amortized cost of unrestricted marketable fixed-income securities is \$775,319,916 at December 31, 2008. Based on such amortized cost, gross unrealized gains are \$19,383,654 and gross unrealized losses are \$19,428,790.

The Liquidating Company had net unrealized gains on fixed-income securities of \$23,909,159 and net unrealized losses on fixed-income securities of \$5,155,863 at December 31, 2009 and 2008, respectively. The unrealized gains at December 31, 2009 are due to market conditions, including changes in the interest rate environment in the current year. At December 31, 2009, the securities in the fixed income portfolio continue to be highly rated securities. Management generally has the intent to hold fixed-income securities to maturity and recovery of the cost.

Although disposals of fixed-income securities periodically occur, the Liquidating Company generally intends to hold fixed-income securities to maturity. As of December 31, 2009, disposals of certain fixed-income securities resulted in net realized losses of \$1,479,903.

## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### 2. Marketable Securities (continued)

The cost and fair values of unrestricted marketable fixed-income securities by contractual maturity as of December 31, 2009, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
<b>Unrestricted marketable fixed-income securities</b>		
One year or less	\$ 74,679,591	\$ 74,187,819
Over one year through five years	590,833,276	605,437,074
Over five years through twenty years	45,989,976	48,696,256
Mortgage-backed	147,241,676	151,929,804
Asset-backed	58,531,960	60,934,685
Total	<u>\$ 917,276,479</u>	<u>\$ 941,185,638</u>

Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

#### 3. Fair Value Measurements

The fair value measurements and disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification with respect to financial statements prepared in accordance GAAP clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements.

Various inputs are used in determining the fair value of the Liquidating Company's unrestricted investments. These inputs are summarized in three broad levels as follows:

**Level 1 Inputs** – Quoted prices in active markets for identical securities without adjustment. The Level 1 assets of the Liquidating Company include an investment in an exchange-traded common stock and would include the Liquidating Company's U.S. Treasury securities if reported at fair value in the statements of restricted and unrestricted net assets.

## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### 3. Fair Value Measurements (continued)

**Level 2 Inputs** – Other significant observable inputs other than Level 1 inputs (including quoted prices for similar securities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data). The Level 2 assets of the Liquidating Company, if reported at fair value on a recurring basis, would include corporate and asset-backed fixed-income securities (including mortgage-backed fixed-income securities), and government agency debt.

The fair value of these securities for purposes of financial statement disclosure is determined using pricing quotes from third-party pricing services. These third-party pricing services use pricing matrices with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

**Level 3 Inputs** – Significant unobservable inputs, including the Liquidating Company's own assumptions in determining the fair value of investments. At December 31, 2009 and 2008, the Liquidating Company's Level 3 assets, if reported at fair value on a recurring basis, would include the unrestricted illiquid assets presented on the statements of restricted and unrestricted net assets.

#### 4. Securities on Deposit

Investments on deposit (at original cost) with various states were \$1,838,354 and \$1,815,931 at December 31, 2009 and 2008, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as it does not have access to such amounts as they have not been settled and agreed to with the states.

Various states have withdrawn securities on deposit for use by the related state guaranty associations and the amounts withdrawn may be offset against future distributions to such guaranty associations. Since June 11, 2003, deposits with market value of \$49,516,486 and par value of \$48,102,110 have been withdrawn for use by state guaranty associations.



## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### **5. Class I Liabilities: Incurred But Unpaid Administrative Expenses, Including Loss Adjustment Expenses and Investment Expenses**

Class I liabilities represent accrued administrative expenses, including loss adjustment expenses and investment expenses, incurred in the normal course of the Liquidating Company, and consist of the following accruals at December 31, 2009 and 2008:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Human resources costs	<b>\$ 3,394,668</b>	\$ 3,837,303
Consultant and outside service fees	<b>807,579</b>	554,355
Accrued investment expenses	<b>200,837</b>	179,730
Legal and professional fees	<b>191,230</b>	183,899
General office and rent expense	<b>173,724</b>	158,542
Other administration costs	<b>75,669</b>	130,105
Computers and equipment costs	<b>20,235</b>	36,070
	<b><u>\$ 4,863,942</u></b>	<b><u>\$ 5,080,004</u></b>

#### **6. Restricted Funds**

The Liquidator has drawn down on letters of credit (LOC) posted by insurance companies that have assumed risks from the Liquidating Company. The LOCs have been drawn down upon receiving notices of cancellation or notices of nonrenewal of the LOC from the issuing bank. Such LOC drawdowns relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds related to reinsurance recoveries total \$429,225 and \$417,852 as of December 31, 2009 and 2008, respectively. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled with the beneficial owner. In 2009, restricted funds increased by \$11,373. In 2008, restricted funds increased by \$76,935.

## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### 7. Commitments

The Liquidating Company leases office space and equipment under operating leases expiring in various years through December 31, 2013.

Minimum future rental payments under noncancelable operating leases having remaining terms are:

Year ending December 31,	
2010	\$ 1,355,639
2011	392,704
2012	579,681
2013	594,217
	<u>\$ 2,922,241</u>

Rent expense incurred was \$1,363,977 and \$1,670,855 for the years ended December 31, 2009 and 2008, respectively. The Manchester, New Hampshire office lease term is for five years, commencing on July 10, 2008 to July 31, 2013, with the option of further extension of the term for an additional two years and five months from August 1, 2013 through December 31, 2015.

The New York, New York (New York City) office lease expires December 31, 2010. The Liquidator has signed a lease agreement, effective September 1, 2010, to relocate to a new location in New York City in order to reduce office space and lease cost. The lease agreement for the new location has been approved by the Liquidation Court.

#### 8. Early Access Distribution

On January 12, 2009, the Liquidation Court approved a fifth early access distribution to Guaranty Associations based on Guaranty Association payments through September 30, 2008. The Liquidator paid \$21,930,072 in March 2009 relating to this early access distribution. Early access payments through December 31, 2009, were \$187.6 million. During March 2010, the Liquidation Court approved a sixth early access distribution based on guaranty association payments through September 30, 2009. The sixth early access distribution is expected to be paid during 2010. The Liquidator may periodically make additional early access distributions in the future, subject to the Liquidation Court's approval.

## The Home Insurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### 8. Early Access Distribution (continued)

Early access distributions and related advances are not recorded as assets in the accompanying statements of net assets although they represent payments in advance of distributions to other claimants. Early access distributions and related advances will ultimately be credited against amounts payable to Guaranty Associations to ensure pro rata distributions amongst members of the same class of creditor of the Liquidating Company. The following summary represents early access distributions and related advances that are not reflected in the statements of restricted and unrestricted net assets excluding certain amounts.

	<u>2009</u>	<u>2008</u>
Total early access distributions and related advances, beginning of year	\$ 218,297,725	\$ 184,491,843
Early access distributions paid in cash	<u>21,930,071</u>	<u>33,805,882</u>
Total early access distributions and related advances, end of year	<u>\$ 240,227,796</u>	<u>\$ 218,297,725</u>

#### 9. Income Taxes

The Liquidating Company reported net operating loss carryforwards of \$2,066,664,803 at December 31, 2008, upon filing of the 2008 income tax return. These operating loss carryforwards expire in various amounts from 2019 to 2028. The 2009 income tax return has not been filed but is expected to reflect additional tax losses.

#### 10. Subsequent Events

The Liquidating Company evaluated its financial statements for subsequent events through June 4, 2010, the date the financial statements were available to be issued. The Liquidating Company is not aware of any subsequent events, other than those already disclosed, which would require recognition or disclosure in the financial statements.

**FINANCIAL STATEMENTS  
(MODIFIED-CASH BASIS)**

**US International Reinsurance Company in Liquidation  
Years Ended December 31, 2009 and 2008  
With Report of Independent Auditors**

# US International Reinsurance Company in Liquidation

## Financial Statements (Modified-Cash Basis)

Years Ended December 31, 2009 and 2008

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## Report of Independent Auditors

Special Deputy Liquidator  
US International Reinsurance Company in Liquidation

We have audited the accompanying statements of restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of US International Reinsurance Company in Liquidation (the Liquidating Company) as of December 31, 2009 and 2008, and the related statements of restricted and unrestricted cash receipts and disbursements and changes in bonds, short-term investments and cash (modified-cash basis) and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended. These financial statements are the responsibility of the Liquidating Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Liquidating Company's internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Liquidating Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of US International Reinsurance Company in Liquidation as of December 31, 2009 and 2008, the restricted and unrestricted cash receipts and disbursements and changes in bonds, short-term investments and cash (modified-cash basis), and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended, on the basis of accounting described in Note 1.



This report is intended solely for the information and use of the Liquidating Company, the New Hampshire Department of Insurance, the Insurance Commissioner of the State of New Hampshire (the Liquidator) and the Liquidation Court to whose jurisdiction the Liquidating Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

June 14, 2010

US International Reinsurance Company in Liquidation

Statements of Restricted and Unrestricted Net Assets,  
Excluding Certain Amounts  
(Modified-Cash Basis)

	December 31	
	2009	2008
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash, at cost:		
Bonds	\$ 1,540,653	\$ 2,024,821
Short-term investments	2,509,290	2,065,503
Cash	1,075,019	1,087,982
Total unrestricted bonds, short-term investments and cash, at cost	<u>5,124,962</u>	<u>5,178,306</u>
Interest income due and accrued on unrestricted assets	6,801	19,521
Total unrestricted assets	<u>5,131,763</u>	<u>5,197,827</u>
Restricted assets:		
Bonds, at cost	–	343,487
Short-term investments, at cost	337,618	–
Interest income due and accrued on restricted assets	–	3,842
Total restricted assets	<u>337,618</u>	<u>347,329</u>
Total restricted and unrestricted assets, excluding certain amounts	<u>5,469,381</u>	<u>5,545,156</u>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses	12,306	9,190
Payable to The Home Insurance Company in Liquidation	32,417	23,088
Net assets, excluding certain amounts	<u>\$ 5,424,658</u>	<u>\$ 5,512,878</u>

*See accompanying notes.*



US International Reinsurance Company in Liquidation

Statements of Restricted and Unrestricted Cash Receipts and  
Disbursements and Changes in Bonds, Short-Term Investments and Cash  
(Modified-Cash Basis)

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash and marketable securities received</b>		
Reinsurance collections	\$ 109,098	\$ 13,928
Net investment income	34,854	208,818
Other	912	-
Total cash and marketable securities received	144,864	222,746
<b>Cash operating disbursements</b>		
Consultant and outside service fees	59,621	66,716
Net payments to The Home Insurance Company in Liquidation	124,690	112,391
Other	19,766	8,023
Total cash operating disbursements	204,077	187,130
(Deficiency) excess of receipts over operating disbursements	(59,213)	35,616
Beginning restricted and unrestricted bonds, short-term investments and cash, at cost	5,521,793	5,486,177
Ending restricted and unrestricted bonds, short-term investments and cash, at cost	\$ 5,462,580	\$ 5,521,793

*See accompanying notes.*

US International Reinsurance Company in Liquidation

Statements of Changes in Restricted and Unrestricted Net Assets,  
Excluding Certain Amounts  
(Modified-Cash Basis)

	Year Ended December 31	
	2009	2008
Restricted and unrestricted net assets, excluding certain amounts, beginning of year	\$ 5,512,878	\$ 5,454,924
(Deficiency) excess of unrestricted and restricted receipts over operating disbursements	(59,213)	35,616
Other changes in restricted and unrestricted net assets:		
Interest income due and accrued	(16,562)	17,094
Incurred but unpaid administrative expenses	(3,116)	2,276
Payable to The Home Insurance Company in Liquidation	(9,329)	2,968
Restricted and unrestricted net assets, excluding certain amounts, end of year	<u>\$ 5,424,658</u>	<u>\$ 5,512,878</u>

*See accompanying notes.*

# US International Reinsurance Company in Liquidation

## Notes to Financial Statements (Modified-Cash Basis)

Year Ended December 31, 2009

### **1. Background and Significant Accounting Policies**

US International Reinsurance Company (the Company or USI Re), a wholly owned subsidiary of The Home Insurance Company in Liquidation (the Home), was declared insolvent on June 13, 2003, and the liquidation of the Company was ordered (the Liquidation Order) by the Merrimack County Superior Court of the State of New Hampshire (the Liquidation Court). The Insurance Commissioner of the State of New Hampshire (the Liquidator) was appointed Liquidator of the Company. The liquidation of the Company (since June 13, 2003, US International Reinsurance Company in Liquidation) is being conducted in accordance with New Hampshire statutes governing insurance insolvency proceedings. The Company has issued no new insurance policies since 1990, and it was placed in supervision by the New Hampshire Insurance Department in 1997. The principal activities since the date of the Liquidation Order (insolvency) consist of determining claims under contracts issued prior to the date of insolvency, recovering reinsurance balances for losses ceded under reinsurance agreements and collecting assets to distribute to creditors.

The following represents the significant accounting policies affecting US International Reinsurance Company in Liquidation (the Liquidating Company) that are used in preparing the accompanying financial statements. These policies differ from accounting principles generally accepted in the United States.

#### **Basis of Accounting**

The Liquidating Company's financial statements are prepared using a modified-cash basis of accounting, which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization by the Liquidating Company is expected to occur, primarily cash, cash equivalents, bonds, short-term investments, and investment-related receivables are recorded. Liabilities that have been acknowledged by the Liquidating Company are prioritized into ten creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies (Revised Statutes Section (RSA) 402-C:44). Since only Class I liabilities are currently being paid, only incurred but unpaid Class I (Administration Costs) liabilities, which is a creditor class superior to all other classes, are presented in the financial statements.

The Liquidating Company does not record the amounts of certain assets, such as reinsurance recoverable, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance policy claims and losses, as such amounts have not been settled and agreed to with third parties or the Liquidation Court.

# US International Reinsurance Company in Liquidation

## Notes to Financial Statements (continued) (Modified-Cash Basis)

### 1. Background and Significant Accounting Policies (continued)

#### Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions by management that affect amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates as more information becomes known.

#### Short-Term Investments and Bonds

Short-term investments are reported at cost, which approximates fair value and consists of U.S. Treasury securities with maturities at the date of acquisition between 90 days and one year.

Marketable bonds are carried at cost. Amounts received over or under original cost are treated as a gain or loss upon disposition and are treated as net investment income at maturity. The types of bonds that the Liquidating Company may invest in are prescribed by order of the Liquidation Court and consist principally of U.S. Treasury securities. The Liquidating Company accrues interest income on marketable bonds as the realization of such amounts is expected to occur.

#### Priority of Claims and Distributions to Creditors

The Liquidating Company will distribute funds to creditors in accordance with RSA 402-C:44, which governs asset distributions from the estate of the Liquidating Company. The RSA establishes the following classes of creditors:

**Class I:** Payment of all administration expenses of closing the business and liquidating the Company.

**Class II:** Payment of policy claims (excluding any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the claimant).

**Class III:** Claims of the federal government.

**Class IV:** Debts due to employees for services performed.

**Class V:** All other claims, including claims of any state or local government, not falling within other classes.

# US International Reinsurance Company in Liquidation

## Notes to Financial Statements (continued) (Modified-Cash Basis)

### 1. Background and Significant Accounting Policies (continued)

**Class VI:** Claims based solely on judgments.

**Class VII:** Interest on claims already paid.

**Class VIII:** Miscellaneous subordinated claims.

**Class IX:** Preferred ownership claims, including surplus or contribution notes, or similar obligations, and premium funds on assessable policies.

**Class X:** The claims of shareholders or other owners.

The claims of a higher class of creditor (e.g., Class I) must be paid in full before a lower creditor class becomes eligible for payment. The Liquidating Company is currently paying only Class I (Administration Costs) creditors. It is uncertain whether there will be sufficient assets to pay any claims below Class I (Administration Costs).

### 2. Marketable Securities

The carrying values and estimated fair values of bonds by major category are summarized as follows:

		December 31, 2009			
		Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Unrestricted</b>					
	U.S. Treasury notes	\$ 1,540,653	\$ -	\$ (13,767)	\$ 1,526,886
		December 31, 2008			
		Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Unrestricted</b>					
	U.S. Treasury notes	\$ 2,024,821	\$ -	\$ (33,295)	\$ 1,991,526
<b>Restricted</b>					
	U.S. Treasury notes	\$ 343,487	\$ -	\$ (3,375)	\$ 340,112

## US International Reinsurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### 2. Marketable Securities (continued)

The carrying value and fair values of bonds by contractual maturity are as follows:

	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
<b>December 31, 2009</b>				
One year or less	\$ 1,540,653	\$ 1,526,886	\$ –	\$ –
Total	\$ 1,540,653	\$ 1,526,886	\$ –	\$ –

#### 3. Fair Value Measurements

The fair value measurements and disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification with respect to financial statements prepared in accordance with generally accepted accounting principles clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements.

Various inputs are used in determining the fair value of the Liquidating Company's unrestricted investments. These inputs are summarized in three broad levels as follows:

**Level 1 Inputs** – Quoted prices in active markets for identical securities without adjustment. The Level 1 assets of the Liquidating Company, if reported at fair value on a recurring basis, would include investments in U.S. Treasury securities.

**Level 2 Inputs** – Other significant observable inputs other than Level 1 inputs (including quoted prices for similar securities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data). At December 31, 2009 and 2008, the Liquidating Company did not hold investments that would be classified as Level 2 assets if reported at fair value.

**Level 3 Inputs** – Significant unobservable inputs, including the Liquidating Company's own assumptions in determining the fair value of investments. At December 31, 2009 and 2008, the Liquidating Company did not hold investments that would be classified as Level 3 assets if reported at fair value.

## US International Reinsurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### **4. Securities on Deposit**

Investments on deposit at original cost with various states were \$502,451 and \$490,759 at December 31, 2009 and 2008, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

At December 31, 2009 and 2008, the statement of restricted and unrestricted net assets reflects restricted short-term investments of \$337,618 and bonds of \$343,487, respectively. These funds are held for the policyholders and creditors in New Mexico and such amounts have not been settled and agreed to with New Mexico.

The Liquidating Company has pledged money market accounts in the amount of \$101,785 at December 31, 2008 as collateral for letters of credit placed for the benefit of reinsurers. As the money market accounts are pledged as collateral, the Liquidating Company did not record them as assets for the period ended December 31, 2008. There were no assets pledged as collateral for letters of credit placed for the benefit of reinsurers as of December 31, 2009.

#### **5. Payable to the Home**

At December 31, 2009 and 2008, the payable to the Home of \$32,417 and \$23,088, respectively, related to expenses incurred by the Home on behalf of the Liquidating Company for administrative expenses. In 2009 and 2008, the Liquidating Company paid the Home \$124,690 and \$112,391, respectively, for administrative expenses.

#### **6. Income Taxes**

The Liquidating Company is included in the Home's consolidated federal income tax return. The Home has a written income tax agreement with the Liquidating Company, which provides for the amounts and timing of payments by the Liquidating Company to the Home with respect to any federal income tax liability of the Liquidating Company. To date, the Liquidating Company has not incurred any tax obligations under this income tax agreement.

## US International Reinsurance Company in Liquidation

### Notes to Financial Statements (continued) (Modified-Cash Basis)

#### **7. Incurred But Unpaid Administrative Expenses**

The Liquidating Company incurred administrative expenses relating to outside service fees of \$12,306 and \$9,190, in the normal course of liquidation, that were unpaid as of December 31, 2009 and 2008, respectively.

#### **8. Allowed Claims**

As of December 31, 2009, the Liquidator has allowed, and the Court has approved, \$6,925,298 of Class V claims. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C:44.

#### **9. Subsequent Events**

The Liquidating Company evaluated its financial statements for subsequent events through June 4, 2010, the date the financial statements were available to be issued. The Liquidating Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.



The Home Insurance Company in Liquidation  
 US International Reinsurance Company in Liquidation  
 G&A Expenses (Actual vs Budget)  
 March 31, 2010

General & Administrative Expense	YTD			Full Year Budget
	Actual 2010	Budget 2010	Variance 2010	
Salary and Benefits	3,198,682	3,230,499	(31,817)	12,370,257
Travel	8,558	41,658	(33,100)	143,794
Rent	735,834	524,193	211,641	2,208,853
Equipment	39,484	78,226	(38,742)	552,900
Printing and Stationery	16,760	20,735	(3,975)	81,840
Postage	9,817	11,732	(1,915)	46,644
Telephone	61,190	79,000	(17,810)	301,200
Disaster Recovery	-	-	-	-
Outside Services, including Special Deputy	659,473	783,165	(123,692)	3,216,024
Licensing Fees	575	250	325	1,000
Legal and Auditing	199,612	230,500	(30,888)	913,000
Bank Fees	30,593	40,500	(9,907)	162,000
Corporate Insurance	-	31,250	(31,250)	127,000
Miscellaneous Expenses	1,105	1,100	5	4,000
<b>Total US Expenses Incurred</b>	<b>4,961,683</b>	<b>5,072,807</b>	<b>(111,125)</b>	<b>20,128,512</b>
Miscellaneous Income	(9,630)	(37,500)	27,870	(150,000)
<b>Total US Incurred</b>	<b>4,952,052</b>	<b>5,035,307</b>	<b>(83,255)</b>	<b>19,978,512</b>

The Home Insurance Company in Liquidation  
 Portfolio Summary Report- Bonds and Short Term Investments  
 Securities Held as of March 31, 2010  
 (000's)

**Conning Managed:**

% of Av Fixed Income	Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Eamed Income 3/31/10
1%	11,996	11,996	-	0.04	0.06	Aaa	5
11%	105,786	109,730	3,944	2.57	2.83	Aaa	727
19%	183,040	186,161	3,121	2.00	2.26	Aaa	1,087
48%	461,392	481,884	20,492	3.21	4.19	A2	4,743
14%	134,792	140,315	5,523	3.56	5.15	Aaa	1,793
6%	55,830	57,813	1,983	1.11	5.27	Aa1	748
100%	952,836	987,899	35,063	2.80	3.82	Aa2	9,103

**Other investments- Home Insurance**

100% US Treasury Bills and Notes

**Total Home Insurance**

**Other investments- USI Re**

100% US Treasury Bills and Notes

**Grand total (1)**

(1) Investment balances do not include cash amounts invested in sweep accounts of Citizens Bank and investments in common stocks and limited partnerships.

(2) On an annualized basis, the total estimated income generated by the portfolio, calculated based on holdings as of March 31, 2010, would be \$36.3 million.

**THE HOME INSURANCE COMPANY IN LIQUIDATION  
HOLDINGS REPORT  
AS OF MARCH 31, 2010**

CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
177366101	CITIZENSSELECT PRIME MMF	0.060 04/15/2010	11,996,022.99	11,996,022.99	11,996,022.99
<b>TOTAL CASH EQUIVALENTS</b>			<b>11,996,022.99</b>	<b>11,996,022.99</b>	<b>11,996,022.99</b>
<b>SHORT TERM (OVER 90 DAYS)</b>					
912795U41	US TREASURY BILL	05/06/2010	9,543,000.00	9,539,567.17	9,541,663.98
912828KE9	US TREASURY N/B	0.875 02/28/2011	15,000,000.00	15,063,093.75	15,061,500.00
<b>TOTAL SHORT TERM</b>			<b>24,543,000.00</b>	<b>24,602,660.92</b>	<b>24,603,163.98</b>
<b>U S TREASURY</b>					
912810DV7	US TREASURY N/B	9.250 02/15/2016	74,000.00	78,153.94	99,715.00
9128277B2	US TREASURY N/B	5.000 08/15/2011	5,000,000.00	5,083,076.85	5,300,400.00
912828AJ9	US TREASURY N/B	4.375 08/15/2012	5,000,000.00	5,073,758.85	5,372,650.00
912828FH8	US TREASURY N/B	4.875 05/31/2011	5,000,000.00	4,991,618.55	5,253,300.00
912828HK9	US TREASURY N/B	3.375 11/30/2012	30,000,000.00	30,203,646.60	31,577,400.00
912828JD3	US TREASURY N/B	3.375 06/30/2013	25,000,000.00	25,135,090.00	26,306,750.00
912828JK7	US TREASURY N/B	3.125 08/31/2013	5,000,000.00	5,035,509.00	5,217,200.00
912828JM3	US TREASURY N/B	3.125 09/30/2013	15,000,000.00	15,200,206.05	15,640,950.00
<b>TOTAL U S TREASURY</b>			<b>90,074,000.00</b>	<b>90,801,059.84</b>	<b>94,768,365.00</b>
<b>GOVERNMENT AGENCIES</b>					
3133XHPH9	FEDERAL HOME LOAN BANK	4.875 11/18/2011	10,000,000.00	10,188,414.50	10,628,100.00
3133XRCW8	FEDERAL HOME LOAN BANK	3.375 06/24/2011	10,000,000.00	9,986,434.00	10,303,100.00
3133XSAE8	FEDERAL HOME LOAN BANK	3.625 10/18/2013	10,000,000.00	10,301,498.60	10,562,500.00
3134A4UK8	FREDDIE MAC	4.875 11/15/2013	10,000,000.00	10,416,769.90	10,975,000.00
31359MHK2	FANNIE MAE	5.500 03/15/2011	10,000,000.00	10,204,875.80	10,468,800.00
31359MM26	FANNIE MAE	5.125 04/15/2011	10,000,000.00	10,192,327.50	10,478,100.00
3137EABE8	FREDDIE MAC	4.125 12/21/2012	10,000,000.00	10,160,468.80	10,640,600.00
3137EABY4	FREDDIE MAC	2.125 03/23/2012	50,000,000.00	51,021,197.00	50,906,500.00
31398AUJ9	FANNIE MAE	2.875 12/11/2013	10,000,000.00	10,059,500.00	10,253,100.00
31398AWG3	FANNIE MAE	2.250 04/09/2012	10,000,000.00	10,001,597.80	10,003,100.00
<b>TOTAL GOVERNMENT AGENCIES</b>			<b>140,000,000.00</b>	<b>142,533,083.90</b>	<b>145,218,900.00</b>
<b>TOTAL GOVERNMENT &amp; AGENCIES</b>			<b>230,074,000.00</b>	<b>233,334,143.74</b>	<b>239,987,265.00</b>
<b>CORPORATE</b>					
00206RAF9	AT&T INC	4.950 01/15/2013	2,000,000.00	1,999,121.46	2,148,380.00
002819AA8	ABBOTT LABORATORIES	5.150 11/30/2012	3,850,000.00	4,152,805.81	4,210,321.50
010392FA1	ALABAMA POWER CO	5.800 11/15/2013	3,000,000.00	3,193,374.15	3,358,290.00
013817AD3	ALCOA INC	6.500 06/01/2011	3,000,000.00	3,066,806.34	3,144,330.00
025816AQ2	AMERICAN EXPRESS	4.875 07/15/2013	3,000,000.00	3,007,220.07	3,164,280.00
02581FYM5	AMERICAN EXPR CENTURION	5.200 11/26/2010	4,250,000.00	4,249,412.31	4,366,110.00
02666QF40	AMERICAN HONDA FINANCE	3.500 03/16/2015	2,575,000.00	2,569,429.66	2,561,713.00
03076CAA4	AMERIPRISE FINANCIAL INC	5.350 11/15/2010	3,000,000.00	2,996,802.18	3,085,500.00
031162AJ9	AMGEN INC	4.850 11/18/2014	7,000,000.00	6,786,311.68	7,598,220.00
035229CH4	ANHEUSER-BUSCH COS INC	6.000 04/15/2011	5,000,000.00	5,083,185.61	5,232,200.00
037411AQ8	APACHE CORP	6.250 04/15/2012	3,000,000.00	3,091,387.74	3,275,730.00
046353AC2	ASTRAZENECA PLC	5.400 09/15/2012	6,000,000.00	6,435,311.88	6,552,240.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION  
HOLDINGS REPORT  
AS OF MARCH 31, 2010**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
055451AD0	BHP BILLITON FIN USA LTD	5.125	03/29/2012	2,000,000.00	2,086,891.16	2,141,100.00
055451AG3	BHP BILLITON FIN USA LTD	5.500	04/01/2014	2,500,000.00	2,493,187.35	2,750,900.00
055451AH1	BHP BILLITON FIN USA LTD	6.500	04/01/2019	2,500,000.00	2,492,614.85	2,858,225.00
05565QB2	BP CAPITAL MARKETS PLC	3.125	03/10/2012	4,000,000.00	3,999,842.16	4,143,640.00
05565QBL1	BP CAPITAL MARKETS PLC	3.625	05/08/2014	2,875,000.00	2,857,124.43	2,982,352.50
057224AX5	BAKER HUGHES INC	6.500	11/15/2013	3,000,000.00	3,248,937.63	3,430,290.00
06406HBE8	BANK OF NEW YORK MELLON	4.950	11/01/2012	4,000,000.00	3,982,417.40	4,336,800.00
06765XAA7	BARCLAYS BANK PLC	2.700	03/05/2012	5,000,000.00	5,061,956.65	5,117,400.00
071813AZ2	BAXTER INTERNATIONAL INC	4.000	03/01/2014	7,000,000.00	7,288,110.90	7,319,760.00
07385TAJ5	BEAR STEARNS CO INC	5.700	11/15/2014	5,000,000.00	5,167,587.35	5,445,050.00
073928W90	BEAR STEARNS CO INC	5.850	07/19/2010	2,767,000.00	2,776,790.03	2,806,927.81
097014AG9	BOEING CAPITAL CORP	6.500	02/15/2012	4,000,000.00	4,197,907.72	4,369,760.00
097023AY1	BOEING CO	3.500	02/15/2015	3,000,000.00	3,067,091.94	3,052,290.00
126650AV2	CVS CORP	4.875	09/15/2014	3,000,000.00	3,016,330.92	3,196,230.00
134429AM1	CAMPBELL SOUP COMPANY	6.750	02/15/2011	3,000,000.00	3,054,001.80	3,162,150.00
134429AU3	CAMPBELL SOUP CO	3.375	08/15/2014	2,500,000.00	2,498,881.98	2,567,850.00
136375BH4	CANADIAN NATL RAILWAYS	4.400	03/15/2013	5,150,000.00	5,254,956.43	5,439,430.00
14912L2M2	CATERPILLAR FIN SERV CRP	4.750	02/17/2015	4,000,000.00	3,869,373.64	4,284,720.00
14912L3G4	CATERPILLAR FIN SERV CRP	5.125	10/12/2011	2,000,000.00	1,996,861.44	2,118,200.00
14912LZ46	CATERPILLAR FIN SERV CRP	4.600	01/15/2014	1,000,000.00	1,064,709.46	1,064,700.00
166751AH0	CHEVRON CORP	3.950	03/03/2014	7,000,000.00	7,300,800.70	7,310,450.00
17275RAB8	CISCO SYSTEMS INC	5.250	02/22/2011	4,000,000.00	3,997,902.28	4,162,840.00
17275RAG7	CISCO SYSTEMS INC	2.900	11/17/2014	3,000,000.00	3,045,281.55	3,037,530.00
17313YAG6	CITIGROUP FUNDING INC	2.125	07/12/2012	5,000,000.00	5,009,311.50	5,089,650.00
191216AL4	COCA-COLA CO/THE	3.625	03/15/2014	3,000,000.00	3,129,577.44	3,120,840.00
191219BV5	COCA-COLA ENTERPRISES	4.250	03/01/2015	3,570,000.00	3,736,779.62	3,778,630.80
20029PAL3	COMCAST CABLE COMMUNICAT	6.750	01/30/2011	3,000,000.00	2,988,623.10	3,135,480.00
2027A0EM7	COMMONWEALTH BANK AUST	3.500	03/19/2015	5,000,000.00	4,979,245.70	4,964,000.00
20825CAT1	CONOCOPHILLIPS	4.600	01/15/2015	2,000,000.00	2,123,118.40	2,144,980.00
20825UAB0	CONOCO FUNDING CO	6.350	10/15/2011	5,000,000.00	5,115,096.90	5,393,550.00
22160KAB1	COSTCO WHOLESALE CORP	5.300	03/15/2012	5,000,000.00	5,058,593.45	5,371,150.00
22541LAC7	CREDIT SUISSE FB USA INC	6.500	01/15/2012	5,000,000.00	5,136,948.03	5,436,350.00
24422EQM4	JOHN DEERE CAPITAL CORP	4.950	12/17/2012	6,500,000.00	6,496,243.07	7,043,465.00
24702RAD3	DELL INC	4.700	04/15/2013	3,500,000.00	3,552,819.76	3,759,665.00
24702RAH4	DELL INC	3.375	06/15/2012	2,040,000.00	2,082,647.71	2,119,988.40
25243YAL3	DIAGEO CAPITAL PLC	5.200	01/30/2013	5,000,000.00	5,119,756.05	5,410,300.00
254687AW6	WALT DISNEY COMPANY	4.500	12/15/2013	7,000,000.00	7,055,767.48	7,538,510.00
26442CAF1	DUKE ENERGY CAROLINAS	5.750	11/15/2013	4,000,000.00	4,210,539.00	4,456,160.00
26875PAB7	EKG RESOURCES INC	6.125	10/01/2013	6,065,000.00	6,505,209.71	6,809,903.30
278058DF6	EATON CORP	4.900	05/15/2013	7,000,000.00	7,004,606.84	7,456,120.00
291011AU8	EMERSON ELECTRIC	4.750	10/15/2015	3,000,000.00	2,922,531.66	3,237,570.00
341081EN3	FLORIDA POWER & LIGHT	4.850	02/01/2013	2,000,000.00	2,020,852.46	2,149,240.00
341099BZ1	FLORIDA POWER CORP	6.650	07/15/2011	2,000,000.00	2,063,313.34	2,132,860.00
35177PAS6	FRANCE TELECOM	4.375	07/08/2014	3,675,000.00	3,881,579.58	3,873,817.50
36186CBF9	GMAC INC	2.200	12/19/2012	5,000,000.00	5,002,426.50	5,075,150.00
368710AG4	GENENTECH INC	4.750	07/15/2015	3,000,000.00	2,913,213.30	3,202,890.00
369550AM0	GENERAL DYNAMICS CORP	5.375	08/15/2015	3,000,000.00	3,003,590.22	3,302,970.00
369550AN8	GENERAL DYNAMICS CORP	5.250	02/01/2014	4,000,000.00	4,365,383.56	4,394,840.00
36962GP65	GENERAL ELEC CAP CORP	4.875	03/04/2015	5,000,000.00	4,892,028.15	5,254,100.00
36962GY4	GENERAL ELEC CAP CORP	6.000	06/15/2012	5,000,000.00	5,089,261.05	5,419,100.00
373334FN6	GEORGIA POWER COMPANY	5.125	11/15/2012	4,000,000.00	4,050,568.04	4,340,120.00
377372AA5	GLAXOSMITHKLINE CAP INC	4.375	04/15/2014	5,000,000.00	4,961,139.95	5,280,185.00
377372AC1	GLAXOSMITHKLINE CAP INC	4.850	05/15/2013	2,169,000.00	2,314,354.54	2,350,979.10
41283DAA1	HARLEY-DAVIDSON FUNDING	5.250	12/15/2012	7,000,000.00	6,995,467.01	7,304,570.00
427866AK4	HERSHEY CO	6.950	08/15/2012	2,000,000.00	2,080,208.64	2,243,740.00
428236AQ6	HEWLETT-PACKARD CO	4.500	03/01/2013	5,000,000.00	5,002,475.89	5,353,500.00
428236AY9	HEWLETT-PACKARD CO	2.950	08/15/2012	2,000,000.00	2,033,499.76	2,065,600.00
438516AY2	HONEYWELL INTERNATIONAL	3.875	02/15/2014	4,000,000.00	4,202,220.48	4,189,080.00
441812KA1	HSBC FINANCE CORP	6.375	11/27/2012	2,000,000.00	2,072,943.02	2,190,400.00
459200BA8	IBM CORP	4.750	11/29/2012	3,000,000.00	3,005,125.80	3,245,550.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION  
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AS OF MARCH 31, 2010**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
49337WAB6	KEYSPAN CORP	7.625	11/15/2010	3,000,000.00	3,055,470.09	3,123,990.00
532457BE7	ELI LILLY & CO	4.200	03/06/2014	4,000,000.00	3,998,554.32	4,240,680.00
539473AA6	LLOYDS TSB BANK PLC	2.300	04/01/2011	5,000,000.00	5,042,115.20	5,084,750.00
548661CH8	LOWES COMPANIES INC	5.000	10/15/2015	4,000,000.00	4,032,313.57	4,379,440.00
55607EAD2	MACQUARIE BANK LTD	2.600	01/20/2012	5,000,000.00	5,053,393.75	5,103,450.00
585055AP1	MEDTRONIC INC	4.500	03/15/2014	7,000,000.00	7,266,704.13	7,466,900.00
585515AD1	MELLON FUNDING CORP	5.000	12/01/2014	3,000,000.00	3,044,966.16	3,221,730.00
61747YCK9	MORGAN STANLEY	4.200	11/20/2014	5,000,000.00	5,044,829.15	5,011,050.00
629491AA9	NYSE EURONEXT	4.800	06/28/2013	7,000,000.00	6,989,017.28	7,485,030.00
637432DC6	NATIONAL RURAL UTILITIES	4.750	03/01/2014	7,000,000.00	6,884,847.20	7,458,430.00
66989HAA6	NOVARTIS CAPITAL CORP	4.125	02/10/2014	2,000,000.00	2,095,067.14	2,117,620.00
66989HAC2	NOVARTIS CAPITAL CORP	2.900	04/24/2015	5,000,000.00	4,963,205.67	4,965,100.00
67021CAA5	NSTAR ELECTRIC CO	4.875	10/15/2012	5,000,000.00	5,041,641.20	5,407,000.00
670346AE5	NUCOR CORP	4.875	10/01/2012	5,475,000.00	5,537,240.29	5,898,765.00
674599BV6	OCCIDENTAL PETROLEUM	6.750	01/15/2012	7,000,000.00	7,475,374.55	7,651,350.00
68389XAF2	ORACLE CORP	3.750	07/08/2014	6,983,000.00	7,232,479.44	7,287,109.65
69373UAB3	PACCAR INC	6.375	02/15/2012	4,300,000.00	4,297,022.08	4,668,983.00
695114BU1	PACIFICORP	6.900	11/15/2011	3,000,000.00	3,110,745.15	3,263,760.00
713448BG2	PEPSICO INC	4.650	02/15/2013	7,000,000.00	6,999,068.58	7,550,970.00
717081AR4	PFIZER INC	4.500	02/15/2014	2,200,000.00	2,328,934.83	2,349,996.00
717081CZ4	PFIZER INC	4.450	03/15/2012	4,800,000.00	4,795,543.78	5,087,952.00
724479AG5	PITNEY BOWES INC	5.000	03/15/2015	2,000,000.00	1,955,950.18	2,138,760.00
72447WUJ3	PITNEY BOWES INC	4.875	08/15/2014	3,000,000.00	2,991,020.91	3,201,540.00
74005PAJ3	PRAXAIR INC	6.375	04/01/2012	2,000,000.00	2,083,712.06	2,189,120.00
742718BZ1	PROCTER & GAMBLE CO	4.850	12/15/2015	3,000,000.00	2,933,991.63	3,289,440.00
742718DQ9	PROCTER & GAMBLE CO/THE	3.150	09/01/2015	4,000,000.00	4,101,103.20	4,062,080.00
744448BU4	PUBLIC SERV CO OF COLO	7.875	10/01/2012	2,000,000.00	2,147,949.00	2,290,200.00
744448BX8	PUBLIC SERVICE COLORADO	5.500	04/01/2014	2,000,000.00	2,089,438.42	2,181,820.00
771196AQ5	ROCHE HLDGS INC	5.000	03/01/2014	4,000,000.00	4,335,415.16	4,320,520.00
78010JCT7	ROYAL BK OF SCOTLAND PLC	3.000	12/09/2011	5,000,000.00	5,094,356.20	5,139,150.00
78387GAS2	AT&T INC	5.300	11/15/2010	5,000,000.00	4,997,710.25	5,144,050.00
78442FBG2	SLM CORP	5.000	10/01/2013	3,000,000.00	2,975,173.86	2,866,080.00
822582AF9	SHELL INTERNATIONAL FIN	4.000	03/21/2014	8,000,000.00	7,998,234.16	8,418,640.00
863667AA9	STRYKER CORP	3.000	01/15/2015	7,000,000.00	7,017,260.94	6,996,710.00
86801BAB1	SUNTRUST BANK	3.000	11/16/2011	5,000,000.00	5,120,902.25	5,162,650.00
871829AK3	SYSCO CORPORATION	4.200	02/12/2013	2,920,000.00	3,102,328.95	3,094,703.60
88319QJ20	TEXTRON FINANCIAL CORP	5.125	02/03/2011	3,000,000.00	2,991,977.61	3,055,830.00
893526CC5	TRANS-CANADA PIPELINES	8.625	05/15/2012	2,000,000.00	2,155,521.26	2,274,640.00
89352HAA7	TRANS-CANADA PIPELINES	4.000	06/15/2013	3,750,000.00	3,618,739.91	3,936,825.00
904764AJ6	UNILEVER CAPITAL CORP	3.650	02/15/2014	4,000,000.00	4,076,156.60	4,163,600.00
911312AG1	UNITED PARCEL SERVICE	4.500	01/15/2013	7,000,000.00	7,101,966.27	7,482,300.00
91159HGR5	US BANCORP	4.200	05/15/2014	4,600,000.00	4,599,310.32	4,826,274.00
913017BF5	UNITED TECHNOLOGIES CORP	6.100	05/15/2012	3,000,000.00	3,152,427.27	3,280,860.00
913017BG3	UNITED TECHNOLOGIES CORP	4.375	05/01/2010	4,000,000.00	3,999,745.86	4,009,800.00
92343VAN4	VERIZON COMMUNICATIONS	5.250	04/15/2013	2,000,000.00	2,127,488.40	2,185,000.00
92344GAL0	VERIZON COMMUNICATIONS	7.250	12/01/2010	5,000,000.00	5,053,450.15	5,217,050.00
92857WAF7	VODAFONE GROUP PLC	5.000	12/16/2013	3,000,000.00	2,986,188.54	3,237,780.00
931142BV4	WAL-MART STORES	4.125	02/15/2011	3,000,000.00	3,003,890.85	3,088,530.00
931142BY8	WAL-MART STORES INC	4.500	07/01/2015	3,750,000.00	4,050,623.21	4,023,187.50
949746CL3	WELLS FARGO & COMPANY	5.125	09/01/2012	2,000,000.00	1,998,433.20	2,123,860.00
9612EMAA7	WESTPAC BANKING CORP	3.250	12/16/2011	5,000,000.00	5,122,363.90	5,169,950.00
<b>TOTAL CORPORATE</b>				<b>493,264,000.00</b>	<b>501,899,159.45</b>	<b>522,825,919.66</b>
<b>MORTGAGE BACKED</b>						
3128L0DF6	FHLMC POOL A68202	6.000	11/01/2037	1,675,363.70	1,706,989.34	1,800,513.37
3128L0DEF5	FHLMC POOL A68234	6.000	11/01/2037	5,429,123.60	5,465,161.63	5,834,679.13
3128MJAD2	FHLMC POOL G08003	6.000	07/01/2034	2,890,744.50	2,955,644.26	3,131,977.13
3128MJMC1	FHLMC POOL G08354	5.000	07/01/2039	14,014,831.20	14,168,002.65	14,488,952.94

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31292JBR0	FHLMC POOL C01848	6.000	06/01/2034	3,452,760.88	3,564,531.13	3,743,034.49
31297ECP9	FHLMC POOL A2-6378	6.000	09/01/2034	2,387,153.20	2,455,159.04	2,586,361.13
31297HX46	FHLMC POOL A2-9699	5.000	01/01/2035	2,457,717.85	2,458,563.89	2,544,696.48
31335H5U3	FHLMC POOL C90859	5.500	10/01/2024	3,829,030.00	3,918,611.65	4,073,245.53
31371PC57	FNMA POOL 257592	5.000	03/01/2039	10,462,415.86	10,581,652.46	10,807,570.96
31376KEL6	FNMA POOL 357539	5.500	04/01/2034	3,853,619.80	3,849,849.77	4,081,291.66
31395RAR9	FHRR R001 AE	4.375	04/15/2015	4,179,704.46	4,157,253.93	4,285,403.33
31396LYT1	FNBR 2006-B2 AB	5.500	05/25/2014	2,693,561.00	2,697,859.82	2,788,911.44
31396NPF7	FHRR R007 AC	5.875	05/15/2016	2,773,335.70	2,774,102.69	2,842,164.07
31396V2P2	FNBR 2007-B2 AB	5.500	12/25/2020	5,673,923.20	5,676,041.05	6,077,810.08
31397G7M6	FHRR R011 AB	5.500	12/15/2020	5,001,309.90	5,034,131.85	5,240,945.66
31407K5D7	FNMA POOL 833444	6.000	09/01/2035	2,231,221.80	2,273,201.08	2,387,786.63
31413FGK2	FNMA POOL 944002	6.000	08/01/2037	7,356,189.22	7,312,334.34	7,826,396.83
31415Q4B9	FNMA POOL 986518	5.000	06/01/2038	12,132,245.52	12,251,310.89	12,532,488.30
36202D5C1	GNMA 2M POOL 3543	5.000	04/20/2034	4,010,065.20	4,004,791.36	4,186,548.17
36202EAK5	GNMA 2M POOL 3610	5.500	09/20/2034	3,516,342.20	3,583,554.13	3,741,282.61
36202EUT4	GNMA 2M POOL 4194	5.500	07/20/2038	10,331,836.50	10,350,163.32	10,938,315.30
36202EUU1	GNMA 2M POOL 4195	6.000	07/20/2038	8,144,916.60	8,299,053.53	8,733,875.52
36202EVN6	GNMA 2M POOL 4221	5.500	08/20/2038	6,865,325.20	6,813,998.86	7,268,319.79
36202EVP1	GNMA 2M POOL 4222	6.000	08/20/2038	5,297,272.00	5,359,241.39	5,680,317.74
466247TW3	JPMMT 2005-A6 3A2	5.191	09/25/2035	3,088,422.13	3,080,965.97	2,691,756.62
<b>TOTAL MORTGAGE BACKED</b>				<b>133,748,431.22</b>	<b>134,792,170.03</b>	<b>140,314,644.91</b>
<b>ASSET BACKED</b>						
048312AF9	ACETF 2003-1 A2	4.460	10/20/2016	3,113,683.23	3,061,489.49	3,316,698.80
14041NCU3	COMET 2006-A6 A6	5.300	02/18/2014	5,000,000.00	4,996,528.85	5,225,253.50
14041NDA6	COMET 2006-A10 A10	5.150	06/16/2014	3,000,000.00	2,989,384.89	3,164,881.20
161571AQ7	CHAIT 2005-A7 A7	4.550	03/15/2013	5,000,000.00	4,983,459.65	5,154,826.00
161571AW4	CHAIT 2005-A10 A10	4.650	12/17/2012	5,000,000.00	4,980,416.40	5,112,366.00
17305ECU7	CCCIT 2005-A7 A7	4.750	10/22/2012	7,500,000.00	7,485,746.40	7,674,108.00
17305EDF9	CCCIT 2006-A4 A4	5.450	05/10/2013	5,000,000.00	5,000,000.00	5,250,617.50
233046AA9	DUNKN 2006-1 A2	5.779	06/20/2031	5,000,000.00	5,001,720.95	4,854,050.00
477876AD8	JDOT 2007-A A4	5.070	04/15/2014	3,453,210.85	3,451,409.72	3,527,084.35
55264TDE8	MBNAS 2005-A6 A6	4.500	01/15/2013	5,000,000.00	4,984,109.50	5,072,761.00
693401AE1	PERF 2005-1 A5	4.470	12/25/2014	3,250,000.00	3,250,000.00	3,471,407.55
69361YAF0	PEGTF 2001-1 A6	6.610	06/15/2015	4,000,000.00	4,131,655.44	4,446,972.80
705220AM3	PECO 2001-A A1	6.520	12/31/2010	1,503,923.10	1,513,990.65	1,542,138.24
<b>TOTAL ASSET BACKED</b>				<b>55,820,817.18</b>	<b>55,829,911.94</b>	<b>57,813,164.94</b>
<b>TOTAL MARKETABLE SECURITIES</b>				<b>937,450,248.40</b>	<b>950,458,046.07</b>	<b>985,544,158.49</b>
<b>TOTAL MARKETABLE AND C/E</b>				<b>949,446,271.39</b>	<b>962,454,069.06</b>	<b>997,540,181.48</b>
<b>COMMON</b>						
22282E102	COVANTA HOLDING CORPORATION			12,639.00	279,195.51	212,967.15
34958N100	FORTICELL BIOSCIENCE, INC			1,926.00	1,627,706.00	173.34
	RIMCO ROYALTY MANAGEMENT, INC			346,302.00	346.30	346.30
<b>TOTAL COMMON</b>				<b>360,867.00</b>	<b>1,907,247.81</b>	<b>213,486.79</b>
<b>TOTAL MARKETABLE, C/E AND COMMON</b>				<b>949,807,138.39</b>	<b>964,361,316.87</b>	<b>997,753,668.27</b>

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CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
<b><u>EQUITY SECURITIES</u></b>					
910585406	UNITED MERCHANTS & MFR		214,166.00	25,800.00	0.00
910858414	UNITED MERCHANTS & MFR - WTS		53,542.00	0.00	0.00
178789103	CITIVEST INTERNATIONAL LTD		12,000.00	368,865.00	0.00
91737@107	US INTERNATIONAL RE INC		2,000.00	35,000,000.00	0.00
<b>COMMON STOCKS</b>			<b>281,708.00</b>	<b>35,394,665.00</b>	<b>0.00</b>
	RIMCO ROYALTY PARTNERS, L.P.		346,302.00	3,199,497.00	1,388,452.00
<b>LIMITED PARTNERS</b>			<b>346,302.00</b>	<b>3,199,497.00</b>	<b>1,388,452.00</b>
<b>TOTAL EQUITY SECURITIES</b>			<b>628,010.00</b>	<b>38,594,162.00</b>	<b>1,388,452.00</b>
<b>TOTAL</b>			<b>950,435,148.39</b>	<b>1,002,955,478.87</b>	<b>999,142,120.27</b>