

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-EIGHTH 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-Eighth Report on the liquidations of the Companies, as of September 9, 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.

As an initial matter, the Liquidator notes an upcoming change of address:

**Effective on or about September 27, 2010 The Home Insurance Company in  
Liquidation's and US International Reinsurance Company in Liquidation's  
New York office will relocate to:  
61 Broadway, 6th Floor  
New York, New York 10006-2504**

**All phone and fax numbers as well as e-mail addresses will remain unchanged.**

**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 13 new proofs of claim for Home between the last

Liquidator's report and September 6, 2010. The proofs of claim submitted now total 20,384 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 2,559 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of September 6, 2010, the Liquidator has issued 12,158 determinations for Home totaling approximately \$1.0 billion. The determinations are comprised of 10,301 final and 1,857 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 three further reports of claims and recommendations to the Court reflecting a total of approximately \$22.6 million in determinations. The Liquidator has now presented and the Court has approved claims recommendations, including settlements, for a total of 9,310 claims involving a total allowed

amount of approximately \$979 million. As of September 8, 2010 there is one pending report of claims and recommendations. The report addresses 2,272 claims that have been determined by the Liquidator to be incomplete Proofs of Claim that will not be considered pursuant to RSA 402-C:38 I(b) as they fail to provide the conditional release required by RSA 402-C:40, I and RSA 402-C:38, I(a)(7). See Gonya v. Commissioner, New Hampshire Insurance Department, 153 N.H. 521 (2006).

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, 406 claimants have filed requests for review and 175 of these have been sent notices of redetermination. Included among the requests for review are 143 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 September 6, 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 June 30, 2010 financial statements for Home are attached as Exhibit A to this report. The June 30, 2010 Home statements reflect \$1,027,389,900 in assets under the Liquidator's direct control as of June 30, 2010, and \$71,469,268 in reinsurance collections, net investment income, and other receipts and \$13,642,869 in operating disbursements from January 1 through June 30, 2010.

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 June 30, 2010 is attached as Exhibit C. As of June 30, 2010, actual expenses were above budget by approximately \$217,000 or 2%, although there were favorable variances in nearly all categories. The overall unfavorable variance was principally in the rent expense category, which exceeded the budget by approximately \$265,000 due to expenses related to the New York office relocation which were not included in the initial 2010 budget. Those relocation expenses are presently estimated at approximately \$400,000, which will be more than offset by cost savings from the new lease. (The new lease will reduce current annual New York rent expense of about \$1.5 million to a nominal annual rent expense of approximately \$700,000 for 2011, before adjustments which will further reduce the 2011 rent expense to \$350,000.) 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	\$19.9	

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 June 30, 2010 is attached as Exhibit D, and a report listing the individual

holdings of Home as of that date is attached as Exhibit E (the groupings on Exhibit D differ from those on Exhibit E). The book value of Home's bonds and short-term investments managed by Conning Asset Management ("Conning") at June 30, 2010, was approximately \$977 million compared to their market value on that date of \$1,022 million. This represented an unrealized gain of \$45 million, an increase of \$10 million since the end of the first quarter due to sharp decreases in interest rates. Short-term holdings in the Conning-managed portfolio at June 30, 2010 were \$15 million at market value. The portfolio is expected to generate approximately \$40 million of cash from net investment income in 2010, although continuing drops in 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 June 30, 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 September 3, 2010, the Conning-managed portfolio had an unrealized gain (market value above book value) of \$47.7 million as the portfolio continued to benefit from lower rates and tighter credit spreads. As of September 3, 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, 2009 and 2010 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 six early access distributions total \$203.8 million. On March 17, 2010, the Court issued an order approving the sixth early access distribution to insurance guaranty funds. The Liquidator paid 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. The parties completed testimony in these related matters on August 13, 2010 and are now in the process of submitting their post-hearing briefs.

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 and on July 20, 2010 issued an order granting summary judgment in favor of Home.

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. A similar action is pending in Minnesota in which the Liquidator has produced to date an additional 10,805 pages of documents. 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.

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 commutations with Axa Insurance UK PLC (formerly Atlas Assurance Company Ltd), Mitsui Marine & Fire Insurance Company of America, and General Security National Insurance Company. The details of each of the three commutations are described in the confidential appendix submitted with this report. A proposed commutation with State Farm Fire & Casualty Co. which was submitted and approved by the Court on June 25, 2010 has been completed.

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. Pursuant to the Court's April 21, 2010 order approving a new lease, the Liquidator is preparing to relocate the New York office to another office building on September 27, 2010. The new address is 61 Broadway, 6th Floor, New York, NY 10006. Phone numbers and fax numbers remain the same. The data center at the current New York office will also be relocated to the 61 Broadway location. The Liquidator expects the relocation will reduce the square footage by at least one third (with options to further reduce the



footprint at various time frames during the lease period) and substantially reduce annual lease costs from those under the existing lease which terminates December 31, 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 September 6, 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 September 6, 2010, notices of determination issued from the beginning of the process have addressed 274 proofs of claim. Seven claimants have filed requests for review, and the Liquidator has issued five notices of re-determination. 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 \$181,942 dollars in determinations. As of September 6, 2010, the Liquidator has presented and the Court has approved claims recommendations, including settlements, for a total of 263 claims involving a total allowed amount of approximately \$46.7 million.

3. Financial reports and investments. The unaudited June 30, 2010 financial statements for USI Re are attached as Exhibit B to this report. The June 30, 2010 USI Re statements reflect \$5,415,975 in assets under the Liquidator's direct control at June 30, 2010, and \$67,813 in reinsurance collections, net investment income and miscellaneous receipts and \$90,707 in operating disbursements from January 1 through June 30, 2010. As shown on Exhibit D, USI Re's investments consist of approximately \$4.4 million of U.S. Treasury notes and bills.

4. 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 of all of USI Re's ceded business to Areas Assurance (formerly Caisse Mutuelle d'Assurances et de Prevoyance, France), the details of which are included in the confidential appendix.

5. Relocation of New York Office. As noted above with respect to Home, the Liquidator is preparing to relocate the New York office to another office building on September 27, 2010. The address is 61 Broadway, 6th Floor, New York, NY 10006. Phone numbers and fax remain the same.

Respectfully submitted,



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Roger A. Sevigny, New Hampshire Insurance  
Commissioner, as Liquidator

September 29, 2010

**CERTIFICATE OF SERVICE**

I hereby certify that on September 30, 2010, a copy of the Liquidator's Thirty-Eighth Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: September 30, 2010



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Eric A. Smith  
NH Bar ID No. 16952

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MERRIMACK, SS.

SUPERIOR COURT

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The Home Insurance Company  
Docket No. 03-E-0106

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US International Reinsurance Company  
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Exhibits:

A – 6/30/10 Financial Statement – Home

B – 6/30/10 Financial Statement – USI Re

C – Comparison of actual and budgeted general and administrative expenses through 6/30/10

D – Companies' holdings of bonds and short- term investments as of 6/30/10

E—Home individual holdings report as of 6/30/10

Confidential Appendix



**THE HOME INSURANCE COMPANY IN LIQUIDATION**

Financial Statements (Modified Cash Basis)

June 30, 2010 and December 31, 2009  
(Unaudited)

## The Home Insurance Company In Liquidation

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

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$944,813,126	\$917,276,479
Short-term investments	15,063,281	9,509,750
Cash and cash equivalents	<u>58,890,963</u>	<u>50,365,241</u>
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<b>1,018,767,370</b>	<b>977,151,470</b>
Common stocks, marketable, at market value (Note 2)	210,093	229,120
Interest income due and accrued	8,238,898	8,572,125
Receivable from US International Reinsurance Company (Note 4)	<u>25,962</u>	<u>32,417</u>
<b>Total unrestricted liquid assets</b>	<b>1,027,242,323</b>	<b>985,985,132</b>
Unrestricted illiquid assets: ( Note 1)		
Common stocks	-	87,065
Limited partnership interests	<u>1,388,452</u>	<u>1,688,725</u>
<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>1,029,060,000</b>	<b>988,190,147</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	1,656,202	4,863,942
Claims checks payable (Note 1)	<u>13,898</u>	<u>19,148</u>
<b>Total liabilities</b>	<b>1,670,100</b>	<b>4,883,090</b>
<b>Net assets, excluding certain amounts</b>	<b><u>\$1,027,389,900</u></b>	<b><u>\$983,307,057</u></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, 2010</u> To <u>June 30, 2010</u>	<u>January 1, 2009</u> To <u>December 31, 2009</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections - unrestricted	\$ 50,139,446	\$ 53,578,991
Net investment income	20,167,195	38,584,112
Agents' balances	455,356	1,733,332
Salvage, subrogation and other claim recoveries	355,332	3,047,632
Miscellaneous income	105,055	103,971
Realized capital gains on sale of bonds (Note 1)	92,240	1,233,521
Proceeds from distribution by subsidiary (Note 1)	86,984	-
Receivable collected from USI Re	48,718	124,688
All other	18,942	136,732
<b>Total cash receipts</b>	<b>71,469,268</b>	<b>98,542,922</b>
<b>Cash operating disbursements:</b>		
Human resources costs (Note 3)	8,189,934	13,294,600
Consultant and outside service fees	1,758,910	2,890,833
General office and rent expense	1,220,314	2,484,211
Computers and equipment cost	571,974	468,541
Legal and audit fees	564,622	848,732
Investment expenses	403,022	755,961
Losses and loss expenses paid (Note 1)	313,230	1,702,291
Realized capital losses on sale of bonds (Note 1)	268,065	2,713,432
Administration costs	125,243	222,631
Capital contribution	31,000	10,000
All other	196,555	30,941
<b>Total cash operating disbursements</b>	<b>13,642,869</b>	<b>25,422,201</b>
Excess of receipts over operating disbursements	<b>57,826,399</b>	<b>73,120,721</b>
Distributions to state guaranty associations (Note 8)	16,210,499	21,930,071
Class I Distributions	-	2,932,501
Excess of receipts over disbursements and distributions	<b>41,615,900</b>	<b>48,258,149</b>
Beginning cash and marketable securities, at cost	977,580,695	929,322,561
<b>Ending cash and marketable securities, at cost</b>	<b>\$ 1,019,196,595</b>	<b>\$ 977,580,691</b>

See accompanying notes.

## The Home Insurance Company in Liquidation

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

	<b>January 1, 2010 To June 30, 2010</b>	<b>January 1, 2009 To December 31, 2009</b>
	<hr/>	<hr/>
Net Assets, beginning of period	\$983,307,057	\$930,693,586
Excess of unrestricted and restricted receipts over disbursements and distributions	41,615,900	48,258,131
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(19,027)	(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	(333,227)	1,511,245
Due from USI Reinsurance	(6,455)	9,329
Incurred but unpaid administrative and investment expenses (Note 3)	3,207,740	216,062
Notices of Determination approved for Class I creditors (Note 8)	-	2,932,508
Claims checks payable	5,250	222,749
Net Assets, end of period	<u>\$1,027,389,900</u>	<u>\$983,307,057</u>

See accompanying notes.

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

Notes to Financial Statements

June 30, 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>June 30, 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	\$ 100,957,864	\$ 4,593,191	\$ (90,839)	\$ 105,460,216
Government agencies	155,426,810	3,304,450	(196,660)	158,534,600
Corporate	513,194,008	22,553,168	(2,639,485)	533,107,691
Mortgage Backed	125,601,313	7,517,391	(230,264)	132,888,440
Asset Backed	<u>49,633,131</u>	<u>1,985,037</u>	<u>(42,238)</u>	<u>51,575,930</u>
Total Marketable Bonds	<u>\$ 944,813,126</u>	<u>\$ 39,953,237</u>	<u>\$ (3,199,486)</u>	<u>\$ 981,566,877</u>

Total Common Stock	\$ 1,907,248	\$ -	\$ (1,697,155)	\$ 210,093
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The amortized cost of unrestricted marketable bonds is \$936,450,673. Based on such amortized cost, gross unrealized gains are \$45,565,726 and gross unrealized losses are \$449,522.

	<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>
June 30, 2010		
One year or less	\$ 99,209,762	\$ 98,815,492
Over one year through five years	622,174,547	646,344,599
Over five years through twenty years	48,194,373	51,942,416
Mortgage Backed	125,601,313	132,888,440
Asset Backed	<u>49,633,131</u>	<u>51,575,930</u>
Total	<u>\$ 944,813,126</u>	<u>\$ 981,566,877</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 June 30, 2010, are as follows:

Consultant and outside service fees	\$ 530,148
General office and rent expense	444,100
Human resources costs	318,489
Other administration costs	112,755
Legal and auditing fees	42,486
Computer and equipment costs	<u>3,055</u>
Total accrued administrative expenses	<u>\$1,451,033</u>
Accrued investment expenses	<u>205,169</u>
Total accrued expenses	<u>\$1,656,202</u>

The amount of accrued expenses at December 31, 2009 was \$4,863,942 and net assets for 2010 increased by \$3,207,740 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 \$318,289 of incentive plan costs.

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

At June 30, 2010 and December 31, 2009, Home had amounts receivable of \$ 25,962 and \$32,417, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$48,718 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 June 30, 2010.

**6) Securities on Deposit**

Investments on deposit at the original cost with various states were \$1,812,628, \$1,838,354, and \$73,947,287 at June 30, 2010, December 31, 2009 and 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.

Various states have withdrawn such deposits at par value of \$48,102,110, and market value as of June 30, 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 March 17, 2010, the Court approved a sixth early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2009. The Liquidator paid \$16,540,874 in June 2010 relating to this early access distribution. The Liquidator also received \$330,376 from Alaska Guaranty Association in 2010 as a refund of previous early access distributions. Early access payments through June 30, 2010 were \$203.8 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	\$203,769,505
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>\$256,438,295</u>

**8) Allowed Claims**

As of June 30, 2010, the Liquidator has allowed, and the Court has approved, \$25,879,279 of Class I claims, \$845,323,674 of Class II claims, \$94,437,055 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)**

**June 30, 2010 and December 31, 2009  
(Unaudited)**

## US International Reinsurance Company In Liquidation

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

	<u>June 30, 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)	\$ 427,463	\$ 1,540,653
Short-term investments	3,615,975	2,509,290
Cash	<u>1,058,096</u>	<u>1,075,019</u>
<b>Total unrestricted liquid bonds, short-term investments and cash at cost</b>	<b>5,101,534</b>	<b>5,124,962</b>
Interest income due and accrued	3,669	6,801
<b>Total unrestricted liquid assets</b>	<b><u>5,105,203</u></b>	<b><u>5,131,763</u></b>
Restricted liquid assets at cost:		
Short-term investments	<u>338,152</u>	<u>337,618</u>
<b>Total restricted liquid assets at cost</b>	<b>338,152</b>	<b>337,618</b>
<b>Total assets, excluding certain amounts</b>	<b><u>5,443,355</u></b>	<b><u>5,469,381</u></b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses (Note 6)	1,418	12,306
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	25,962	32,417
<b>Net assets, excluding certain amounts</b>	<b><u>\$ 5,415,975</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 June 30, 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	5,046	34,854
Miscellaneous income	62,477	-
All other	-	912
<b>Total cash and marketable securities received</b>	<u>67,813</u>	<u>144,864</u>
<b>Cash operating disbursements:</b>		
Consultant and outside service fees	36,091	59,621
Net payments to Home Insurance Company (Note 2)	48,718	124,690
All other	5,898	19,766
<b>Total cash operating disbursements</b>	<u>90,707</u>	<u>204,077</u>
Excess disbursements over receipts	(22,894)	(59,213)
Beginning cash and marketable securities, at cost	<u>5,462,580</u>	<u>5,521,793</u>
<b>Ending cash and marketable securities, at cost</b>	<u>\$ 5,439,686</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 June 30, 2010	January 1, 2009 To December 31, 2009
Net Assets, beginning of period	\$5,424,658	\$5,512,878
Excess disbursements over receipts	(22,894)	(59,213)
Other changes in net assets:		
Interest income due and accrued	(3,132)	(16,562)
Incurred but unpaid administrative expenses	10,888	(3,116)
Payable to The Home Insurance Company in Liquidation	6,455	(9,329)
Net Assets, end of period	<u>\$5,415,975</u>	<u>\$5,424,658</u>

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

Notes to Financial Statements

June 30, 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 June 30, 2010 and December 31, 2009, the Liquidator accrued liabilities of \$25,962 and \$32,417, respectively, to Home for USI Re’s allocated share of various administrative expenses incurred. The amount paid to Home was \$48,718 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**

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

<b>Unrestricted Marketable Bonds</b>	<b>June 30, 2010</b>			<b>Fair Value</b>
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
U.S. Treasury notes	\$ 427,463	\$ -	\$ (423)	\$ 427,040

<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



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

Notes to Financial Statements (continued)

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>
June 30, 2010 Over one year through five years	\$ 427,463	\$ 427,040	\$ -	\$ -

<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 \$501,795, \$502,451, and \$4,964,360 at June 30, 2010, December 31, 2009 and 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 June 30, 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 \$1,418 in the normal course of liquidation that were unpaid as of June 30, 2010.

**6) Allowed Claims**

As of June 30, 2010, the Liquidator has allowed, and the Court has approved, \$40,399,777 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.

The Home Insurance Company in Liquidation  
 US International Reinsurance Company in Liquidation  
 G&A Expenses (Actual vs Budget)  
 June 30, 2010

General & Administrative Expense	YTD			Full Year Budget
	Actual 2010	Budget 2010	Variance 2010	
Salary and Benefits	6,243,550	6,273,581	(30,031)	12,370,257
Travel	29,584	75,868	(46,284)	143,794
Rent	1,316,064	1,051,132	264,932	2,208,853
Equipment *	568,344	404,452	163,892	552,900
Printing and Stationery	28,907	41,770	(12,863)	81,840
Postage	20,393	23,468	(3,075)	46,644
Telephone	126,074	152,950	(26,877)	301,200
Disaster Recovery	-	-	-	-
Outside Services, including Special Deputy	1,506,724	1,594,785	(88,061)	3,216,024
Licensing Fees	942	500	442	1,000
Legal and Auditing	396,286	458,000	(61,714)	913,000
Bank Fees	75,707	81,000	(5,293)	162,000
Corporate Insurance	62,362	62,500	(138)	127,000
Miscellaneous Expenses	2,151	2,200	(49)	4,000
<b>Total US Expenses Incurred</b>	<b>10,377,087</b>	<b>10,222,206</b>	<b>154,881</b>	<b>20,128,512</b>
Miscellaneous Income	(12,691)	(75,000)	62,309	(150,000)
<b>Total US Incurred</b>	<b>10,364,395</b>	<b>10,147,206</b>	<b>217,190</b>	<b>19,978,512</b>

The Home Insurance Company in Liquidation  
 Portfolio Summary Report- Bonds and Short Term Investments  
 Securities Held as of June 30, 2010  
 (000's)

**Conning Managed:**

<u>% of Av</u>	<u>Fixed Income</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>	<u>Eff Mat (Years)</u>	<u>Book Yield</u>	<u>Average Credit Quality</u>	<u>Earned Income 6/30/10</u>
2%	Short Term	15,453	15,453	-	0.10	0.26	Aaa	17
11%	Government	105,704	110,918	5,214	2.33	2.83	Aaa	1,476
22%	Agency	214,348	219,510	5,162	2.15	2.30	Aaa	2,214
48%	Corporate	466,434	492,133	25,699	3.05	4.13	A2	9,537
13%	Mortgage Backed	125,497	132,888	7,391	3.54	5.13	Aaa	3,485
5%	Asset Backed	49,937	51,576	1,639	0.87	5.21	Aa1	1,414
100%	Total	977,373	1,022,478	45,105	2.69	3.71	Aa2	18,144

**Other investments- Home Insurance**

100% US Treasury Bills and Notes

9,577	9,600	23	0.95	0.33	Aaa	20
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**Total Home Insurance**

986,950	1,032,078	45,128	2.67	3.68	Aa1	18,164
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**Other investments- USI Re**

100% US Treasury Bills and Notes

4,380	4,380	-	0.42	0.30	Aaa	5
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**Grand total (1)**

991,330	1,036,458	45,128	2.66	3.66	Aa1	18,169	(2)
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(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 June 30, 2010, would be \$34.9 million.

**THE HOME INSURANCE COMPANY IN LIQUIDATION  
HOLDINGS REPORT  
AS OF JUNE 30, 2010**

CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
0027A1GC7	ABBEY NATL N AMERICA LLC	07/12/2010	7,000,000.00	6,999,529.46	6,999,529.46
02665KJ99	AMERICAN HONDA FINANCE	09/09/2010	1,000,000.00	999,280.56	999,280.56
1667X1GC4	CHEVRON FUNDING CORP	07/12/2010	3,000,000.00	2,999,935.83	2,999,935.83
4042F1GL7	HSBC FINANCE CORP	07/20/2010	5,000,000.00	4,999,234.70	4,999,234.70
63743DH53	NATIONAL RURAL UTILITIES	08/05/2010	3,000,000.00	2,999,212.50	2,999,212.50
89233HJ70	TOYOTA MOTOR CREDIT CORP	09/07/2010	5,000,000.00	4,994,994.45	4,994,994.45
89233HJ96	TOYOTA MOTOR CREDIT CORP	09/09/2010	2,000,000.00	1,997,977.78	1,997,977.78
313589C43	FANNIE MAE DISCOUNT NOTE	08/18/2010	9,000,000.00	8,998,440.03	8,998,440.03
177366101	CITIZENSSELECT PRIME MMF	0.070 07/15/2010	464,649.00	464,649.00	464,649.00
<b>TOTAL CASH EQUIVALENTS</b>			<b>35,464,649.00</b>	<b>35,453,254.31</b>	<b>35,453,254.31</b>
<b>SHORT TERM (OVER 90 DAYS)</b>					
912828KE9	US TREASURY N/B	0.875 02/28/2011	15,000,000.00	15,046,026.60	15,058,050.00
<b>TOTAL SHORT TERM</b>			<b>15,000,000.00</b>	<b>15,046,026.60</b>	<b>15,058,050.00</b>
<b>U S TREASURY</b>					
912810DV7	US TREASURY N/B	9.250 02/15/2016	74,000.00	77,977.79	102,646.14
9128277B2	US TREASURY N/B	5.000 08/15/2011	5,000,000.00	5,068,202.05	5,258,400.00
912828AJ9	US TREASURY N/B	4.375 08/15/2012	5,000,000.00	5,066,253.45	5,400,400.00
912828FH8	US TREASURY N/B	4.875 05/31/2011	5,000,000.00	4,993,372.15	5,205,650.00
912828HK9	US TREASURY N/B	3.375 11/30/2012	30,000,000.00	30,185,295.90	31,912,500.00
912828JD3	US TREASURY N/B	3.375 06/30/2013	25,000,000.00	25,125,163.75	26,791,000.00
912828JK7	US TREASURY N/B	3.125 08/31/2013	5,000,000.00	5,033,359.85	5,321,900.00
912828JM3	US TREASURY N/B	3.125 09/30/2013	15,000,000.00	15,186,543.75	15,970,350.00
912828KU3	US TREASURY N/B	0.875 05/31/2011	9,452,000.00	9,498,682.14	9,497,369.60
<b>TOTAL U S TREASURY</b>			<b>99,526,000.00</b>	<b>100,234,850.83</b>	<b>105,460,215.74</b>
<b>GOVERNMENT AGENCIES</b>					
3133XHPH9	FEDERAL HOME LOAN BANK	4.875 11/18/2011	10,000,000.00	10,160,754.90	10,587,500.00
3133XRCW8	FEDERAL HOME LOAN BANK	3.375 06/24/2011	10,000,000.00	9,989,136.00	10,268,800.00
3133XSAE8	FEDERAL HOME LOAN BANK	3.625 10/18/2013	10,000,000.00	10,281,140.80	10,712,500.00
3134A4UK8	FREDDIE MAC	4.875 11/15/2013	10,000,000.00	10,389,710.10	11,178,100.00
3134A4VG6	FREDDIE MAC	4.750 11/17/2015	20,000,000.00	21,703,632.40	22,525,000.00
31359MHK2	FANNIE MAE	5.500 03/15/2011	10,000,000.00	10,151,733.90	10,359,400.00
31359MM26	FANNIE MAE	5.125 04/15/2011	10,000,000.00	10,146,488.50	10,378,100.00
3137EABE8	FREDDIE MAC	4.125 12/21/2012	10,000,000.00	10,146,398.00	10,793,800.00
3137EABY4	FREDDIE MAC	2.125 03/23/2012	50,000,000.00	50,893,164.00	51,234,500.00
31398AUJ9	FANNIE MAE	2.875 12/11/2013	10,000,000.00	10,055,663.60	10,496,900.00
<b>TOTAL GOVERNMENT AGENCIES</b>			<b>150,000,000.00</b>	<b>153,917,822.20</b>	<b>158,534,600.00</b>
<b>TOTAL GOVERNMENT &amp; AGENCIES</b>			<b>249,526,000.00</b>	<b>254,152,673.03</b>	<b>263,994,815.74</b>
<b>CORPORATE</b>					
00206RAF9	AT&T INC	4.950 01/15/2013	2,000,000.00	1,999,195.14	2,170,960.00
002819AA8	ABBOTT LABORATORIES	5.150 11/30/2012	3,850,000.00	4,125,114.88	4,234,153.00
010392FA1	ALABAMA POWER CO	5.800 11/15/2013	3,000,000.00	3,180,869.25	3,390,540.00
013817AD3	ALCOA INC	6.500 06/01/2011	3,000,000.00	3,052,792.89	3,083,430.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION  
HOLDINGS REPORT  
AS OF JUNE 30, 2010**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
025816AQ2	AMERICAN EXPRESS	4.875	07/15/2013	3,000,000.00	3,006,711.75	3,203,070.00
02581FYM5	AMERICAN EXPR CENTURION	5.200	11/26/2010	4,250,000.00	4,249,635.22	4,314,472.50
02666QF40	AMERICAN HONDA FINANCE	3.500	03/16/2015	2,575,000.00	2,569,688.65	2,626,139.50
03076CAA4	AMERIPRISE FINANCIAL INC	5.350	11/15/2010	3,000,000.00	2,998,076.85	3,034,800.00
031162AJ9	AMGEN INC	4.850	11/18/2014	7,000,000.00	6,796,505.17	7,752,710.00
035229CH4	ANHEUSER-BUSCH COS INC	6.000	04/15/2011	5,000,000.00	5,063,424.69	5,168,050.00
037411AQ8	APACHE CORP	6.250	04/15/2012	3,000,000.00	3,080,593.56	3,239,670.00
046353AC2	ASTRAZENECA PLC	5.400	09/15/2012	6,000,000.00	6,392,036.82	6,551,460.00
055451AD0	BHP BILLITON FIN USA LTD	5.125	03/29/2012	2,000,000.00	2,076,231.64	2,129,600.00
055451AG3	BHP BILLITON FIN USA LTD	5.500	04/01/2014	2,500,000.00	2,493,573.30	2,787,675.00
055451AH1	BHP BILLITON FIN USA LTD	6.500	04/01/2019	2,500,000.00	2,492,768.73	2,998,125.00
057224AX5	BAKER HUGHES INC	6.500	11/15/2013	3,000,000.00	3,232,877.52	3,427,140.00
06406HBE8	BANK OF NEW YORK MELLON	4.950	11/01/2012	4,000,000.00	3,984,024.16	4,331,560.00
06765XAA7	BARCLAYS BANK PLC	2.700	03/05/2012	5,000,000.00	5,054,048.35	5,125,600.00
071813AZ2	BAXTER INTERNATIONAL INC	4.000	03/01/2014	7,000,000.00	7,270,646.53	7,534,450.00
07385TAJ5	BEAR STEARNS CO INC	5.700	11/15/2014	5,000,000.00	5,159,443.35	5,538,050.00
073928W90	BEAR STEARNS CO INC	5.850	07/19/2010	2,767,000.00	2,768,770.35	2,771,039.82
097014AG9	BOEING CAPITAL CORP	6.500	02/15/2012	4,000,000.00	4,172,258.60	4,343,960.00
097023AY1	BOEING CO	3.500	02/15/2015	3,000,000.00	3,063,881.16	3,164,580.00
126650AV2	CVS CORP	4.875	09/15/2014	3,000,000.00	3,015,498.78	3,258,090.00
134429AM1	CAMPBELL SOUP COMPANY	6.750	02/15/2011	3,000,000.00	3,038,725.77	3,112,980.00
134429AU3	CAMPBELL SOUP CO	3.375	08/15/2014	2,500,000.00	2,498,941.60	2,648,100.00
136375BH4	CANADIAN NATL RAILWAYS	4.400	03/15/2013	5,150,000.00	5,246,482.47	5,520,130.50
14912L2M2	CATERPILLAR FIN SERV CRP	4.750	02/17/2015	4,000,000.00	3,875,260.72	4,390,480.00
14912L3G4	CATERPILLAR FIN SERV CRP	5.125	10/12/2011	2,000,000.00	1,997,359.86	2,099,660.00
14912LZ46	CATERPILLAR FIN SERV CRP	4.600	01/15/2014	1,000,000.00	1,060,654.57	1,085,280.00
166751AH0	CHEVRON CORP	3.950	03/03/2014	7,000,000.00	7,282,560.28	7,503,230.00
17275RAB8	CISCO SYSTEMS INC	5.250	02/22/2011	4,000,000.00	3,998,481.80	4,108,760.00
17275RAG7	CISCO SYSTEMS INC	2.900	11/17/2014	3,000,000.00	3,042,975.57	3,104,610.00
17313YAG6	CITIGROUP FUNDING INC	2.125	07/12/2012	5,000,000.00	5,008,313.30	5,129,600.00
191216AL4	COCA-COLA CO/THE	3.625	03/15/2014	3,000,000.00	3,121,739.37	3,205,260.00
191219BV5	COCA-COLA ENTERPRISES	4.250	03/01/2015	3,570,000.00	3,728,904.20	3,860,669.40
20029PAL3	COMCAST CABLE COMMUNICAT	6.750	01/30/2011	3,000,000.00	2,991,974.64	3,093,870.00
2027A0EM7	COMMONWEALTH BANK AUST	3.500	03/19/2015	5,000,000.00	4,980,202.45	5,065,950.00
20825CAT1	CONOCOPHILLIPS	4.600	01/15/2015	2,000,000.00	2,117,159.18	2,184,900.00
20825UAB0	CONOCO FUNDING CO	6.350	10/15/2011	5,000,000.00	5,096,879.07	5,333,550.00
22160KAB1	COSTCO WHOLESALE CORP	5.300	03/15/2012	5,000,000.00	5,051,365.50	5,358,950.00
22541LAC7	CREDIT SUISSE FB USA INC	6.500	01/15/2012	5,000,000.00	5,118,563.43	5,357,750.00
24422EQM4	JOHN DEERE CAPITAL CORP	4.950	12/17/2012	6,500,000.00	6,496,567.74	7,034,950.00
24702RAD3	DELL INC	4.700	04/15/2013	3,500,000.00	3,548,704.67	3,789,835.00
24702RAH4	DELL INC	3.375	06/15/2012	2,040,000.00	2,077,932.88	2,116,948.80
25243YAL3	DIAGEO CAPITAL PLC	5.200	01/30/2013	5,000,000.00	5,109,763.70	5,438,550.00
254687AW6	WALT DISNEY COMPANY	4.500	12/15/2013	7,000,000.00	7,052,147.10	7,709,520.00
26442CAF1	DUKE ENERGY CAROLINAS	5.750	11/15/2013	4,000,000.00	4,196,991.32	4,528,240.00
26875PAB7	EOG RESOURCES INC	6.125	10/01/2013	6,065,000.00	6,475,473.19	6,837,256.45
278058DF6	EATON CORP	4.900	05/15/2013	7,000,000.00	7,004,262.72	7,623,770.00
291011AU8	EMERSON ELECTRIC	4.750	10/15/2015	3,000,000.00	2,925,580.50	3,348,930.00
341081EN3	FLORIDA POWER & LIGHT	4.850	02/01/2013	2,000,000.00	2,019,117.88	2,158,340.00
341099BZ1	FLORIDA POWER CORP	6.650	07/15/2011	2,000,000.00	2,051,320.86	2,104,980.00
35177PAS6	FRANCE TELECOM	4.375	07/08/2014	3,675,000.00	3,870,217.97	3,963,009.75
36186CBF9	GMAC INC	2.200	12/19/2012	5,000,000.00	5,002,209.50	5,137,500.00
368710AG4	GENENTECH INC	4.750	07/15/2015	3,000,000.00	2,916,774.42	3,319,290.00
369550AM0	GENERAL DYNAMICS CORP	5.375	08/15/2015	3,000,000.00	3,003,444.75	3,429,300.00
369550AN8	GENERAL DYNAMICS CORP	5.250	02/01/2014	4,000,000.00	4,342,700.12	4,488,440.00
36962GP65	GENERAL ELEC CAP CORP	4.875	03/04/2015	5,000,000.00	4,896,869.30	5,336,900.00
36962GYY4	GENERAL ELEC CAP CORP	6.000	06/15/2012	5,000,000.00	5,079,669.70	5,380,600.00
373334FN6	GEORGIA POWER COMPANY	5.125	11/15/2012	4,000,000.00	4,046,334.04	4,342,360.00
377372AA5	GLAXOSMITHKLINE CAP INC	4.375	04/15/2014	5,000,000.00	4,963,353.10	5,472,600.00
377372AC1	GLAXOSMITHKLINE CAP INC	4.850	05/15/2013	2,169,000.00	2,303,139.72	2,371,367.70
41283DAA1	HARLEY-DAVIDSON FUNDING	5.250	12/15/2012	7,000,000.00	6,995,858.17	7,239,190.00

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427866AK4	HERSHEY CO	6.950	08/15/2012	2,000,000.00	2,072,200.14	2,239,880.00
428236AQ6	HEWLETT-PACKARD CO	4.500	03/01/2013	5,000,000.00	5,002,275.47	5,397,000.00
428236AY9	HEWLETT-PACKARD CO	2.950	08/15/2012	2,000,000.00	2,030,050.98	2,072,940.00
438516AY2	HONEYWELL INTERNATIONAL	3.875	02/15/2014	4,000,000.00	4,189,742.16	4,302,640.00
441812KA1	HSBC FINANCE CORP	6.375	11/27/2012	2,000,000.00	2,066,474.34	2,159,880.00
459200BA8	IBM CORP	4.750	11/29/2012	3,000,000.00	3,004,671.18	3,247,530.00
49337WAB6	KEYSPAN CORP	7.625	11/15/2010	3,000,000.00	3,033,329.31	3,072,480.00
532457BE7	ELI LILLY & CO	4.200	03/06/2014	4,000,000.00	3,998,639.60	4,346,120.00
539473AA6	LLOYDS TSB BANK PLC	2.300	04/01/2011	5,000,000.00	5,031,624.40	5,039,800.00
548661CH8	LOWES COMPANIES INC	5.000	10/15/2015	4,000,000.00	4,030,798.52	4,488,840.00
55607EAD2	MACQUARIE BANK LTD	2.600	01/20/2012	5,000,000.00	5,046,111.00	5,108,650.00
585055AP1	MEDTRONIC INC	4.500	03/15/2014	7,000,000.00	7,250,853.05	7,676,060.00
585515AD1	MELLON FUNDING CORP	5.000	12/01/2014	3,000,000.00	3,042,796.86	3,275,280.00
61747YCK9	MORGAN STANLEY	4.200	11/20/2014	5,000,000.00	5,042,639.90	4,937,200.00
629491AA9	NYSE EURONEXT	4.800	06/28/2013	7,000,000.00	6,989,800.79	7,570,570.00
637432DC6	NATIONAL RURAL UTILITIES	4.750	03/01/2014	7,000,000.00	6,891,539.41	7,675,990.00
66989HAA6	NOVARTIS CAPITAL CORP	4.125	02/10/2014	2,000,000.00	2,089,214.84	2,157,860.00
66989HAC2	NOVARTIS CAPITAL CORP	2.900	04/24/2015	5,000,000.00	4,964,957.11	5,143,550.00
67021CAA5	NSTAR ELECTRIC CO	4.875	10/15/2012	5,000,000.00	5,037,731.80	5,402,750.00
670346AE5	NUCOR CORP	4.875	10/01/2012	5,475,000.00	5,531,283.60	5,904,130.50
674599BV6	OCCIDENTAL PETROLEUM	6.750	01/15/2012	7,000,000.00	7,410,493.44	7,598,290.00
68389XAF2	ORACLE CORP	3.750	07/08/2014	6,983,000.00	7,218,721.29	7,476,209.29
69373UAB3	PACCAR INC	6.375	02/15/2012	4,300,000.00	4,297,399.88	4,646,408.00
695114BU1	PACIFICORP	6.900	11/15/2011	3,000,000.00	3,094,183.02	3,228,750.00
713448BG2	PEPSICO INC	4.650	02/15/2013	7,000,000.00	6,999,144.88	7,604,450.00
717081AR4	PFIZER INC	4.500	02/15/2014	2,200,000.00	2,321,035.20	2,396,614.00
717081CZ4	PFIZER INC	4.450	03/15/2012	4,800,000.00	4,796,094.19	5,063,856.00
724479AG5	PITNEY BOWES INC	5.000	03/15/2015	2,000,000.00	1,957,908.38	2,193,040.00
72447WAU3	PITNEY BOWES INC	4.875	08/15/2014	3,000,000.00	2,991,484.26	3,296,160.00
74005PAJ3	PRAXAIR INC	6.375	04/01/2012	2,000,000.00	2,073,569.84	2,180,940.00
742718BZ1	PROCTER & GAMBLE CO	4.850	12/15/2015	3,000,000.00	2,936,480.16	3,394,470.00
742718DQ9	PROCTER & GAMBLE CO/THE	3.150	09/01/2015	4,000,000.00	4,096,741.80	4,203,240.00
744448BU4	PUBLIC SERV CO OF COLO	7.875	10/01/2012	2,000,000.00	2,133,833.88	2,280,660.00
744448BX8	PUBLIC SERVICE COLORADO	5.500	04/01/2014	2,000,000.00	2,084,253.18	2,224,380.00
771196AQ5	ROCHE HLDGS INC	5.000	03/01/2014	4,000,000.00	4,315,177.76	4,437,120.00
78010JCT7	ROYAL BK OF SCOTLAND PLC	3.000	12/09/2011	5,000,000.00	5,080,587.05	5,133,150.00
78387GAS2	AT&T INC	5.300	11/15/2010	5,000,000.00	4,998,623.15	5,079,300.00
78442FBG2	SLM CORP	5.000	10/01/2013	3,000,000.00	2,976,812.04	2,867,910.00
822582AF9	SHELL INTERNATIONAL FIN	4.000	03/21/2014	8,000,000.00	7,998,337.68	8,461,520.00
863667AA9	STRYKER CORP	3.000	01/15/2015	7,000,000.00	7,016,460.94	7,227,710.00
86801BAB1	SUNTRUST BANK	3.000	11/16/2011	5,000,000.00	5,102,486.95	5,157,850.00
871829AK3	SYSCO CORPORATION	4.200	02/12/2013	2,920,000.00	3,086,933.48	3,130,210.80
88166CAA6	TEVA PHARMA FIN III/II	3.000	06/15/2015	8,000,000.00	8,103,890.88	8,156,720.00
88319QJ20	TEXTRON FINANCIAL CORP	5.125	02/03/2011	3,000,000.00	2,994,330.15	3,031,860.00
893526CC5	TRANS-CANADA PIPELINES	8.625	05/15/2012	2,000,000.00	2,137,979.86	2,256,140.00
893526DH3	TRANS-CANADA PIPELINES	3.400	06/01/2015	875,000.00	873,974.81	907,628.75
89352HAA7	TRANS-CANADA PIPELINES	4.000	06/15/2013	3,750,000.00	3,628,184.06	3,986,662.50
904764AJ6	UNILEVER CAPITAL CORP	3.650	02/15/2014	4,000,000.00	4,071,510.48	4,269,640.00
911312AG1	UNITED PARCEL SERVICE	4.500	01/15/2013	7,000,000.00	7,093,297.75	7,564,480.00
91159HGR5	US BANCORP	4.200	05/15/2014	4,600,000.00	4,599,348.87	4,920,574.00
913017BF5	UNITED TECHNOLOGIES CORP	6.100	05/15/2012	3,000,000.00	3,135,054.63	3,266,100.00
92343VAN4	VERIZON COMMUNICATIONS	5.250	04/15/2013	2,000,000.00	2,117,408.44	2,192,280.00
92344GAL0	VERIZON COMMUNICATIONS	7.250	12/01/2010	5,000,000.00	5,034,101.15	5,135,300.00
92857WAF7	VODAFONE GROUP PLC	5.000	12/16/2013	3,000,000.00	2,987,037.00	3,249,300.00
931142BV4	WAL-MART STORES	4.125	02/15/2011	3,000,000.00	3,002,788.20	3,060,030.00
931142BY8	WAL-MART STORES INC	4.500	07/01/2015	3,750,000.00	4,037,341.01	4,132,575.00
931422AD1	WALGREEN CO	4.875	08/01/2013	7,000,000.00	7,677,185.81	7,697,830.00
949746CL3	WELLS FARGO & COMPANY	5.125	09/01/2012	2,000,000.00	1,998,586.88	2,121,300.00
9612EMAA7	WESTPAC BANKING CORP	3.250	12/16/2011	5,000,000.00	5,104,709.25	5,142,950.00

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<b>TOTAL CORPORATE</b>				<b>498,264,000.00</b>	<b>506,863,870.61</b>	<b>533,107,691.26</b>
<b>MORTGAGE BACKED</b>						
3128L0DF6	FHLMC POOL A68202	6.000	11/01/2037	1,614,397.19	1,644,600.75	1,755,253.34
3128L0EF5	FHLMC POOL A68234	6.000	11/01/2037	4,992,272.40	5,025,392.08	5,427,848.17
3128MJAD2	FHLMC POOL G08003	6.000	07/01/2034	2,736,501.50	2,799,284.10	3,003,474.59
3128MJMC1	FHLMC POOL G08354	5.000	07/01/2039	13,618,399.05	13,766,469.45	14,425,425.38
31292JBR0	FHLMC POOL C01848	6.000	06/01/2034	3,286,666.38	3,394,906.72	3,626,902.08
31297ECP9	FHLMC POOL A2-6378	6.000	09/01/2034	2,373,763.70	2,441,720.26	2,605,348.09
31297HX46	FHLMC POOL A2-9699	5.000	01/01/2035	2,299,158.00	2,299,996.09	2,438,280.05
31335H5U3	FHLMC POOL C90859	5.500	10/01/2024	3,535,429.20	3,618,995.54	3,824,026.29
31371PC57	FNMA POOL 257592	5.000	03/01/2039	9,967,291.62	10,080,981.04	10,562,039.91
31376KEL6	FNMA POOL 357539	5.500	04/01/2034	3,607,510.20	3,604,153.70	3,885,072.03
31395RAR9	FHRR R001 AE	4.375	04/15/2015	3,549,325.77	3,531,514.19	3,632,243.70
31396LYT1	FNBR 2006-B2 AB	5.500	05/25/2014	2,044,713.50	2,046,597.09	2,099,628.57
31396NPF7	FHRR R007 AC	5.875	05/15/2016	2,088,070.77	2,088,070.77	2,120,709.82
31396V2P2	FNBR 2007-B2 AB	5.500	12/25/2020	4,812,065.70	4,813,268.91	5,044,536.59
31397G7M6	FHRR R011 AB	5.500	12/15/2020	4,584,268.40	4,612,936.03	4,797,121.02
31407K5D7	FNMA POOL 833444	6.000	09/01/2035	1,894,389.75	1,931,390.40	2,065,301.59
31413FGK2	FNMA POOL 944002	6.000	08/01/2037	6,717,053.69	6,677,127.39	7,297,877.32
31415Q4B9	FNMA POOL 986518	5.000	06/01/2038	11,900,597.69	12,017,744.20	12,610,706.35
36202D5C1	GNMA 2M POOL 3543	5.000	04/20/2034	3,843,720.40	3,838,660.60	4,124,273.55
36202EAK5	GNMA 2M POOL 3610	5.500	09/20/2034	3,338,093.60	3,402,814.33	3,631,111.46
36202EUT4	GNMA 2M POOL 4194	5.500	07/20/2038	9,798,613.65	9,816,538.16	10,587,010.10
36202EUU1	GNMA 2M POOL 4195	6.000	07/20/2038	7,547,570.85	7,694,803.96	8,242,551.17
36202EVN6	GNMA 2M POOL 4221	5.500	08/20/2038	6,506,435.90	6,457,288.76	7,029,943.73
36202EVP1	GNMA 2M POOL 4222	6.000	08/20/2038	4,919,270.70	4,978,704.39	5,372,237.15
466247TW3	JPMMT 2005-A6 3A2	5.125	09/25/2035	2,920,505.58	2,913,385.83	2,679,518.31
<b>TOTAL MORTGAGE BACKED</b>				<b>124,496,085.19</b>	<b>125,497,344.74</b>	<b>132,888,440.36</b>
<b>ASSET BACKED</b>						
048312AF9	ACETF 2003-1 A2	4.460	10/20/2016	2,966,819.21	2,916,932.20	3,165,361.72
14041NCU3	COMET 2006-A6 A6	5.300	02/18/2014	5,000,000.00	4,997,377.65	5,172,505.00
14041NDA6	COMET 2006-A10 A10	5.150	06/16/2014	3,000,000.00	2,991,280.62	3,139,281.30
161571AQ7	CHAIT 2005-A7 A7	4.550	03/15/2013	5,000,000.00	4,988,656.35	5,102,142.00
161571AW4	CHAIT 2005-A10 A10	4.650	12/17/2012	5,000,000.00	4,989,456.25	5,058,446.50
17305ECU7	CCCIT 2005-A7 A7	4.750	10/22/2012	7,500,000.00	7,492,715.40	7,593,086.25
17305EDF9	CCCIT 2006-A4 A4	5.450	05/10/2013	5,000,000.00	5,000,000.00	5,194,531.00
477876AD8	JDOT 2007-A A4	5.070	04/15/2014	2,690,159.40	2,689,857.59	2,711,548.59
55264TDE8	MBNAS 2005-A6 A6	4.500	01/15/2013	5,000,000.00	4,994,765.35	5,024,159.50
693401AE1	PERF 2005-1 A5	4.470	12/25/2014	3,250,000.00	3,250,000.00	3,473,927.93
69361YAF0	PEGTF 2001-1 A6	6.610	06/15/2015	4,000,000.00	4,117,647.52	4,421,918.00
705220AM3	PECO 2001-A A1	6.520	12/31/2010	1,503,923.10	1,508,095.81	1,519,022.34
<b>TOTAL ASSET BACKED</b>				<b>49,910,901.71</b>	<b>49,936,784.74</b>	<b>51,575,930.13</b>
<b>TOTAL MARKETABLE SECURITIES</b>				<b>937,196,986.90</b>	<b>951,496,699.72</b>	<b>996,624,927.49</b>
<b>TOTAL MARKETABLE AND C/E</b>				<b>972,661,635.90</b>	<b>986,949,954.03</b>	<b>1,032,078,181.80</b>
<b>COMMON</b>						
22282E102	COVANTA HOLDING CORPORATION			12,639.00	279,195.51	209,681.01
34958N100	FORTICELL BIOSCIENCE, INC			1,926.00	1,627,706.00	65.29
	RIMCO ROYALTY MANAGEMENT, INC			346,302.00	346.30	346.30



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<b>TOTAL COMMON</b>			360,867.00	1,907,247.81	210,092.60
<b>TOTAL MARKETABLE , C/E AND COMMON</b>			973,022,502.90	988,857,201.84	1,032,288,274.40
<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>			281,708.00	35,394,665.00	0.00
	RIMCO ROYALTY PARTNERS, L.P.		346,302.00	3,199,497.00	1,388,452.00
<b>LIMITED PARTNERS</b>			346,302.00	3,199,497.00	1,388,452.00
<b>TOTAL EQUITY SECURITIES</b>			628,010.00	38,594,162.00	1,388,452.00
<b>TOTAL</b>			973,650,512.90	1,027,451,363.84	1,033,676,726.40