



OFFICE OF THE SPECIAL DEPUTY RECEIVER

Representing Jack Messmore, Acting Director, Illinois Department of Insurance

Patrick D. Hughes, Special Deputy Receiver & Chief Executive Officer

Office of the Special Deputy Receiver

Representing the Illinois Director of Insurance

2010 Annual Report

Office of the Special Deputy Receiver
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OFFICE OF THE SPECIAL DEPUTY RECEIVER

MISSION STATEMENT

Our mission is maximization of assets, the fair disposition of claims, and timely delivery of assets to claimants.

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**Office of the
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*Patrick D. Hughes,
Special Deputy*

Message from the Special Deputy Receiver

Enclosed is the 2010 Annual Report of the Office of the Special Deputy Receiver ("OSD").

In 2010, OSD built on strategic and operational successes in prior years. To a larger degree than in 2008 and 2009, OSD was applying improved practices rather than developing improved practices. Cost-saving and efficiency initiatives provided benefits in 2010 for estates under management.

Highlights of our 2010 year include:

- *Closure of Pine Top Insurance Company, one of the largest and most complex estates under OSD Management.*
- *Development of innovative Rehabilitation Plan for Life Services Network Trust.*
- *Representing the Director of Insurance on the Receivership and Insolvency Task Force, the Receivership Financial Analysis Working Group, the Dodd-Frank Receivership Implementation Working Group and the Receivership Technology and Administration Working Group for the National Association of Insurance Commissioners ("NAIC").*

One of the OSD's business principles is to "respect the trust placed in us by the Director of Insurance's assignment of each estate." We are mindful of that trust every day, and appreciate the opportunity to work on behalf of consumers and other creditors.

Patrick D. Hughes
Special Deputy Receiver &
Chief Executive Officer

Office of the Special Deputy Business Principles

We Are Estate Owned

Our business practices are designed to benefit estates. Estates are our “shareholders.” We treat estate assets by that principle. We respect the trust placed in us by the Director of Insurance’s assignment of each estate.

We Are Obsessed with Excellence

Not *concerned* with excellence or *mindful* of excellence but *obsessed* with excellence. We are obsessed with excellence in our -

Quality

Speed

Substantive Expertise

Everyone Contributes to Output

Our output is maximization of assets, the fair disposition of claims, and timely delivery of assets to claimants. We measure ourselves by our individual contribution to and our collective achievement of that output. We are accountable for our performance and productivity.

We Communicate Openly, Honestly and Respectfully

We are not afraid of a fact or where a fact might take us. For us a question is just a question, and a discussion is just a discussion. We are confident enough in ourselves and our colleagues to identify mistakes and make plans for improvement. We treat people respectfully. We encourage each other.

We Are Ethical and Open

Our business ethics are first-rate. We welcome scrutiny and open dialogue with all stakeholders in our operations.

Background on Insurance Receivership and OSD

Following the National Association of Insurance Commissioners' (the "NAIC") model law and state accreditation requirement, Article XIII (215 ILCS 5/187 *et seq.*) of the Illinois Insurance Code provides that the Illinois Director of Insurance is the statutory Receiver for insolvent or financially troubled Illinois insurance companies placed in judicially supervised receivership. As Receiver, the Director functions like a bankruptcy trustee. Subject to court supervision, the Director marshals assets and distributes those assets to consumers and other creditors pursuant to statutory claim procedures. All of this is done at no taxpayer expense, as the expenses of the receivership are paid by the insolvent receivership estate under court supervision.

The Insurance Code provides that the Director may appoint a Special Deputy and other employees to assist in the administration of these receiverships. The Special Deputy acts as the Receiver's agent, assisting him in his statutory duties pursuant to authority granted under Article XIII (215 ILCS 5/202(a)). Since at least 1981, the Director has appointed one Special Deputy for all receivership estates, and utilized a group of employees to provide the core servicing of the receivership estates. In 1991, an Illinois not-for-profit corporation, Office of the Special Deputy Receiver ("OSD"), was formed to serve as a corporate vehicle for employing the professional and clerical staff that service the receivership estates for the Director and Special Deputy. In 1993, the Illinois Legislature amended certain provisions of Article XIII in order to give statutory structure to many of the OSD's practices, including obtaining annual independent audits of the OSD and each receivership estate, copies of which are annually provided to the Governor, legislative leaders and the Auditor General, who also reviews the independent auditor's work papers.

As of December 31, 2010, OSD has 54 employees and is servicing 18 receivership estates. The OSD's annual administrative budget was \$9,856,005 in 2010, and is projected to be \$7,664,000 in 2011. At year end, OSD held \$179,582,119 in cash and invested assets on behalf of estates under its management.

Office of the Special Deputy **2010 Corporate Overview – Significant Events**

Pine Top Insurance Company –

The closure of Pine Top Insurance Company in 2010 brought to a successful conclusion 24 years of activity on the largest liquidated reinsurer in Illinois history. Being one of the first companies of its kind and size in the nation to be placed in liquidation, the liquidation process itself was lengthy and complex. There were many issues being addressed for the first time in any receivership. Procedures had to be created for the evaluation and adjudication of assumed reinsurance liabilities on long tail books of business and mechanisms had to be developed for proper collection on the retrocessional book of business. There was also an 8-year lawsuit against the directors, officers and accountants, which resulted in a recovery of \$27.5 million. By the time the estate closed, all policyholders had been paid at 100% and general creditors received a 49% distribution. Over the life of the estate, over \$107 million was distributed.

Life Services Network Trust –

Life Services Network Trust (“LSNT”) was placed in Rehabilitation on November 12, 2009. LSNT was organized pursuant to the Illinois Religious and Charitable Risk Pooling Trust Act, and as such was not a member of the Illinois Insurance Guaranty Fund. Therefore, the members of the Trust were not eligible to receive payments for their workers compensation claims from the Guaranty Fund. OSD developed a Rehabilitation Plan, which was court approved in 2010 and called for collection of approximately \$11.2 million in assessments imposed upon the Trust members under specified payment options. The Plan provides for claims to initially be paid at 70%, with additional payments to be made thereafter if it is determined funds are sufficient to make such additional payments. The plan will allow claimants to receive ongoing payments for disability claims. During 2010, approximately \$4 million was paid to claimants. The LSNT Rehabilitation Plan represents a flexible, creative solution to significant consumer protection challenges.

Trends and Global Issues in Receivership –

During 2010, OSD expanded its involvement, on behalf of the Director of Insurance, in the activities of the National Association of Insurance Commissioners (“NAIC”), with membership on one task force and three working groups, as follows:

Receivership and Insolvency Task Force (RITF)

Duties and participation on the RITF include monitoring the effectiveness and performance of state administration of receiverships and the state guaranty fund system. Recent activities in 2010 included the creation and participation by the NAIC of the Receivership Financial Analysis Working Group (“RFAWG”) for monitoring nationally significant receiverships; coordinating cooperation and communication among regulators, receivers and Guaranty Funds in developing and providing educational and training programs in the area of insurer insolvencies and insolvency guarantees to regulators, professionals and consumers; developing and monitoring relevant model laws, guidelines and products; and providing resources for regulators and professionals to promote efficient operations of receiverships and Guaranty Funds.

Receivership Financial Analysis Working Group (RFAWG)

RFAWG monitors nationally significant insurers/groups within receivership to support, encourage, promote and coordinate multi-state efforts in addressing problems. RFAWG’s duties include interacting with the NAIC’s Financial Analysis Working Group, domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and actions with regard to the receiverships.

Dodd-Frank Receivership Implementation Working Group (DRIWG)

DRIWG was formed by the RITF to review and consider portions of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act to determine what, if any, state laws, regulations or procedures are necessary for state receivers and the NAIC to be prepared for its requirements related to receivership activities, as well as monitor, review and provide input on federal rulemaking and studies related to insurance receivership. The Special Deputy was appointed to chair the Working Group. The Working Group undertook an aggressive timetable to complete a new chapter on Dodd-Frank receiverships

for the NAIC Receiver's Handbook. The handbook chapter is anticipated to discuss state level process to ensure that state receivership mechanisms will respond effectively to a Dodd-Frank receivership; analyze and prepare for situations in which an insurance company is a subsidiary or affiliate of a covered financial company; identify national coordination initiatives to ensure the national state-based systems provide further support to administering a Dodd-Frank receivership; and develop state laws that will ensure the state mechanism can effectively initiate and administer a Dodd-Frank receivership.

Receivership Technology and Administration Working Group (RTAWG)

RTAWG assists the NAIC in the development and maintenance of the Global Receivership Information Database ("GRID"). By logging into GRID on the NAIC's web site, a user can obtain important data on insurance companies in receivership. The Working Group communicates with receivers throughout the country, to encourage 100% participation in the GRID project. In 2010, the Working Group launched an initiative to have all receivers establish a link directly to GRID from their state insurance department's or receiver's web site.

Good Faith Estimates –

In 2010, OSD continued the practice begun in 2009 of posting Good Faith Estimates ("GFEs") on its web site. These estimates of the timing and amount of anticipated estate distributions are developed and published in order to provide claimants and creditors with useful information which can be used in financial planning. We have received positive feedback from claimants regarding these postings and plan to continue publishing our GFEs.

During 2010, we met six GFE targets and revised four, as follows:

When the year began, there were eight GFEs posted.

GFEs MET:

1. Alliance General: Final distribution and closing in first quarter – This GFE was met.
2. American Health Care Providers: Final distribution and closing in second quarter – This GFE was met.

3. Statewide: 100% distribution at policyholder level (d) before end of second quarter – This GFE was substantially met. The 18-month Request for Prompt Determination date on the tax returns passed on 7/15/10, so it was decided to postpone the distribution until July, at which time the distribution was made.
4. Pine Top: Partial distribution in the third quarter – This GFE was substantially met as it was made less than a month after the projected target date.

During the year, two new GFEs were posted and met:

1. Alpine projected 100% distribution at policyholder level (d) before year end.
2. United Capitol projected 75% distribution to policyholder level (d) in 2010.

GFEs REVISED:

5. Legion: Substantial distribution in 2010 on claims allowed at (d) – The GFE was revised to project a 100% (d) distribution in the third quarter of 2011.
6. Gallant: Distribution at level (d) in 2010 – The GFE was revised to reflect at least 90% distribution at (d) in the first quarter of 2011.
7. Valor: Distribution at level (d) in 2010 – The GFE was revised to reflect at least 90% distribution at (d) in the first quarter of 2011.
8. Oak Casualty: Distribution and estate closing in 2010 – The GFE was revised to reflect 100% distribution at (d) and (g) in the first quarter of 2011.

The above revisions were made primarily because it was not known if the federal claim releases for these companies would be received by year-end 2010.

Office of the Special Deputy **Corporate Goals and Results for 2010**

Beginning in 2008, the OSD Board of Directors began establishing corporate goals for the year and communicating them as expectations to all employees. OSD's corporate goals and corresponding results for 2010 were as follows:

KEY OPERATIONAL GOALS:

1. 4 Estate Closings with Final Distributions

At the end of 2009, there were 18 open estates and the goal was to close 4 in 2010. That goal was met and exceeded with 5 closures during the year. 5 new estates were placed in receivership during the year, so the total number of open estates again stands at 18. This aggressive closing goal reflects our continuing commitment to consumers and other creditors of the estates.

Status: OSD closed 5 estates in 2010, thereby exceeding our goal. Closing occurred on the following dates:

- Alliance General – March 10th
- Financial Benefits – April 8th
- American Health Care – June 28th
- Pine Top – December 17th
- Alpine – December 29th

2. 6 Interim Distributions

The goal of maximizing interim distributions also emphasizes the importance of moving estate assets into the hands of consumers and other creditors as soon as possible. These distributions will be to Guaranty Funds and Associations, as well as the policyholders, general creditors and other creditors of the estates. In 2010, the goal is to make interim distributions on as many estates as possible, where there is no open issue with a third party that would prevent a distribution.

Status: We exceeded our goal, executing a total of 7 interim distributions: 3 to Guaranty Funds and Associations and 4 to other estate creditors.

3. Continued Successful Monitoring of Staff Utilization and Chargeability Ratios

Measurement of staff chargeability (time *at work* devoted to estate tasks) and utilization (*total time*, including time off, devoted to estate tasks) has been a first-level metric used to measure enhanced OSD efficiency over the last several years. We are committed to a chargeability ratio of 75% and a utilization ratio of 66%. Data from the previous two years and study of other organizations were applied to set these ratios.

Status: The goal for the year was exceeded, with a year-end chargeability ratio of 77.15% and a utilization ratio of 66.9%.

4. Transition to Reduced Office Space

Complete a seamless transition to our new reduced space (at a 54% annual rent savings) by ensuring that all plans meet our priority of providing a work environment that will be more functional and effective. Provide all employees with the necessary support for the new changes by communicating on an ongoing basis to ensure that all employees understand the changes and how they will be affected.

Status: OSD fully completed this transition in May 2010. After February 1, the 54% rent savings began.

5. Implement Estate Administration Technology and Efficiency Initiative

The OSD contracted with a new information technology partner and jointly completed five of the nine projects defined in the 2009 IT assessment (surpassing the goal of four projects in 2010). The program included a new integrated financial system for the OSD and receiverships, replacing obsolete AS/400 computers with a more reliable system, planning IT technology and introducing a new Service Desk that provided a more responsive, single point of contact for all OSD and receivership IT requests, a major network, desktop and software upgrade and associated training for employees. We implemented five improvements in response to the 2009 third party IT security audit and made effective use of the IT partnership in other areas when needed for flexibility and to compensate for the limited availability of internal IT resources. Moving to a leased software agreement with our IT partner effectively provided financial system and other software to accommodate scalable receivership workload and staffing solutions. The IT initiative

improved OSD receivership operations and productivity, as well as estate administration and financial reporting.

Status: Completed on schedule, with improved information technologies and processes in use across the company.

CORPORATE STRATEGIC GOALS:

6. Good Faith Estimates

During 2009, we began publishing "Good Faith Estimates" on our web site, an innovative consumer communication tool. These estimates are projections of upcoming estate closings and distributions and have been developed to provide creditors with as much information as possible regarding the timing and amount of upcoming distributions. Claimants can use this information to help plan and make financial decisions, and the public in general is better informed. In 2010, we will fully transition to use of Good Faith Estimates by assessing the initial performance of the program and evaluating whether to expand it as an estate management and communication tool. We will also develop measurements to determine how reliable our estimates have been, using 75% accuracy as a minimum standard and 90% accuracy as a goal.

Status: During the course of the year, ten Good Faith Estimates were posted. Six of these were met and four were revised, primarily because it was not known if the federal claim releases for these companies would be received by year-end 2010.

7. Financial Analysis, Metrics and Estate-Based Financial Reporting

OSD will fully implement a package of tools to measure productivity and efficiency on both individual projects and enterprise level tasks. Completion of this goal will bring consistency to the effort, already substantially underway, to measure performance, results and costs. We will transition to a new general ledger package and production of comprehensive financial reports for all estates and apply these enhanced tools to forward-looking decisions.

Status: Conversion to Dynamic's Great Plains was completed successfully on July 1, 2010. Comprehensive balance sheets for the year ending December 31, 2010 were recently published on the OSD web site and the NAIC GRID database.

8. Receivership Modernization

Continue to enhance OSD contributions to receivership modernization and troubled company management, including support of the efforts of the National Association of Insurance Commissioners and the International Association of Insurance Receivers.

Status: OSD assisted DOI in drafting legislation implementing NAIC Models that will yield more effective service and protection for consumers. This legislation has been signed into law. OSD continues to represent the Director on NAIC receivership issues, including serving on the Receivership Financial Analysis Working Group, Receivership and Insolvency Task Force, the Receivership Implementation Working Group and the Receivership Technology Working Group. We have continued to expand our role as an advisor on regulatory modernization as it relates to receivership.

9. Create Combined Receivership Trust and Retain Investment Manager

The custody of estate assets has traditionally been administered through separate accounts. This arrangement results in administrative redundancy in Accounting and Tax Departments. Combining the estate assets into one trust will allow for more cost-efficient processing and better transaction execution. Hiring an Investment Manager will provide an array of low-cost professional investment services that would otherwise be difficult to maintain in a firm the size of the OSD. Our goal for 2010 is to complete the open procurement process for the Investment Manager, set up the combined trust and convey all of the estates' invested assets into the trust.

Status: Based on estate activity and other factors, Management moved this project to 2011 or later.

Overview of Closings and Distributions

As mentioned previously, the closing of Pine Top Insurance Company was a major accomplishment in 2010. Another achievement was exceeding our corporate goals in the number of estates closed and the number of interim distributions. Five estates were closed instead of the targeted four, and seven instead of six interim distributions were made. In addition to the interim and final distributions, we also distributed \$7.8 million in claim payments to policyholders whose companies were placed in either Conservation or Rehabilitation at the end of 2009 or during 2010. Following is a brief synopsis of the highlights:

Interim Distributions to Creditors of Open Estates: \$49,809,114.

Centaur Insurance Company:	\$12,772,500
Pine Top Insurance Company:	\$20,000,032
Statewide Insurance Company:	\$3,081,395
United Capitol Insurance Company:	\$13,955,187

Three Early Access Distributions on six estates, to Guaranty Funds and Associations, as reimbursement for claims paid and administrative expenses: \$5,101,065.

Distributions in closed estates that were reopened because additional assets were marshaled: Merit Casualty Company: \$275,000.

Final distributions in four of the five estates which were closed: \$9,467,487.

Alliance General Insurance Company:	\$3,679,377
Financial Benefits Insurance Company:	\$1,600,000
American Health Care Providers, Inc.:	\$3,089,887
Alpine Insurance Company:	\$1,098,223
Pine Top Insurance Company:	Estate closed in 2010, and distribution of \$12.5 million was made in early January 2011.

Distributions to Policyholders of Estates in Conservation and Rehabilitation: \$7,891,792.

Life Services Network Trust:	\$4,386,997
Reinsurance Company of America, Inc.:	\$2,050,888
Constitutional Casualty Company:	\$1,899,734

Estate Reports

Below is a brief report on each active company as of December 31, 2010, as well as those companies that were closed in 2010. These reports are generally as of year-end 2010. The OSD web site, www.osdchi.com, contains updated information. Following these reports is a combined statement of cash receipts and disbursements for each company.

ADMINISTRATIVE EMPLOYER GROUP, INC.

On April 21, 2008, an Order of Liquidation with a Finding of Insolvency was entered against the Administrative Employer Group, Inc. ("AEG"). The liquidation proceedings followed the commencement of a conservation proceeding on August 27, 2007. These actions were taken following the Department of Insurance's determination that the company was transacting the unauthorized business of insurance and was insolvent. On November 17, 2008, an order was entered approving claim filing deadlines and procedures. Claims must be asserted by way of a proof of claim form.

AEG was wholly owned by Professional Employer Holdings, L.L.C., a Delaware limited liability corporation. Although AEG was licensed in Illinois as a professional employer organization ("PEO"), it was never licensed for purposes of transacting the business of insurance. Pursuant to its statutory obligations as PEO, AEG provided its clients' companies with workers compensation coverage. Commencing in late 2004, AEG obtained workers compensation coverage from the Reinsurance Company of America ("RCA"). In February of 2005, RCA issued a 10-day notice of cancellation for the non-payment of premium. AEG and certain affiliated entities commenced litigation against RCA in New Jersey state court. That court ultimately entered an order holding that the RCA policy was cancelled effective August 19, 2005. Although the policy issued by RCA was cancelled, AEG continued issuing certificates of insurance purporting to provide workers compensation coverage under the RCA policy until on or about August of 2007. Because AEG's issuance of the certificates of insurance constitutes the unauthorized transaction of the business of insurance, Guaranty Fund coverage is not available.

In conjunction with a due diligence of possible causes of action undertaken on behalf of an affiliated company (Employers Consortium V, Inc., in Liquidation), the Liquidator retained counsel for purposes of pursuing claims against a company, Leading Edge Group Holdings, Inc. The causes of action relate to the

transfer of funds from AEG to Leading Edge over an 11-month period during 2006. A default judgment was entered in favor of AEG/ECI in the action filed against Leading Edge. Judgments were entered in the amount of \$7,176,619 for AEG and \$7,090,387 for ECI. Outside counsel is pursuing recovery on the judgments in an action pending in federal court in New Jersey. The New Jersey federal court has jurisdiction as a result of its issuance of a criminal seizure order.

ALLIANCE GENERAL INSURANCE COMPANY

On January 7, 2000, an Agreed Order of Liquidation with a Finding of Insolvency was entered against Alliance General Insurance Company.

The Guaranty Funds were paid 100% at level (a) in the amount of \$837,440. Class (d), which includes both early access distributions to Guaranty Funds and policyholder payments not covered by the Guaranty Funds, was also paid at 100% in the amount of \$19,290,196. A 66.99% level (g) distribution was made to general creditors in the amount of \$3,679,677. The estate was closed on March 10, 2010.

ALPINE INSURANCE COMPANY

On June 28, 2000, an Order of Liquidation was entered against Alpine Insurance Company for reasons of insolvency.

The Guaranty Funds were paid 100% at level (a) in the amount of \$127,355. Classes (d) and (e), which include both early access distributions to Guaranty Funds and policyholder payments not covered by the Guaranty Funds, were paid at 100% in the amount of \$10,280,749. There was also an 83.01% pro rata distribution to the (g) level, general creditors, in the amount of \$436,321. The estate was closed on December 29, 2010.

AMERICAN HEALTH CARE PROVIDERS, INC.

On May 11, 2000, an Order of Liquidation with a Finding of Insolvency was entered against American Health Care Providers, Inc.

The Guaranty Associations were paid 100% at level (a) in the amount of \$2,018,182. Class (d), which includes both early access distributions to Guaranty Associations and policyholder payments not covered by the Guaranty

Associations, was paid at 65.81% in the amount of \$4,907,107. The estate was closed on June 28, 2010.

CENTAUR INSURANCE COMPANY

Centaur Insurance Company, an Illinois domestic property and casualty insurance company, consented to an Agreed Order of Rehabilitation issued by the Circuit Court of Cook County, Illinois on September 4, 1987. The Rehabilitator's Second Revised Plan of Rehabilitation was entered and approved by the Supervisory Court on December 8, 2000.

Centaur wrote general liability, as well as general property and casualty lines of business on a primary or excess basis. In addition, Centaur wrote assumed reinsurance. Centaur was licensed in D.C. and all states except AZ, CT, HI, KS, NH, SD, VT and WY, in which it wrote on a surplus line or non-admitted basis.

On August 16, 1999, the Supervisory Court approved a plan for the Rehabilitator to pursue policy buy-backs with insureds. The plan has been completed; agreement was reached with 20 insureds for total settlements of \$12,076,099. This resulted in a reduction in case reserves to Centaur of \$20,102,432.

The Rehabilitator has engaged in negotiations with Centaur's reinsurers and reinsureds, both domestic and international, resulting in numerous commutations which were approved by the Supervisory Court.

On November 13, 2006, the Supervisory Court entered an order approving a one hundred percent (100%) first dividend on all claims allowed and approved by the Supervisory Court for distribution at statutory priority level (e). The Supervisory Court further authorized the Rehabilitator to make distributions of estate assets necessary to effectuate the first dividend on allowed and court approved claims. The Supervisory Court's approved dividend and distribution of estate assets applies to claims allowed and approved in the rehabilitation proceedings, as well as to claims which might in the future be allowed and approved at statutory levels (d) and (e). As of year-end 2010, all direct claims at levels (d) and (e) have been paid, in the total amount of \$131,143,500.

CONSTITUTIONAL CASUALTY COMPANY

On November 4, 2010, an Order of Sequestered Conservation was entered against Constitutional Casualty Company and its corporate parent, Copco, Inc.

During the remainder of the year, the company's activities were closely monitored by the Conservator. In 2011 the sequestration was lifted.

COPCO, INC.

On November 4, 2010, an Order of Sequestered Conservation was entered against Copco, Inc. and its wholly-owned subsidiary, Constitutional Casualty Company. During the remainder of the year, the company's activities were closely monitored by the Conservator. In 2011 the sequestration was lifted.

CORONET INSURANCE COMPANY

On December 10, 1996, an Order of Conservation was entered against Coronet Insurance Company, as well as two of its subsidiaries, Crown Casualty Company and National Assurance Indemnity Company. On December 24, 1996, Coronet was declared insolvent and an Agreed Order of Liquidation with a Finding of Insolvency was entered. Coronet, an Illinois domestic property and casualty company, is a wholly-owned subsidiary of Normandy Holding Company and commenced business in 1963.

The company's principal business consisted of non-standard private passenger automobile coverages, both liability and physical damage, as well as a small amount of homeowners and other coverages on a direct and assumed basis. Although licensed in 11 states, the company primarily wrote in IL, AZ, NV, TN and OH.

The claim filing deadline was December 24, 1997, with a contingent claim date of December 24, 1998. Early access distributions of \$11,330,303 have been made to various Guaranty Funds for administrative expenses.

On December 8, 1998, the Liquidator filed a federal RICO complaint in the U.S. District Court for the Northern District of Illinois, against certain former officers and directors of Coronet. After years of litigation, settlement agreements were reached with all defendants, and the case was dismissed.

A complaint was filed against the former auditors of the company for negligence and breach of contract. Both parties filed appeals in this matter. The Liquidator received a favorable appellate decision. A motion for rehearing was denied, and, subsequently, in September 2009, the parties agreed to a settlement. The agreement stipulated that the former auditors pay \$2.25 million, to be divided between Coronet, Crown and National Assurance.

A policyholder claim evaluation will take place if sufficient assets are marshaled. Any remaining assets of two Coronet subsidiaries will be upstreamed to Coronet when the affairs of these two companies are concluded.

CROWN CASUALTY COMPANY

Crown Casualty, an Illinois domestic property and casualty company, and a member of the Coronet Insurance Group, was ordered into conservation on December 10, 1996. On January 31, 1997, an Order of Liquidation with a Finding of Insolvency was entered. This was not an agreed order, but rather a non-contested default. Crown is a wholly-owned subsidiary of National Assurance Indemnity Company, which in turn is owned by Coronet Insurance Company. The company commenced business in 1990. National Assurance and Coronet were also placed in conservation on December 10, 1996, and NAIC's liquidation date was January 3, 1997.

Licensed only in Illinois, this company primarily assumed business from its ultimate parent, Coronet. It also wrote a small amount of automobile coverages on a direct basis.

The claim filing deadline was February 2, 1998, with a contingent claim filing date of February 2, 1999. Early access distributions of \$681,242 have been made to the Illinois Insurance Guaranty Fund for administrative expenses.

On December 8, 1998, the Liquidator filed a federal RICO complaint in the U.S. District Court for the Northern District of Illinois, against certain former officers and directors of Coronet. See the Coronet estate for further information.

EMPLOYER'S CONSORTIUM V, INC.

In late 2005, Employer's Consortium V, Inc. ("ECI") was purchased by Professional Employer Holdings, L.L.C., a Delaware limited liability corporation ("PEH"). Although ECI was licensed in Illinois as a professional employer organization ("PEO"), it was never licensed for purposes of transacting the business of insurance. Pursuant to its statutory obligations as a PEO, ECI provided its client companies with workers compensation coverage. Subsequent to its purchase by PEH, ECI commenced issuing certificates of insurance for workers compensation coverage under a policy of workers compensation insurance issued by the Reinsurance Company of America ("RCA") to another PEO owned by PEH, the Administrative Employers Group, Inc. ("AEG") in 2004. The RCA policy issued to AEG, under which ECI was issuing its certificates of insurance,

had been cancelled effective August 19, 2005, prior to purchase of ECI by PEH. Because ECI's issuance of the certificates of insurance constitutes the unauthorized transaction of the business of insurance, Guaranty Fund coverage is not available.

On April 21, 2008, an Order of Liquidation with a Finding of Insolvency was entered against ECI. The liquidation proceeding follows the commencement of a conservation proceeding on August 27, 2007. These actions were taken following the Department of Insurance's determination that the company was transacting the unauthorized business of insurance and was insolvent.

Subsequent to ECI being placed into liquidation, in July 2008, a former officer and director (against whom a petition for rule to show cause was pending) filed a Chapter 7 bankruptcy petition on behalf of ECI. This was dismissed on the motion of the US Trustee on the ground that the petition had not been signed by an attorney. In November, on the same date as a hearing before the liquidation court on the rule to show cause, the officer and director caused a second Chapter 7 bankruptcy petition to be filed on behalf of ECI. The US Trustee learned that the attorney's signature on the second filing had been forged. The US Trustee filed a motion to dismiss the petition on the ground that it was not properly signed by an attorney. The motion was granted and the second petition was dismissed.

Subject to the possibility of future litigation recoverables, ECI is a no-asset estate. Prior to filing a motion to close the liquidation estate, the Rehabilitator obtained the services of outside counsel to undertake a due diligence review of possible causes of action. A potential cause of action was identified arising from fraudulent transfers effectuated during the course of the 2006 calendar year by Leading Edge Insurance Group Holdings, Inc. A decision was made to retain counsel on a contingent fee basis, there being no assets in the estate with which to pay the firm on a current basis. A default judgment was entered in favor of AEG/ECI in their action filed against Leading Edge. Judgments were entered in the amount of \$7,176,619 for AEG and \$7,090,387 for ECI. Outside counsel is now pursuing recovery on the judgments in an action pending in federal court in New Jersey. The New Jersey federal court has jurisdiction as a result of its issuance of a criminal seizure order.

FINANCIAL BENEFITS INSURANCE COMPANY

On February 16, 2010, an Order of Sequestered Conservation was entered against Financial Benefits Insurance Company ("FBI") and its parent,

Reinsurance Company of America, Inc. In April, FBI was closed by way of a merger with its parent.

GALLANT INSURANCE COMPANY

On February 25, 2002, an Order of Conservation was entered against Gallant Insurance Company following the Department of Insurance's determination that Gallant was insolvent by more than \$21 million. Gallant was a wholly-owned subsidiary of JP Holding Incorporated and a member of the Warrior Insurance Group of Bedford Park, Illinois. Gallant was originally incorporated in November 1977 as the Allied American Insurance Company. The current name was adopted in July 1995. The company was licensed in the states of Illinois and Indiana, and primarily wrote non-standard passenger automobile liability and physical damage coverage.

An Order of Liquidation was entered by the Circuit Court of Cook County, Illinois against Gallant on August 9, 2002. A final Order of Liquidation with a Finding of Insolvency was entered by the Circuit Court of Cook County, Illinois on March 13, 2003.

Prior to liquidation, the Department of Insurance approved an arrangement for Affirmative Insurance Company to assume or reinsure all in-force business of Gallant effective January 1, 2002.

The claim filing deadline was February 23, 2004. The deadline for liquidating timely-filed contingent claims was August 23, 2004. Early access distributions totaling \$13,910,627 have been made to various Guaranty Funds for administrative expenses and claim payments.

On July 25, 2006, the Supervisory Court entered an order approving the Liquidator's recommendation of a 100% dividend distribution to priority level (b) secured creditors, totaling \$202,319.

LEGION INDEMNITY COMPANY

On April 3, 2002, an Order of Conservation was entered against Legion Indemnity Company. On April 9, 2003, upon the Director's Verified Complaint for Liquidation, the Circuit Court of Cook County entered an Order of Liquidation with a Finding of Insolvency.

The Illinois Property and Casualty Guaranty Fund as well as the New Jersey Surplus Lines Guaranty Association were triggered for covered claims of residents of their respective states. The Illinois Life and Health Guaranty Association was triggered for covered accident and health claims of Illinois residents, as well as certain other states.

The company was licensed only in the state of Illinois; however, it operated on a surplus line or non-admitted basis in the District of Columbia, U.S. Virgin Islands and 49 other jurisdictions. On December 31, 2001, the company reported direct written premium of \$89,307,000, and assumed reinsurance premium of \$11,500,000.

Legion Indemnity was a wholly-owned subsidiary of Legion Financial Corporation, in turn owned by Mutual Group Ltd. of Delaware. The ultimate holding company for all of the insurance operations was Mutual Risk Management, Ltd., a Bermuda corporation.

The claim filing deadline was October 11, 2004. The deadline for liquidation of timely-filed contingent claims was April 10, 2006. Early access distributions totaling \$11,499,079 have been made to various Guaranty Funds for administrative expenses and claim payments.

Legion's uncontested level (d) claim evaluation was completed in 2009.

LIFE SERVICES NETWORK TRUST

On October 13, 2009, an Order of Conservation was entered against Life Services Network Trust ("LSNT"). On November 12, 2009, an Agreed Order of Rehabilitation with a Finding of Insolvency was entered against LSNT by the Circuit Court of Cook County, Illinois ("Supervising Court"). LSNT was organized pursuant to the Illinois Religious and Charitable Risk Pooling Trust Act. At the direction of the Director, the company non-renewed all members' insurance coverage as of October 1, 2009. OSD developed a Rehabilitation Plan, which was court-approved in 2010 and called for collection of approximately \$11.2 million in assessments imposed upon the Trust members under specified payment options. The Plan provides for claims to initially be paid at 70%, with additional payments to be made thereafter if it is determined funds are sufficient to make such additional payments. The plan will allow claimants to receive ongoing payments for disability claims. During 2010, approximately \$4 million was paid to claimants.

MICHAEL A. WARD

This individual was placed in Conservation on August 27, 2007, along with three of the companies of which he was a principal, Administrative Employer Group, Inc., Employer's Consortium V, Inc. and JRSO, Inc.

NATIONAL ASSURANCE INDEMNITY COMPANY

National Assurance Indemnity Company, an Illinois domestic property and casualty company, and a member of the Coronet Insurance Group, was ordered into conservation on December 10, 1996. National Assurance, which commenced business in 1998, is a wholly-owned subsidiary of Coronet Insurance Company, which was placed in liquidation on December 24, 1996. National Assurance's subsidiary, Crown Casualty, was also placed in conservation on December 10, 1996. On January 3 and January 31, 1997, respectively, National Assurance and Crown Casualty were placed in liquidation. The liquidation orders were not agreed, but rather non-contested defaults.

Licensed only in Illinois, the company primarily assumed business from its parent, Coronet, and also wrote a small amount of private passenger automobile business.

The claim filing deadline was January 5, 1998, with a contingent claim date of January 5, 1999. Early access distributions of \$680,714 have been made to the Illinois Guaranty Fund for administrative expenses and claim payments.

A complaint was filed against former auditors of the company. Both parties filed appeals in this matter. In September 2009, the parties reached a settlement agreement in which the former auditors agreed to pay \$2.25 million to Coronet, Crown and NAIC, with the funds being divided between the companies.

On August 21, 2007, the Supervisory Court entered an order approving a 100% dividend on claims recommended for allowance and approved by orders of the court for distribution at statutory priority levels (d) thru (g); and further authorized the Liquidator to make a distribution of National Assurance Indemnity Company's estate assets necessary to effectuate the dividend on allowed and court approved claims.

After payment of these claims, a surplus of estate assets remained. Therefore, by an order dated October 9, 2007, the court established a new claim filing deadline of February 1, 2008, to afford claimants who might still have claims not previously filed with the Liquidator, or who filed a proof of claim after the original

claim filing deadline (late claims), an opportunity to share in subsequent distribution of National Assurance's surplus assets. In December 2008 and March 2009, 100% supplemental distributions of \$20,337 were made. A partial shareholder distribution to Coronet Insurance Company for \$2 million was made on September 24, 2009.

OAK CASUALTY INSURANCE COMPANY

On November 19, 2002, an Agreed Order of Liquidation with a Finding of Insolvency was entered against Oak Casualty Insurance Company. This action was taken following the Department of Insurance's determination that the company was insolvent by more than \$2.5 million.

Licensed in the states of Illinois, Indiana, Florida and West Virginia, the company wrote primarily private passenger non-standard automobile liability, and physical damage policies, as well as individual accident and health hospital/medical disability coverage. The company was in runoff and wrote no new business after August 2002.

The claim filing deadline was November 19, 2003, with a contingent claim date of November 19, 2004. Early access distributions totaling \$7,135,002 have been made to various Guaranty Funds for administrative expenses and claim payments. On October 19, 2009, a 100% levels (c) - (g) distribution was made totaling \$2,170,675. There were surplus funds remaining for a second distribution. The Supervisory Court set a new bar date of June 30, 2010 for the next round of proofing. During 2010, claims resulting from the second proofing were evaluated and court approved, in anticipation of a distribution in 2011.

PINE TOP INSURANCE COMPANY

Pine Top Insurance Company commenced business in 1973. Its sole stockholder was Greyhound Corporation. Pine Top was licensed in three states (IL, AZ and MT). The company also operated on an excess and surplus lines or non-admitted basis in 43 additional jurisdictions. Pine Top primarily wrote general liability, umbrella and excess liability, primary and excess fire, as well as a significant amount of assumed reinsurance and facultative coverages.

Pine Top was placed in conservation by a court order entered on June 18, 1986. On June 23, 1986, Pine Top was placed in rehabilitation. Following unsuccessful efforts to rehabilitate the company, the Circuit Court of Cook County, Illinois

issued a final Agreed Order of Liquidation with a Finding of Insolvency on January 16, 1987.

The final date for filing proofs of claim with the Liquidator was January 17, 1989. The contingent claim liquidation date was extended to January 17, 1992. Early access distributions in the amount of \$3,246,229 have been made to various Guaranty Funds for administrative expenses and claim payments.

On October 19, 1993, the Supervisory Court entered an order approving procedures for the final valuation of cedent creditor claims. Final Update forms were mailed to all cedents.

Beginning in 1996, a 50% partial policyholder distribution of approximately \$13 million was made. A second 50% distribution in the amount of \$13,415,677 was made on December 30, 1999. On June 30, 2003, a 100% class (e) distribution was made in the amount of \$18,910,705 and another \$4,900,000 was paid in 2005. Pursuant to an order entered by the Supervisory Court in May 2003, all timely-filed policyholder claims allowed at level (e) of the priority schedule have been paid in full. A 20.5324% partial priority level (g) distribution was made on July 24, 2009, totaling \$25,000,058. Another partial priority level (g) distribution was made in October 2010 in the amount of \$20,000,032.

The estate was closed on December 17, 2010, with the anticipation that in early January 2011, a final partial level (g) distribution in the amount of \$12,633,185 would be made.

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA

On March 16, 2010, an Order of Conservation was entered against Professional Liability Insurance Company of America. This New York domestic medical malpractice company was subsequently placed in Rehabilitation in New York. The Conservator continues to monitor the company, primarily because of the large number of insureds in Illinois.

REINSURANCE COMPANY OF AMERICA, INC.

On February 16, 2010, an Order of Sequestered Conservation was entered against Reinsurance Company of America, Inc. and its subsidiary, Financial Benefits Insurance Company. During the course of the year, the company's activities were closely monitored by the Conservator.

STATEWIDE INSURANCE COMPANY

On January 6, 2004, an Agreed Order of Liquidation with a Finding of Insolvency was entered against Statewide Insurance Company in the Circuit Court of Cook County, Illinois. Statewide's Board of Directors consented to the order, which was entered based on the Director's complaint that Statewide's policyholder surplus was impaired in an amount in excess of \$21 million.

Located in Waukegan, Illinois, Statewide Insurance Company, a wholly-owned subsidiary of Statewide Holding Corporation, was incorporated in 1979. Statewide was licensed in 26 states and wrote commercial multiple peril, commercial auto, general liability, umbrella coverage, workers compensation, inland marine and fidelity and surety bond business. The policies were primarily marketed to small general contractors and artisans in the Midwest and Western states.

The claim filing deadline was January 6, 2005. The deadline for liquidating timely-filed contingent claims was January 6, 2006. Early access distributions totaling \$21,094,187 have been made to various Guaranty Funds for administration expenses and claim payments.

On July 27, 2010, an order was entered approving the Liquidator's plan to distribute a 100% dividend to all claimants whose timely-filed claims were allowed at priority levels (d) and (g) of the statutory priority schedule. \$3,017,090 was distributed.

UNITED CAPITOL INSURANCE COMPANY

On September 12, 2001, United Capitol Insurance Company, an Illinois domestic property and casualty company, was placed under an Order of Conservation. An Order of Liquidation with a Finding of Insolvency was entered on November 14, 2001.

United Capitol was a wholly-owned subsidiary of United Capitol Holding Company, Inc., a Delaware insurance holding company, which is in turn wholly owned by Frontier Insurance Company of Rock Hill, New York. Frontier was placed into rehabilitation by the New York Department of Insurance on August 27, 2001. Both companies are members of the Frontier Insurance Group.

United Capitol was originally incorporated in February 1981 as the Great Southwest Surplus Lines Insurance Company. The current name was adopted in

June 1986, and the company was acquired by the Frontier Insurance Group through its subsidiary Frontier Insurance Company in May 1996.

The company is licensed in three states (AZ, IL and WI), and operated on a surplus line or a non-admitted basis in D.C., Puerto Rico, the U.S. Virgin Islands and all other states.

The claim filing deadline was November 14, 2002, with a contingent claim date of November 14, 2003. Early access distributions totaling \$4,143,843 have been made to the various Guaranty Funds for administrative expenses and claim payments.

A complaint against the former directors and officers of the company alleging breach of fiduciary duty and reckless mismanagement was settled for \$6,250,000.

On December 2, 2010, an order was entered approving the Liquidator's plan to distribute a 75% dividend to all claimants whose timely-filed claims were allowed at priority level (d) of the statutory priority schedule. \$13,955,187 was distributed.

VALOR INSURANCE COMPANY

On February 25, 2002, an Order of Conservation was entered against Valor Insurance Company following the Department of Insurance's determination that Valor was insolvent by more than \$15 million.

An Order of Liquidation was entered by the Circuit Court of Cook County, Illinois against Valor on August 9, 2002.

A final Order of Liquidation with a Finding of Insolvency was entered by the Circuit Court of Cook County, Illinois on March 13, 2002.

Prior to liquidation, the Department of Insurance previously approved an arrangement for Affirmative Insurance Company to assume or reinsure all in-force business of Valor effective January 1, 2002.

Valor was a wholly-owned subsidiary of Gallant Insurance Company, in Liquidation, which in turn is wholly owned by JP Holding Incorporated, and a member of the Warrior Insurance Group of Bedford Park, Illinois. Valor was originally incorporated in December 1989 as the Unicorn Insurance Company. The company's name was changed in 1992 to Hallberg Direct Insurance Company and to Valor in July 1995.

The company is licensed in the states of Illinois and Indiana, and primarily wrote non-standard passenger automobile liability and physical damage coverages.

The claim filing deadline was February 23, 2004. The deadline for liquidating timely-filed contingent claims was August 23, 2004. Early access distributions totaling \$22,410,955 have been made to the Guaranty Fund for administrative expenses and payments.

Cash and Invested Assets

The following Summary of Cash and Invested Assets represents cash and invested assets of companies in receivership during the calendar year ending December 31, 2010. These tabular listings are presented in accordance with the methods of accounting employed by the Office of the Special Deputy Receiver and are not in accordance with Generally Accepted Accounting Principles (GAAP). Special reports, audited in accordance with Generally Accepted Auditing Standards (GAAS), are issued separately on an annual basis, as provided by Article XIII of the Illinois Insurance Code.

OFFICE OF THE SPECIAL DEPUTY RECEIVER STATEMENT OF CHANGES OF CASH AND INVESTED ASSETS DECEMBER 31, 2009 THROUGH DECEMBER 31, 2010

Company Name	Cash & Invested Assets @ 12/31/09	Receipts	Disbursements	Cash & Invested Assets @ 12/30/10
Administrative Employer Group, Inc.	\$ 1,076,375	\$ 4,719	\$ 152,725	\$ 928,369
Centaur Insurance Company	80,266,759	1,323,258	13,872,044	67,717,973
Coronet Insurance Company	1,037,553	2,393,611	2,463,255	967,909
Crown Casualty Company	219,010	187,428	191,657	214,781
Gallant Insurance Company	4,957,439	3,480,628	2,177,055	6,261,012
Legion Indemnity Company	57,342,351	3,455,711	2,626,054	58,172,008
Life Services Network Trust	7,878,178	6,274,105	4,854,474	9,297,809
National Assurance Indemnity Company	1,607,939	399,946	256,023	1,751,862
Oak Casualty Insurance Company	2,924,200	93,630	886,257	2,131,573
Statewide Insurance Company	9,654,700	2,414,542	4,615,256	7,453,986
United Capitol Insurance Company	31,703,470	1,639,737	15,874,473	17,468,734
Valor Insurance Company	5,709,768	3,944,709	2,438,374	7,216,103
Total	<u>\$ 204,377,742</u>	<u>\$ 25,612,024</u>	<u>\$ 50,407,647</u>	<u>\$ 179,582,119</u>

Estate Accomplishments by Department

CLAIMS

- Claims reviewed and noticed: 8,853
- Claimants adjudicated: 14,451
- Objections resolved: 768
- Dividend distributions issued to consumers and other creditors: 3,448

Company Name	Claims Reviewed	Claims Noticed	Claims Adjudicated	Objections Resolved
Alpine	3	3	196	12
AHCP	0	0	5	0
Statewide	147	128	267	36
United Capitol	21	707	1,957	99
Legion	607	2,921	5,266	233
Gallant	81	1,285	2,737	166
Valor	46	1,839	3,545	150
Oak Casualty	465	474	442	22
Coronet	8	110	37	0
AEG	7	7	192	50
	1,382	7,471	14,644	768

In 2010, we continued our efforts at focusing on the improvement and efficiency of our claims handling approach by the application of updated technology resources, as well as by sustaining our commitment to professionalism and consumer care. Because the majority of outstanding claims had been reviewed by year-end 2009, 2010 focused on the noticing, resolution of objections and final adjudication of claims to ensure that the timelines for distributions to creditors and stakeholders were dramatically shortened.

Our goals in 2011 include the application of the revised proofing requirements, which have been developed and put into practice, as well as the continued oversight of companies under our supervisory care. We strive to communicate and engage in a regular exchange of claims information with the Guaranty Funds vis-à-vis the UDS 2.2 system, which allows us to enter current reserve information into the AS/400, thereby benefiting the Guaranty Funds, aiding in the collection of reinsurance and providing our Accounting Department with information to assess the appropriate tax liabilities against the estate.

REINSURANCE

- Cash Collections: \$11,984,059
- Collections by way of Offsets: \$464,727

The Reinsurance Department continued its usage of Uniform Data Standard (“UDS”) information within its billing procedures for certain UDS compliant estates, thereby unencumbering previously segregated assets totaling \$2,061,594 and \$2,599,490 to Gallant and Valor, respectively, allowing for early access distributions of funds otherwise retained.

A second interim distribution of \$19,966,684 was made by the Pine Top estate to reinsurance creditors.

The Department also undertook settlement and invitation for bid initiatives in order to ensure the timely closure of the Pine Top Insurance Company.

LEGAL

Sixty-nine petitions representing 13,616 claim recommendations (allowances and denials) approved by the court.

Thirty-six petitions representing contested claim petitions on 69 claims where the Liquidator either prevailed at hearing or settled prior to hearing.

Distribution and closing petitions approved by the court: 8 distributions and 4 closings.

Federal priority release requests transmitted to the U.S. Department of Justice: 3.

Transactions negotiated and effectuated (settlements and commutations): 6.

ACCOUNTING

Worked with IT and our business partner to implement an integrated financial system (IFS) that replaced an old General Ledger with Microsoft Dynamics Great Plains Financials for the OSD and receiverships. The IFS captures and maintains financial data in a single system, facilitates the implementation of accrual-based accounting, and provides a scalable solution for new receiverships.

TAX AND COMPLIANCE

- Federal returns filed with the IRS or parent company: 69 for insurance companies in receivership, 33 for entities affiliated with insurance companies in receivership.
- State income tax returns filed: 43 for insurance companies in receivership, 4 for companies affiliated with insurance companies in receivership.
- Federal requests for prompt assessment: 9 for insurance companies in receivership, 27 for companies affiliated with insurance companies in receivership.
- State requests for prompt assessment: 3 for insurance companies in receivership.

INFORMATION TECHNOLOGY (IT)

- Worked with a new business partner for an Estate Administration Technology and Efficiency Initiative (EATEI) program to improve OSD and receivership operations and productivity. Completed five major projects: 1) Integrated financial system; 2) AS/400 upgrade; 3) Future State IT; 4) Network upgrade; and 5) Desktop computer upgrade. Made effective use of the IT business partnership in other areas such as software licensing, managed support services, web site redesign, and conversion of a receivership's image system when needed because of the limited availability of internal IT resources.
- Completed major revisions of the claim distribution system for integration with the new financial system and developed a module for controlling data exports and imports for claim distribution checks.
- Introduced, as part of the Future State IT project, a new Service Desk that provided a single point of contact for requests and questions concerning computers, passwords, network accounts and authorizations, security, new and existing programs and systems, and OSD and receivership data processing.
- Developed and executed test plans to ensure a smooth transition while replacing two old AS/400 computers with a single IBM iSeries unit that improved the reliability of our mid-range system, improved the performance of software applications, and reduced costs.

- Improved the speed of behind-the-scenes processing such as a claims statistics program that runs 89% faster.
- Completed comprehensive upgrades of network hardware and software, desktop computers, and office software, as recommended by a third party IT assessment, while continuing to support essential OSD and receivership activities.
- Entered into support agreements with our IT business partner. One involved moving from purchased software to monthly licensing to cost effectively and dynamically provide financial system and other software to accommodate varying receivership workloads and staffing levels at the OSD. The second agreement covered managed services for maintaining and supporting the integrated financial system and providing backup support for the network and computers.
- Introduced improvements in response to a requested, third party IT security audit. Changes included requiring stronger passwords, documenting procedures for employee transfers and terminations, confirming that Access databases do not need additional passwords, installing new antivirus software on PCs and servers, and upgrading the AS/400 computers.
- Redesigned and refreshed the OSD's web site appearance and content including a new window for the current and previous year Statement of Changes in Cash and Invested Assets, links to the NAIC's GRID, and a link to docket information for each receivership.
- Developed procedures and a system to facilitate mandatory quarterly reporting to the Centers for Medicare and Medicaid Services (CMS). This includes an interface to the revised OSD claim system database and capturing injured party information for specific Medicare recipients.
- Developed and introduced QRT (Quick Reporting Tool), a well received and user friendly application that facilitates the ad-hoc reporting of receivership claim data. It provides a quick, standardized way to manage interdepartmental claim processing and offers both online and printed reports to assist in preparing monthly strategic plans. Using QRT effectively yields a 90% reduction in the number of reports needed to get the same information.

CLAIM, CORPORATE & ADMINISTRATIVE SERVICES (CCAS)

- Completed office space reduction and relocation.
- Proof of Claim forms were mailed for estates: 1,436
- Claim allowance notification updates were mailed for estates: 3,551
- Second bar date notifications were mailed to Oak Casualty claimants: 52,652
- Boxes of records destroyed for various estates: 6,135
- Archiving of records (boxes): 645
- Developed and implemented procedures for greater file control.

Corporate Goals for 2011

1. **3 Estate Closings with Final Distributions**

At the beginning of 2010, there were 18 open estates and during the year, 5 new companies were placed in receivership. By the end of 2010, we closed 5 estates, one more than the goal set for the year. As a result, we will begin 2011, as we did last year, with 18 open estates. During 2011, we are anticipating the closure of 3 companies. Meeting this goal will be determined, in part, by resolving federal claim releases. We also expect to conduct a level (g) claim review on 2 of the 3 estates we plan to close.

2. **5 Interim Distributions**

The goal of making interim distributions reflects our continuing commitment to estate creditors. The Guaranty Funds and Associations of the various states are among the primary estate creditors, and we will continue making periodic payments to them, keeping our level of reimbursement as close to 100% as possible. In addition, we are planning on interim distributions to both estate policyholders and general creditors. In some cases, these distributions are contingent on the receipt of federal claim releases, as referred to above.

3. **Maintain Utilization and Chargeability Ratios**

OSD remains committed to a chargeability ratio of 75% and a utilization ratio of 66%. Ongoing monitoring helps ensure OSD is appropriately sized for its assignments.

4. **Implement Enhanced Financial and Budgeting Tools**

OSD is focusing on 2011 on applying new processes to enhance its financial and budgeting tools for (1) estate-based reporting and budgeting, (2) application of enterprise budgeting that fits OSD's workflow.

5. Evaluation of Good Faith Estimates

The plan to continue the publication of "Good Faith Estimates" reflects our confidence that the posting of these estimates is a vital communication link between the Receiver and the consumer/creditor. In 2010, many policyholders and other creditors were referred to our web site to review the Good Faith Estimates and, consequently, receive information needed to assist them in planning for the future. In 2011, we will prepare an evaluation of the effects for consumers and the track record for accuracy. We will then adjust the policies, as necessary.

Corporate Governance

The Office of the Special Deputy Receiver is governed by a Board of Directors pursuant to the Illinois Not-for-Profit Corporation Act. Board members elected on March 1st at the 2010 Annual Meeting were:

Joel Africk
J. Kevin Baldwin
D. Daniel Barr *
Jennifer Donham
Michael T. Gleeson
Patrick D. Hughes

Under the Illinois Insurance Code, the Special Deputy and most estates under management are audited. Copies of such audits are available on the OSD web site, www.osdchi.com.

* Resigned April 30, 2010.

Office of the Special Deputy Receiver 2011 Budget (Cash Basis)

Description	Note	2011 Budget	2010 Actual	2009 Actual	2008 Actual	2007 Actual
Salaries & Related Expenses						
Salaries		\$4,739,000	\$5,283,369	\$6,913,147	\$8,811,112	\$8,734,277
Employee Benefits		1,150,000	1,368,636	2,542,193	2,349,134	2,231,743
Payroll Taxes		392,000	459,413	571,018	740,944	758,878
<i>Subtotal</i>		\$6,281,000	\$7,111,418	\$10,026,358	\$11,901,190	\$11,724,898
Professional Fees						
Professional Fees		79,000	131,542	157,253	60,743	62,827
<i>Subtotal</i>		\$79,000	\$131,542	\$157,253	\$60,743	\$62,827
Administrative Expenses						
Rent and Related Items	1	\$789,000	\$797,021	\$1,639,548	\$1,538,038	\$1,480,100
Office Expense		109,000	61,258	118,938	124,299	166,778
Data Processing	2	233,000	46,743	67,170	125,637	159,187
Travel		9,000	10,351	10,797	15,265	5,671
Equipment		1,000	180	6,631	5,095	4,636
Postage & Freight		15,000	16,208	9,717	13,113	41,362
Investment		10,000	2,123	3,613	26,753	31,346
Other	3	101,000	99,483	120,874	30,601	86,478
<i>Subtotal</i>		\$1,267,000	\$1,033,367	\$1,977,288	\$1,878,801	\$1,975,558
Technology Initiative						
Technology Initiative	4	37,000	1,579,680			
<i>Subtotal</i>		\$37,000	\$1,579,680	\$0	\$0	\$0
<i>Total</i>		\$7,664,000	\$9,856,007	\$12,160,899	\$13,840,734	\$13,763,283

¹ Rent and rent items include \$696,000 in lease payments, \$52,000 in lease operating expenses and \$41,000 for phone, Internet and records storage. The 2010 rent expense includes an abatement of \$133,875 related to the renegotiation of its long-term lease with Merchandise Mart L.L.C.

² Increase due to enhanced support and maintenance of IT software and infrastructure. Major items in this category are \$65,000 for licensing the Microsoft Office products, \$50,000 to the Revere Group for network infrastructure maintenance and Dynamics Great Plains support, \$25,000 to IG2 Data Security for back-up, tape storage and security.

³ Other expense is comprised of \$89,616 in insurance premiums for property and casualty coverage and \$11,384 in miscellaneous charges.

⁴ Relates to completion of the Technology Initiative, specifically final program management and completion of Sharepoint installation.

Closed Estates

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
AAI Syndicate #1, Ltd.	02/09/99 (L)	12/16/05	\$4,704,419
Agora Syndicate, Inc.	11/15/00 (L)	12/20/06	\$7,350,291
Amalgamated Labor Life Insurance Company	07/05/89 (L)	12/29/99	\$4,611,743
Alliance General Insurance Company	01/07/2000 (L)	03/10/10	\$23,807,313
Alpine Insurance Company	06/28/2000 (L)	12/29/10	\$10,844,425
American Association of Trauma Specialists	12/01/80 (L)	10/27/86	Not Available

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
American Health Care Providers, Inc.	05/11/2000 (L)	06/28/10	\$6,925,289
American Horizon Insurance Company	07/11/02 (L)	9/30/09	\$1,171,511
American Mutual Liability Insurance Company	03/09/89 (A)	05/18/93	N/A - Ancillary
American Mutual Reinsurance Company	02/22/88 (R)	09/16/09	\$91,651,180
American Unified Life and Health Insurance Company	06/27/2000 (L)	12/16/09	\$1,430,055
American United Casualty Co., Inc.	12/09/94 (L)	12/09/93	None - Unauthorized

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Associated Life Insurance Company	03/03/89 (L)	12/07/00	\$1,248,533
Associated Physicians Insurance Company	08/16/01 (L)	12/09/08	\$1,166,470
Association of Trial Lawyers Assurance	10/14/04 (L)	12/10/08	\$995,087
Back of the Yards Risk Management Association	01/22/01 (L)	5/19/08	\$3,597,805
Cadillac Insurance Company	01/02/90 (A)	10/29/96	N/A - Ancillary
Chicago Care, Inc.	04/08/87 (L)	12/27/89	\$300,000

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Complete Health Care Corp.	11/05/90 (L)	11/15/97	\$97,500
Continental Fire / First Chicago Group	10/26/94 (L)	03/14/95	None - Unauthorized
Cooperative Health Plan	03/29/89 (L)	08/24/94	\$438,228
Cure Health	10/07/76 (L)	06/20/80	\$24,507.17
Delta Casualty Company	12/04/01 (L)	06/23/09	\$2,796,598
Edison Insurance Company	02/20/91 (L)	02/23/02	\$8,877,720

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Equity Funding Life Ins. Co.	10/10/74 (L)	10/12/87	None
Equity General Insurance Company	11/20/89 (L)	12/12/02	\$13,143,224
Fidelity General Insurance Company	12/04/70 (L)	12/14/89	\$8,120,017
Financial Benefits Insurance Company	02/16/10 (C)	04/08/10	\$1,600,000
First Oak Brook Corp. Syndicate	11/12/96 (L)	10/26/05	\$14,143,219
Geneva Assurance Syndicate, Inc.	07/11/06 (L)	12/02/05	\$10,312,311

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Georgetown Life Insurance Company	11/05/90 (L)	11/15/97	\$24,000,456
Globe Indemnity	01/27/95 (L)	12/09/97	\$239,376
Health Plan of Central Illinois	03/22/91 (L)	08/06/98	\$3,009,512
Heartland Casualty Company	01/24/91 (L)	03/30/95	None
Heritage Insurance Company	02/25/86 (L)	3/14/00	\$3,757,208
Homeowners Insurance Company	04/07/71 (L)	04/24/89	\$3,968,602

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Ideal Mutual Insurance Company	02/07/85 (A)	11/24/93	N/A - Ancillary
Illinois Earth Care Workers Compensation Trust	10/26/00 (L)	8/30/06	\$2,401,512
Illinois Electrical Employers Workers Compensation Association	11/03/00 (L)	06/30/08	\$372,654
Illinois Environmental Service Workers Compensation Trust	03/22/01 (L)	04/23/08	\$2,054,929
Illinois Healthcare Insurance Company	06/30/00 (L)	12/17/08	\$7,735,052
Illinois Insurance Company	07/09/99 (L)	06/30/06	\$6,597,365

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Industrial Fire and Casualty Company	03/06/91 (L)	12/03/97	\$2,069,751
Inland American Insurance Company	09/19/97 (L)	11/04/04	\$4,741,323
Inter-American Insurance Company of Illinois	12/31/91 (L)	09/16/03	\$71,994,422
Intercontinental Insurance Company	01/12/90 (L)	05/27/04	\$17,201,530
Iowa State Travelers Mut. Assurance Company	02/23/83 (A)	05/21/91	N/A - Ancillary
Kenilworth Insurance Company	04/20/82 (L)	02/07/01	\$5,052,692

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
LaSalle Nat'l Insurance Company	04/08/71 (L)	10/12/90	\$13,246,501
Life Assurance Company of Pennsylvania	05/09/91 (A)	07/06/95	N/A - Ancillary
Main Insurance Company	06/22/82 (L)	12/30/86	\$1,081,555
Market Insurance Company	12/16/80 (L)	06/06/95	Not Available
MedCare HMO	01/04/93 (L)	08/23/07	\$12,768,648
Merit Casualty Company	04/01/97 (L)	07/12/04	\$3,804,476

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Mid-American Insurance Company	02/29/96 (L)	06/01/97	\$295,345
Midland Insurance Group	08/09/05 (R)	07/25/07	\$48,477
Mile Square Health Plan of Illinois	01/25/89 (L)	09-01-93	\$75,000
Millers National Insurance Company	05/11/93 (L)	11/12/03	\$18,759,720
Missouri General Insurance Company	09/12/75 (L)	02/25/82	\$45,065
Modern Life Insurance	08/03/83 (L)	12/31/86	\$377,260

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Multicare HMO	06/19/91 (L)	06/10/96	\$941,790
Multi-State Insurance Exchange	09/11/64 (L)	12/17/81	\$924,214
Municipal Insurance Company of America	10/24/07 (L)	10/22/09	\$1,320,635
National Health Care Trust	02/09/82 (L)	09/02/93	\$4,816
National Investors Life Insurance Company	09/28/83 (A)	02/27/90	N/A - Ancillary
North American / Commercial Inland	09/23/93 (L)	05/19/97	\$171,086

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Optimum Insurance Company of Illinois	05/05/86 (L)	11/19/03	\$5,852,341
Patriot Life Insurance Company	08/23/89 (L)	06/19/95	\$441,833
Penta-Plan / Share	02/03/88 (L)	02/11/92	Not Available
Pine Top Insurance Company	01/16/87 (L)	12/17/10	\$107,859,657
Prestige Casualty Company	07/26/94 (L)	11/18/05	\$14,174,433
Progressive General Insurance Company	03/20/68 (L)	03/26/81	Not Available

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Provident Insurance Company	01/09/91 (L)	12/28/94	\$754,904
Prudence Mutual Casualty Company	02/07/70 (L)	5/21/91	\$4,095,528
RCA Syndicate #1, Ltd.	06/05/00 (L)	8/19/04	\$3,263,327
Reserve Insurance Company	05/29/79 (L)	10/20/98	\$67,316,521
Resure, Inc.	02/27/97 (L)	12/19/02	\$13,187,729
River Forest Insurance Company	03/18/94 (L)	12/21/01	\$1,640,429

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Security Insurance Company	08/09/05 (R)	03/17/08	\$1,743,721
Security Casualty Company	12/04/81 (L)	12/20/00	\$23,170,045
Standard Burial Insurance Assoc.	06/10/87 (L)	11/11/91	Not Available
State Security Insurance Company	06/16/93 (L)	09/21/04	\$1,254,217
Student Plans, Inc.	08/09/05 (R)	05/15/07	\$279,642
Supreme Life Insurance Company	07/12/95 (L)	05/12/00	\$331,055

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Total Health Care, Inc.	06/06/88 (L)	09/14/93	\$480,510
Trans-Pacific Insurance Company	10/13/94 (A)	02/27/97	N/A - Ancillary
United Diversified Corporation	06/08/92 (L)	08/10/98	\$10,610
United Fire Insurance Company	03/03/89 (L)	06/22/01	\$10,660,410
United Equitable Life Insurance Company	12/20/91 (L)	12/14/00	\$5,868,016
United Savings Life Ins. Co.	08/27/86 (L)	12/28/88	\$3,605,963

Estate	Conservation (C) Rehabilitation (R) Liquidation (L) Ancillary Receivership (A)	Closing Date	Distribution Amount
Unity HMO	10/04/91 (L)	12/20/94	\$65,945
University Life Insurance Company	09/23/83 (L)	08/23/89	Not Available
Western Specialty Insurance Company	05/06/02 (L)	10/11/05	\$2,981,353
Yorktown Indemnity Company	02/07/89 (L)	09/29/95	\$4,493,233

Contact Information for Further Inquiries

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To direct estate-specific inquiries, please visit the Insurance Companies list at our web site, www.osdchi.com, and click on the estate you are interested in.

To contact the Special Deputy Receiver, email SpecialDeputy@osdchi.com. We will respond promptly to all inquiries.