

PHOENIX FUND, INC.

NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009

STATEMENT OF RECEIPTS AND DISBURSEMENTS

FOR THE THREE MONTHS ENDING DECEMBER 31, 2009

AND FOR THE PERIOD FROM OCTOBER 17, 2006,

THROUGH DECEMBER 31, 2009

INTRODUCTION TO PHOENIX FUND, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2009

Introduction and Basis of Presentation: Phoenix Fund, Inc. (Fund) is a North Carolina domiciled workers' compensation self-insured employer group fund that was placed into rehabilitation by the Wake County Superior Court on October 17, 2006. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Rehabilitator of the Fund. It is the Rehabilitator's responsibility to attempt to reform and revitalize the Fund and investigate the events that led to the Order of Rehabilitation against the Fund.

The accompanying statement of financial position reflects general ledger balances of the Fund as of December 31, 2009, adjusted to reflect circumstances currently known to the Rehabilitator. Amounts will be further adjusted prospectively as deemed appropriate based on the Rehabilitator's continued investigation. The amounts reflected on the statement of financial position represent the Rehabilitator's best estimate, as explained in the accompanying notes, of the Fund's assets and liabilities as of December 31, 2009. The accompanying statement of receipts and disbursements presents all actual cash receipts and disbursements for the three months ending December 31, 2009, and for the period from October 17, 2006, the date of rehabilitation, through December 31, 2009.

PHOENIX FUND, INC. IN REHABILITATION
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Financial Position
As of December 31, 2009

Assets

Cash on Hand and Deposit	(Note A)	\$ 10,903,198
Bonds	(Note B)	1,492,238
Premium Receivable	(Note C)	650
Reinsurance Recoverable	(Note D)	194,244
Other Assets	(Note E)	1,231,169
Total Assets		<u>13,821,499</u>

Liabilities

Reserve for Loss and Loss Adjustment Expenses	(Note F)	7,521,988
Commissions Payable		45
Other Liabilities	(Note G)	1,320,489
Total Liabilities		<u>8,842,522</u>

Excess of Assets Over Liabilities	(Note H)	<u>\$ 4,978,977</u>
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The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

PHOENIX FUND, INC. IN REHABILITATION
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Receipts and Disbursements

	<u>For The Three Months Ended December 31, 2009</u>	<u>For the Period October 17, 2006 - December 31, 2009</u>
OPERATING ACTIVITIES		
<u>Receipts</u>		
Reinsurance Receipts	\$ 191,219	4,287,969
Premium Receipts	28,451	10,959,329
Restitution Recoveries (Note I)	0	17,992,899
Recovery of Taxes Previously Paid	0	2,256,135
Miscellaneous Receipts	0	199
Total Receipts	219,670	35,496,531
<u>Disbursements</u>		
<u>Policy Related Disbursements</u>		
Loss and Loss Adjustment Expenses	585,343	31,562,223
Premium Refunds (Note J)	2,310	6,221,531
Total Policy Related Disbursements	587,653	37,783,754
<u>General Expenses and Other</u>		
Personnel Expenses	16,855	157,027
Rent and Occupancy	10,547	119,823
Accounting Fees	2,505	848,684
Legal Fees	25,815	68,730
Actuarial Fees	0	36,974
TPA Fees (Note K)	39,557	2,671,634
Office Expenses	738	12,224
Furniture, EDP & Equipment Expense	611	7,720
Travel	17	53,919
Bad Debt Expense	0	5,050
Commissions	27	921,923
Taxes, Licenses and Fees (Note L)	0	1,643,828
RAD Trust Deposit	0	58,000
Miscellaneous Expense	0	190
	96,672	6,605,726
Total Operating Disbursements	684,325	44,389,480
Net Cash Provided by Operating Activities	(464,655)	(8,892,949)

The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

INVESTING ACTIVITIES

Net (Purchases) Sales of Bonds, Common and Preferred Stock	0	11,980,321
Net Investment Income	4,581	2,111,456
Net Cash Provided by Investing Activities	4,581	14,091,777

OTHER

Escheat Liability	0	123,372
Net Cash Provided by Other	0	123,372

Net Increase/(Decrease) in Cash and Cash Equivalents	(460,074)	5,322,200
Cash and Cash Equivalents at Beginning of Period	11,363,272	5,580,998
Cash and Cash Equivalents at End of Period	\$ 10,903,198	10,903,198

The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note A: All cash and cash equivalents have a maturity of less than 1 year and are carried at cost which equals market value. Included in cash is \$2,503,806 held on deposit at US Bank for the state of North Carolina.

Note B: Bonds are comprised of investment-grade corporate bonds and U. S. Treasuries and are carried at market value.

Note C: Premium Receivable represents amounts owed to the Fund by former members for audit premium. As there are significant collection issues related to the majority of the balance of \$ 332,828.76, only that account currently being settled under a payment plan has been reported.

Note D: A significant factor leading to the rehabilitation of the Fund was the discovery that the reinsurance coverage for the period 2003 through 2006 was fraudulent (See Note I). The amount shown as recoverable is for periods prior to 2003 when the Fund had legitimate reinsurance coverage.

Note E: The components of Other Assets are as follows:

OORA trust fund	\$	1,171,191
RAD Trust Deposit		58,000
Claims deductible receivable		1,978
Total	\$	<u>1,231,169</u>

The OORA Trust Fund was established with funds collected as premium for an illegal insurance policy issued to OORA, a national truckers association. The Trust Fund was established to pay expenses for those truckers issued certificates of coverage under the policy. When all claims have been settled, any amount left in the Trust Fund will be disbursed to the individual truckers.

Note F: The Rehabilitator engaged an independent actuarial consulting firm to prepare an actuarial valuation of the Fund's reserves for losses and loss adjustment expenses as of December 31, 2007.

For the December 31, 2009, report, the basis for the amount reported was the actuary's select estimate as of December 31, 2007, updated using recent experience.

NOTES TO FINANCIAL STATEMENTS

Note G: The components of Other Liabilities are as follows:

Deposits held for OORA	\$	1,171,191
Escheat liability		149,298
Total	\$	<u>1,320,489</u>

Note H: The reported excess of assets over liabilities is the result of restitution from Thomas G. Reitz and Reitz Group, Inc. (see Note I).

Note I: As indicated in Note C, the reinsurance coverage carried by the Fund for the period 2003 through 2006 was determined to be fraudulent. During that period, the Fund paid premiums to the Fund's purported reinsurance intermediary, Thomas G. Reitz and Reitz Group, Inc., net of reinsurance recoveries on claims payments, of almost \$20 million.

The Rehabilitator received a Consent Judgment in the amount of \$19,699,292.87 against Thomas G. Reitz and Reitz Group, Inc., issued by the Wake County Superior Court on July 27, 2007. A partial payment of \$5,736,673.92 was received on August 23, 2007. The payment was part of the distribution of assets held in the United States by Mr. Reitz and Reitz Group, Inc.

The Fund received a second payment of \$12,256,225 on January 27, 2009. The amount was paid from the assets belonging to Mr. Reitz and Reitz Group, Inc., held in foreign accounts that were turned over to the federal government. As of December 31, 2009, the balance owed by Mr. Reitz and Reitz Group, Inc., is \$3,549,920.91 consisting of principal of \$1,706,393.95 and accrued interest of \$1,843,526.96. The amount of or time of any additional restitution is currently unknown and is not shown on the balance sheet.

Note J: The Special Deputy Insurance Commissioner requested and received approval from the Wake County Superior Court to make a distribution of \$6.5 million to employers who were members of the Fund as of October 17, 2006, the date of the Order of Rehabilitation. The distribution represented a partial refund of premium. As reported in Note C, the refund was reduced by premiums receivable from the former Members in the amount of \$347,390.

Note K: Effective April 1, 2007, Synergy Coverage Solutions, LLC, took over the claims administration and other policyholder-related operations for the Phoenix Fund in Rehabilitation under a contract with the Rehabilitator.

NOTES TO FINANCIAL STATEMENTS

Note L: In the first quarter, the Fund made an estimated tax payment for the year ended December 31, 2008, in the amount of \$1,400,000. While the exact amount of the January 27, 2009, reinsurance restitution was unknown as of December 31, 2008, the Rehabilitator anticipated receiving at least an amount equal to the previous recovery of \$5,736,674. Estimated taxes were calculated based on the amount of the previous recovery.

NORTH CAROLINA

WAKE COUNTY

VERIFICATION

JEFFREY A. TRENDEL, being first duly sworn, deposes and says that he is a Deputy Commissioner of Insurance for the North Carolina Department of Insurance and appointed as Special Deputy Insurance Commissioner of Phoenix Fund, Inc., by the Commissioner of Insurance and Rehabilitator, that he has read the foregoing Statement of Financial Position as of December 31, 2009, and the Statement of Receipts and Disbursements for the three months ending December 31, 2009, and for the period from October 17, 2006, the date of rehabilitation, through December 31, 2009, and that the contents of same are true and correct to the best of his knowledge and belief.

This the 1st day of March, 2010.

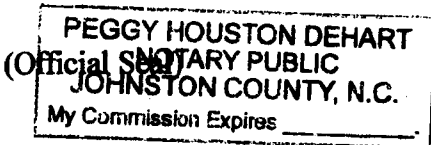
Deputy Commissioner of Insurance and
Special Deputy Insurance Commissioner for
Phoenix Fund, Inc.

NORTH CAROLINA

WAKE COUNTY

Sworn to and subscribed before me this

the 1st day of March, 2010.



Notary Public

My Commission Expires: 5-4-2013

CERTIFICATE OF SERVICE

This is to certify that the original Domiciliary Rehabilitator's Quarterly Report was this day filed with the Wake County Clerk of Superior Court and that a copy of the Report was sent by first class United States mail to the following persons:

Honorable Donald W. Stephens
Senior Resident Judge
Wake County Superior Court
Post Office Box 351
Raleigh, NC 27602-0351

Cathy Stuart
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Stuart Law Firm
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This the 1st day of March, 2010.

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