

NORTH CAROLINA

IN THE GENERAL COURT OF JUSTICE

SUPERIOR COURT DIVISION

WAKE COUNTY

04 CVS 8382

2010 MAR -1 P 2:51

STATE OF NORTH CAROLINA,
COMMISSIONER OF INSURANCE
OF NORTH CAROLINA,

Petitioner,

v.

STATE CAPITAL INSURANCE
COMPANY,

Respondent.

)
) WAKE COUNTY CSC
)

) DOMICILIARY LIQUIDATOR'S
) QUARTERLY REPORT

) [AOC Cover Sheet Code OTHER – Report]
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NOW COMES the Commissioner of Insurance of North Carolina and Liquidator of State Capital Insurance Company (Liquidator), and hereby makes this report pursuant to North Carolina General Statute § 58-30-105 and the Order of this Court dated June 21, 2004, which requires the Liquidator to make a quarterly report to the Court including a statement of receipts and disbursements to date and a statement of financial position. Attached hereto and incorporated herein by reference as Exhibit A is the statement of financial position as of December 31, 2009, and the statement of receipts and disbursements of State Capital Insurance Company for the three months ending December 31, 2009, and for the period from June 21, 2004, the date of liquidation, through December 31, 2009, as prepared by the Special Deputy Insurance Commissioner on behalf of the Liquidator.

This the 1st day of March, 2010.

ROY COOPER
~~Attorney~~ General

David W. Boone
Assistant Attorney General
N. C. State Bar No. 8648
N. C. Department of Justice
P. O. Box 629
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**STATE CAPITAL INSURANCE COMPANY
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 JUNE 21, 2004,
THROUGH DECEMBER 31, 2009**

**INTRODUCTION TO STATE CAPITAL INSURANCE COMPANY
FINANCIAL STATEMENTS**

DECEMBER 31, 2009

Introduction and Basis of Presentation: State Capital Insurance Company (Company) is a North Carolina domiciled property and casualty insurance company that was placed into liquidation by the Wake County Superior Court on June 21, 2004. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Liquidator of the Company. It is the Liquidator's responsibility to recover and liquidate assets and to investigate the events that led to the insolvency of the Company.

The accompanying statement of financial position reflects general ledger balances of the Company as of December 31, 2009, adjusted to reflect circumstances currently known to the Liquidator. Amounts will be further adjusted prospectively as deemed appropriate based on the Liquidator's continued investigation. The amounts reflected on the statement of financial position represent the Liquidator's best estimate, as explained in the accompanying notes, of the Company'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 June 21, 2004, the date of liquidation, through December 31, 2009.

STATE CAPITAL INSURANCE COMPANY
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Financial Position
As of December 31, 2009

Assets		
Cash and Cash Equivalents	(Note A)	\$ 8,228,884
Distributions to Guaranty Associations	(Note B)	88,817
Other Assets	(Note C)	10,000
Total Assets		<u>8,327,701</u>
Liabilities		
Class 1 and 2 Liabilities		
Claims Against the Estate-Policyholders	(Note D)	2,326,810
Claims Against the Estate-Guaranty Associator	(Note E)	5,798,299
Other Liabilities	(Note F)	493,500
Total Liabilities		<u>8,618,609</u>
Excess of Liabilities over Assets		<u>\$ (290,908)</u>

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.

STATE CAPITAL INSURANCE COMPANY
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Receipts and Disbursements

	For the Three Months Ended <u>December 31, 2009</u>	Cumulative From June 21, 2004 - <u>December 31, 2009</u>
OPERATING ACTIVITIES		
<u>Receipts</u>		
Subrogation Recoveries	\$ 75	87,733
Miscellaneous Receipts	1,160	37,265
Total Receipts	<u>1,235</u>	<u>124,998</u>
<u>Disbursements</u>		
<u>Distributions to Guaranty Associations</u> (Note B)	0	88,817
<u>Policy Related Disbursements</u>		
NC Private Passenger Automobile Refund	0	9,420
<u>General Expenses</u>		
Personnel Expense	6,078	115,408
Rent & Occupancy Expense	2,475	55,369
Accounting Fees	3,099	70,532
Legal Fees	0	20,895
Consultants Fees	0	89,702
Service Agreements	0	40,051
Office Expenses	542	33,545
Furniture, Equipment & EDP	610	7,253
Travel	17	10,409
RAD Trust Deposit	0	10,000
Miscellaneous Expense	0	21,744
Total Operating Disbursements	<u>12,821</u>	<u>573,145</u>
Net Cash Provided by Operating Activities	(11,586)	(448,147)
INVESTING ACTIVITIES		
Net (Purchases)/Sales of Invested Assets	0	7,456,451
Net Investment Income	8,522	1,131,267
Net Cash Provided by Investing Activities	<u>8,522</u>	<u>8,587,718</u>
Net Change in Cash and Cash Equivalents	(3,064)	8,139,571
Cash and Cash Equivalents at Beginning of Period	8,231,948	89,313
Cash on Hand and on Deposit at End of Period	<u>\$ 8,228,884</u>	<u>8,228,884</u>

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 \$600,892 held on deposit at various banks for the states of South Carolina, Tennessee, and Virginia.
- Note B:** Distributions to Guaranty Associations represent the release of the Company's statutory deposit to the Florida Insurance Guaranty Association (FIGA). The deposit was held for the benefit of the Company's policyholders in Florida. The distribution will be used to offset the liability to FIGA when the estate makes a distribution to all guaranty associations.
- Note C:** The Company has a reinsurance receivable from its parent, Highlands Insurance Company (Highlands), for claims paid of \$7,444,564 which is net of subrogation recoveries of \$87,682. Due to the uncertainty of collection this receivable is carried with a zero account value. The balance of other assets is comprised of a \$10,000 deposit with RAD Trust.
- Note D:** Reserves for loss and loss adjustment expenses is primarily comprised of case basis reserves and reserves for loss adjustment expenses of \$1,531,170 as reported by the various guaranty associations and net incurred but not reported (IBNR) reserves of \$795,640. The IBNR reserves were based on amounts provided by the Company's parent and have not been independently evaluated. The IBNR reserves are under review at this time and it is anticipated that the IBNR reserves will be revised in future reports as needed.
- Note E:** This represents the amounts paid for covered claims and claim related expenses by various guaranty associations in states where the Company was licensed. These guaranty associations have a claim against the estate of the Company.
- Note F:** Other liabilities include amounts payable to Highlands. As a rule, these balances are considered Class 5 claims for priority of distribution pursuant to N.C. Gen. Stat. §58-30-220. The Special Deputy Receiver (SDR) for Highlands has asserted that \$484,000 of this amount was deposited with the Company in error and should be returned to Highlands. If the SDR provides sufficient documentation indicating the deposit was made in error, the \$484,000 will be returned to Highlands.

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 State Capital Insurance Company by the Commissioner of Insurance and Liquidator, 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 June 21, 2004, the date of liquidation, 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
State Capital Insurance Company

NORTH CAROLINA

WAKE COUNTY

Sworn to and subscribed before me this

the 1st day of March, 2010.

(Official Seal) **PEGGY HOUSTON DEHART**
NOTARY PUBLIC
JOHNSTON COUNTY, N.C.
My Commission Expires _____

Notary Public

My Commission Expires: 5-4-2013

CERTIFICATE OF SERVICE

This is to certify that the original Domiciliary Liquidator'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:

Hon. Donald W. Stephens
Senior Resident Judge
Wake County Superior Court
P.O. Box 351
Raleigh, NC 27602-0351

Christopher J. Blake
Joseph Eason
Attorneys for NCIGA
Nelson Mullins Riley & Scarborough LLP
4140 Parklake Avenue
Raleigh, North Carolina 27612

This the 1st day of March, 2010.

ROY COOPER
Attorney General

David W. Boone
Assistant Attorney General
N. C. State Bar No. 8648
N. C. Department of Justice
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