Harvey Rosenfield (SBN 123082)
Pamela Pressley (SBN 180362)
Todd M. Foreman (SBN 229536)
Jerry Flanagan (SBN 271272)
CONSUMER WATCHDOG
1750 Ocean Park Blvd., Suite 200
Santa Monica, CA 90405
Telephone: 310/392-0522
310/392-8874 (fax)

Attorneys for Intervenor R.C. Heublein

SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

BENJAMIN FOGEL, on behalf of himself and the class,

Plaintiff,

vs.

FARMERS GROUP, INC., FIRE UNDERWRITERS ASSOCIATION; TRUCK; UNDERWRITERS ASSOCIATION; ZURICH FINANCIAL SERVICES and Does 2 through 100, inclusive,

Defendants.

R.C. Heublein,

Intervenor.

Case No. BC300142

ASSIGNED TO: Hon. William F. Highberger

INTERVENOR R.C. HEUBLEIN'S [PROPOSED] OPPOSITION TO MOTION FOR PRELIMINARY APPROVAL OF SETTLEMENT

Date: February 4, 2011
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Discovery Cut-Off: None
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I. INTRODUCTION

Intervenor R.C. Heublein opposes the proposed settlement of this putative national class action on three grounds:

- **The arduous claims-made process** required by the proposed settlement is nothing more than a procedural hurdle designed to ensure that only a small percentage of putative class members will file a claim, so that most of the settlement funds remain under the control of the Defendants;
- **All unclaimed settlement funds revert** to entities ***controlled*** by defendant Farmers Group, Inc. ("FGI")[1]– Fire Insurance Exchange, Truck Insurance Exchange, and Farmers Insurance Exchange (collectively, the "Exchanges") – each of which was originally a defendant in this case. Such a reversion is improper because there is no guarantee that the funds will be used to benefit putative class members who are current policyholders, notwithstanding Defendants' emphatic claim that current policyholders "own" the Exchanges. Furthermore, nothing in the proposed settlement bars FGI from increasing its attorney-in-fact ("AIF") fees so as to upstream the unclaimed settlement funds for the benefit of defendant FGI. Under no circumstances does reversion of the unclaimed settlement fund to the Exchanges provide benefit to former customers; and,
- **The release is vastly overbroad**, requiring class members to release *nearly all potential claims* against all Defendants *and* the Exchanges (the beneficiaries of the residual settlement fund) for issues entirely unrelated to the claims alleged in the Second Amended Complaint.

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[1] FGI includes two wholly owned subsidiaries: Fire Underwriters Association and Truck Underwriters Association.

These are fatal defects in the settlement that render it unfair, unreasonable and inadequate. Putative class member R.C. Heublein urges the Court to deny preliminary approval of the proposed settlement. Mr. Heublein seeks to intervene prior to the hearing on Plaintiff's motion[2] in order to seek changes to the settlement that will ensure that putative class members receive the benefits they are entitled to, and to avert the expenditure of an estimated $20 million on class notice (Declaration of Walter J. Lack in Support of Motion for Preliminary Approval, ¶ 8, 4:7) that Mr. Heublein believes will prove to be a waste of money.

II. BACKGROUND AND FACTS

A. Intervenor R.C. Heublein and Consumer Watchdog Counsel

R.C. Heublein purchased several policies issued by Exchanges during the class period – January 1, 1999 through December 31, 2010 – and is a member of the putative class in the this case. Mr. Heublein contacted Consumer Watchdog and subsequently requested that Consumer Watchdog counsel represent him in an action to intervene in the proposed settlement.

Established in 1985, Consumer Watchdog is a nationally recognized, non-profit public benefit corporation. A core focus of its attorneys' litigation work is the representation of the interests of insurance consumers and policyholders in matters before the Legislature, the courts, and at the California Department of Insurance, including filing amicus curiae briefs as in this matter before the Court of Appeal. Over the course of two decades, Consumer Watchdog's attorneys have brought numerous class actions, civil lawsuits and administrative complaints challenging unfair business practices by telecommunications companies, property casualty insurance companies, health care providers, health maintenance organizations and health insurers. Consumer Watchdog's attorneys have helped establish precedential decisions in numerous landmark cases.

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[2] Plaintiff's Motion for (1) Preliminary Approval of Settlement, (2) Provisional Class Certification, (3) Approval of Notice Plan, and (4) to Set Hearing Re: Final Approval of Settlement ("Motion for Preliminary Approval").

B. The Defendants and the Exchanges, and Their Relationship.

Originally, this action was brought *against the Exchanges*.

The Exchanges are putatively owned by their subscribers. Unlike a standard insurance company, the Exchanges are a "reciprocal" insurer, whereby, in theory, each policyholder indemnifies other policyholders for their losses. A person who receives insurance coverage from the Exchanges is called a "subscriber." (Ins. Code §§ 1300, 1301). The "attorney-in-fact" is the management company that manages the operations for the insurer. Defendant FGI is the "attorney in fact" for the Exchanges.

In practice, the Exchanges are effectively controlled by FGI. First, FGI sets the level of the AIF fee. The parties' declarations make clear that the AIF fee, which is paid to FGI out of premiums charged by the Exchanges, is variable. (See, e.g., Klute Delcaration, ¶ 11, at 2:10-12 [AIF fees collected by Farmers "varied from 6% to 15.95% and average between 11% and 13%"].) Though FGI "annually advise[s] the Boards of Governors of the Exchanges what the fees will be in the coming year," the Boards of Governors *"have no authority to reject these fees*." (Second Amended Complaint, ¶ 37, at 10:18-20, emphasis added.)

According to the California Department of Insurance, the Exchanges are "*controlled by*" FGI, and FGI "provides all operating services (including staffing and occupancy) except claims adjustment services" to the Exchanges. (Exh. A, pp. 7, 12; Exh. B, pp. 7, 13; and Exh. C, pp. 6, 11, emphasis added.) Additionally, while each Exchange is purportedly governed by a "Board of Governors" that is made up of subscribers, many (if not all) of the "Principal Officers" of the Exchanges appear to be employees of Defendants.[3] (See Exhs. A, B, and C, *passim*.) For example, the President and Chief Executive Officer of Farmers Insurance Exchange is Paul N. Hopkins. (See Exh. A, p. 12.) Mr. Hopkins is also a "Principal Officer" with the title of Vice President of each of the other two Exchanges. (See Exh. B, p. 12, and Exh. C. p. 11.) Mr.

[3] This information is based on publicly available information as of varying dates. Upon reviewing discovery, Mr. Heublein should be able to fully describe the cross-over between FGI employees and officers and the officers of the Exchanges.

Hopkins is also the Chairman of the Board of defendant FGI, is a member of Defendant Zurich Financial Service's ("ZFS's") Executive Committee, and is Defendant ZFS's Regional Chairman of the Americas. (See Exh. D.) In addition, the principal place of business for both FGI and the Exchanges is the same location, 4680 Wilshire Boulevard, Los Angeles, California.

Another indicia of control is that FGI has brought the Exchanges — the beneficiaries of the unclaimed settlement funds — into the settlement agreement and extracted ***releases*** on their behalf ***as if they were party defendants***. In his First Amended Complaint, filed August 9, 2004, plaintiff Fogel dismissed the Exchanges. Mr. Fogel substituted in FGI and its wholly-owned subsidiaries Fire Underwriting Association and Truck Underwriting Association. In his Second Amended Complaint, the plaintiff added FGI's parent company ZFS. In the proposed settlement, however, the class members release the Defendants in this action (FGI and ZFS), ***and*** the Exchanges, and all affiliates, officers, directors, accountants, fiduciaries, and a host of persons associated with each releasee.

C. This Case

This case challenges two practices by the Defendants. First, Defendant FGI acts as "attorneys-in-fact" ("AIF") for the subscribers to the Exchanges without actually obtaining consent from those subscribers, in violation of the Insurance Code. Second, Defendants charge an excessive AIF or "management" fee from subscribers. Since this fee is taken out of the approved premium that the Exchanges are authorized to charge, if the management fees are lower, the Exchanges (and their subscriber-owners) retain more money. If the management fees are higher, the Exchanges (and their subscriber-owners) keep less money. In effect, this action alleges that, via the management fee, the Defendants improperly extract money from the subscriber-owned (yet Defendant-controlled) Exchanges for the benefit of the privately-held Defendants.

According to the parties' declarations, there are between thirteen and twenty million putative class members, (Declaration of Shannon R. Wheaton, Ph.D. Concerning Motion for Preliminary Approval, ("Wheaton Decl."), ¶ 8, at 3:23), and these class members paid

approximately ***nine billion dollars*** in AIF fees over the class period. (Declaration of Allan I. Schwartz in Support of Motion for Preliminary Approval, ("Schwartz Decl."), ¶ 5). This excessive fee results in a staggering windfall for FGI – ***57%* of total AIF revenue is profit**[4] – at the expense of the Exchange policyholders, who are the putative class members in this action.

D. The Settlement

The putative class includes every subscriber to the Exchanges across the entire country over a ten-year period: January 1, 1999 through December 31, 2010 ("class period"). (Declaration of Graham B. Lippsmith in Support of Motion for Preliminary Approval, Exh. 1, ("Proposed Settlement"), ¶¶ 10-11, pp. 10-11.) Even though Defendants already know exactly how much each putative class member is entitled to receive, the settlement requires each person to submit a complicated proof of claim[5] form to receive any payment. (See, e.g., *id.* at § II.A.1, pp. 24-25.) The settlement agreement provides that any unclaimed portion of the settlement fund will be distributed to the Exchanges. (*Id.* at § II.A.2, p. 25.)

The proposed release effectively releases *any and all claims of any type for any reason on behalf of all class members during the class period* with a few exceptions.[6] The only exceptions are: a) coverage claims; b) claims to enforce the settlement; and c) strangely, four other class action cases pending in Texas, Oklahoma, and Minnesota (See *id.* at § I.D.43.b(13), pp. 20-21.) The settlement releases not only the Defendants (FGI and Zurich Financial Services ("ZFS")), but also the Exchanges and all affiliates, directors, officers, agents, administrators, fiduciaries, accountants, as well as a host of other persons who have relationships with the Defendants and the Exchanges. (See, e.g., *id.* at § I.D.44 [defining "Releasees"].)

The injunctive "relief" does not prohibit excessive AIF charges in the future, but merely requires the Defendants to: a) include the subscription agreement in all applications for new

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[4] Declaration of Allan I. Schwartz in Support of Plaintiff's Motion for Class Certification, Sept. 9, 2009, ¶ 10, at 4:16-21.
[5] The two-page form contains complex and unnecessary legalese and could easily be mistaken as an offer of new coverage and dismissed by putative class members.
[6] See Section IV. C. *supra*.

1 insurance policies; b) provide policyholders with a "welcome packet" that explains the nature
2 of Exchanges and the AIF; c) provide subscribers with a copy of the subscription agreement
3 "on a periodic basis"; d) distribute a bulletin to Farmers' agents outlining the procedures to
4 obtain signatures on the subscription form; and e) train agents about the terms of the
5 subscription agreement. (*Id.* at § II.D, pp. 30-31.) It is likely that FGI ***already*** does each and
6 every one of these things to meet its obligations under state law.
7 The settlement provides for maximum restitution of $455 million, which is slightly
8 more than five percent of the nine billion dollars in AIF fees collected during the class period.
9 Under the proposed settlement, a class member who files a claim will receive an estimated
10 average payment of $22.75. Attorneys' fees total ninety million dollars.

11 **III. STANDARD OF REVIEW OF PROPOSED SETTLEMENT**

12 Class action settlements, unlike typical settlements, require court approval for "the
13 protection of those class members . . . whose rights may not have been given due regard by the
14 negotiating parties." (*Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, 1801.) A court's
15 independent evaluation of a proposed settlement is critical because at the settlement approval
16 stage, the parties are not in an adversarial position; therefore, the court is the protector of the
17 class against an inadequate settlement. (*In re Consumer Privacy Cases* (2009) 175 Cal.App.4th
18 545, 555; 4 Newberg et. al., Newberg on Class Actions (4th ed. 2010), § 11.42.) As courts have
19 noted:

20 [A] defendant is interested only in disposing of the total claim asserted against it
21 . . . . [T]he allocation between the class payment and the attorneys' fees is of
little or no interest to the defense. . . . ***[T]he divergence in financial incentives***
22 ***[between the class and counsel] creates the danger . . . that the lawyers might***
urge a class settlement at a low figure or on a less-than-optimal basis in
23 ***exchange for red-carpet treatment for fees.***

24 (*In re Consumer Privacy Cases*, *supra*, at 555, internal citations omitted, emphasis added.)
25 In order to protect the due process rights of absent class members, the Court cannot
26 approve the settlement unless it determines that the settlement is "fair, reasonable and adequate
27 to all concerned." (*Wershba v. Apple Computer, Inc.* (2001) 91 Cal.App.4th 224, 245.) To
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make this determination, "the court must examine whether the interests of the class are better served by the settlement than by further litigation." (Herr, Annotated Manual for Complex Litigation (4th ed. 2006), § 21.61, p. 413.) In its role of guardian of the rights of absent class members, the court functions as a fiduciary to the class. (*7-Eleven Owners for Fair Franchising v. Southland Corp.* (2000) 85 Cal.App.4th 1135, 1151.)

Protecting the rights of absent class members requires the court to "eschew any rubber stamp approval in favor of an independent evaluation." (*Clark v. American Residential Services* (2009) 175 Cal.App.4th 785, 799, internal citations omitted.) In evaluating proposed settlements, courts assess a number of factors, which are intended to identify defects in the settlement (e.g., unfair terms or inadequate results) or the process that produced it (e.g., inadequate representation). (See *Clark*, *supra*, at 799; *Kullar v. Foot Locker Retail, Inc.* (2008) 168 Cal.App.4th 116, 129.) As the court in *Kuller* explained:

> [I]n the final analysis it is the court that bears the responsibility to ensure that the recovery represents a reasonable compromise, ***given the magnitude and apparent merit of the claims being released***, discounted by the risks and expenses of attempting to establish and collect on those claims by pursuing the litigation.

(*Kullar*, *supra*, at 129, emphasis added.)

The courts and commentators have noted several "red flags" in proposed settlements that trigger the need for particular judicial vigilance to protect the rights of absent class members. The court should apply ***heightened scrutiny*** where, among other things, (1) the parties reached a settlement prior to class certification and are no longer in an adversarial posture (*See* Herr, Annotated Manual for Complex Litigation, *supra*, § 21.612, p. 416; *see also Amchem Prods., Inc. v. Windsor* (1997) 521 U.S. 591, 620-21) and (2) the settlement is one where "defendants have incentives to restrict payment of claims because they may reclaim residual funds." (Herr, Annotated Manual for Complex Litigation, *supra*, § 21.62, p. 420.) Both of these red flags are present here. Under the circumstances, the Court should apply heightened scrutiny to the proposed settlement.

The parties seeking approval bear the burden of showing that the settlement is fair,

reasonable and adequate. (See *Oldham v. Cal. Capital Fund, Inc.* (2003) 109 Cal.App.4th 421, 434.) As discussed below, the parties here have failed to meet their burden.

IV. THE COURT SHOULD NOT PRELIMINARILY APPROVE THE SETTLEMENT BECAUSE THE PARTIES HAVE FAILED TO SHOW THAT IT IS FAIR, ADEQUATE AND REASONABLE.

The settlement should not be approved. Given the combination of a likely low claims rate and the reversion of unclaimed settlement funds to the Exchanges, the principle beneficiary of this settlement would be the Defendants, not the class.

A. The Claims-Made Process is Not Fair to the Class and Will Likely Produce a Windfall for FGI.

The proposed settlement would require each class member to submit a claim form under penalty of perjury,[7] in order to obtain any payment. (Proposed Settlement, Exh. B.) Such claims-made settlements are increasingly disfavored by courts because "[e]xperience has demonstrated that persons with modest or nominal individual potential recoveries will not bother to file a proof of claim." (3 Newberg et. al, *supra*, § 8:41.)

Members of this class (estimated by the plaintiffs at somewhere between thirteen and twenty million (Wheaton Declaration, ¶ 8)) will be entitled to an average recovery of $22.75. Where, as here, class members have small individual claims, submission rates are typically less than ten percent – sometimes much less. (See, e.g., *In re Compact Disc Minimum Advertised Price Antitrust Litig.* (D. Me. 2005) 370 F. Supp. 2d 320, 321 [2% submission rate]; *Buchet v. ITT Consumer Fin. Corp.* (D. Minn. 1994) 845 F. Supp. 684, 695, *as amended* 858 F. Supp. 944 [rejecting settlement where similar settlement had a .1% redemption rate]; *Strong v. Bellsouth Telecomm., Inc.* (W.D. La. 1997) 173 F.R.D. 167, 169, *aff'd*, 137 F.3d 844 (5th Cir. 1998) [4.3% claims rate]; *Union Life Fidelity Ins. Co. v. McCurdy* (Ala. 2000) 781 So.2d

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[7] The "penalty of perjury" clause is a significant deterrent for laypeople. And those class members who read through the claim form may well choose not to sign merely on the ground that they are subjecting themselves to liability for perjury for information inserted by the defendant, not them.

186,188 [0.1% claims rate].) Even a ten percent response here could mean that Farmers will pay out no more than an estimated $45 million – far less than the nominal $455 million dollar settlement.

The parties proffer no explanation of why refunds cannot simply be issued to the class members without the requirement that they fill out a claim form. In fact, as outlined below, Defendants concede that they ***already know the amount of the refund due to each class member and have sufficient information to send reimbursement checks***. This information is a central feature of the parties' so-called "hybrid" claims made settlement. An FGI executive states that:

> multiple Farmers databases that have been used to extract the data necessary to provide notice to every [class member]….including, but not limited to, each policyholder's policy number, name, address . . . ***the amount of written premium they have paid to the Exchange(s)*** and the different lines of business for which they maintained an insurance policy with the Exchange(s).

(Declaration of Koenraad Lecot in Support of Motion for Preliminary Approval of Settlement, ¶ 5 at 1:16-24, emphasis added.) Plaintiffs' counsel notes that the claims administrator will "provide all the individual account data to each Class Member and ***perform the calculation for each class member's recovery***." (Declaration of Phillip Maxwell in Support of Motion for Preliminary Approval, ¶ 14 at 5:26-27, emphasis added.) Using this information,[8] the claim forms to be sent to class members will be pre-printed with the amount that defendant FGI believes is due to class members. (Proposed Settlement, Exh. B.)

Given that FGI could easily issue checks to class members,[9] it is apparent that the claims requirement is designed solely to limit the overall payout to class members. Indeed, the

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[8] Under the terms of the proposed settlement, each putative class member's refund is calculated by multiplying the $455 million settlement fund by the ratio of the premiums paid by the class member to the total premium paid by all class members. (Proposed Settlement, Exh. B.)

[9] The claim forms provide class members with the opportunity to list any additional policies not located and pre-printed by Farmers. FGI might argue that the claim form is needed in order to fully assess the level of refunds due to each putative class member. However, there is a

settlement as proposed would create an enormous windfall for FGI because, as discussed below, the settlement also requires that any *unclaimed funds revert to the Exchanges,* which were initially named as defendants in this proceeding and are controlled by FGI.

Due to the nature of the relationship between defendant FGI and the Exchanges, the reverter makes it highly likely that FGI will be the principle beneficiary of the settlement before the Court. Such settlements have drawn the ire of courts and commentators alike. For example, in *Buchet v. ITT Consumer Fin. Corp.*, *supra*, 845 F. Supp. 684, 695-96, *as amended* 858 F. Supp. 944, the court rejected a proposed claims-made settlement because a similar settlement resulted in a claims rate of less than .1% and the settlement lacked "any form of guaranteed minimum value." (See also, *Sylvester v. Cigna Corp.* (D. Me. 2005) 369 F. Supp. 2d 34, 49 [finding that the claims rate of less than 20% combined with a reverter clause "work[ed] in concert to produce a settlement that … in practice yields comparably little for the Class."]

B. Paying Unclaimed Settlement Funds to the Exchanges Is Improper and Does Not Guarantee Any Minimum Benefit to the Class.

Having established a claims-made process that will leave the vast majority of relief to the class unclaimed, the parties propose that all unclaimed funds revert to the Exchanges, rather than being re-distributed to the class or deployed on behalf of the class. This is improper.

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simpler, and more fair, alternative: FGI could send putative class members a notice listing the policies in which FGI believes the class member was enrolled in during the class period, the total amount of premium FGI records show the class member paid on those policies, and based on that information, the amount a class member would recover under the settlement. That notice would include a statement that if FGI is not contacted by the class member within a set period of time to correct the information in the notice or substantiate a request for an additional payment, FGI will mail a check to the class member based on the amount of refund calculated by FGI.

1. Allowing Unclaimed Settlement Funds to Revert to the Exchanges Is Improper Because the Exchanges Were the Original Defendants and Complicit in the Illegal Acts.

Under California law, distribution of unclaimed class action settlement funds to "nonprofit organizations or foundations to support projects that will benefit the class or similarly situated persons" (Code Civ. Pro. § 384, subd. (b)) is the preferred approach:

> It is the intent of the Legislature in enacting this section to ensure that the unpaid residuals in class action litigation are distributed, to the extent possible, in a manner designed either to further the purposes of the underlying causes of action, or to promote justice for all Californians.

(Code Civ. Pro. § 384, subd. (a); see also *In re Vitamin Cases* (2003) 107 Cal.App.4th 820, 827 ["[I]t was the Legislature's intent to ensure that the unpaid *residuals* in class action litigation are distributed, to the extent possible, in a manner designed either to further the purposes of the underlying causes of action, or to promote justice for all Californians," internal citations omitted].) Reversion of unclaimed settlement funds to defendants is almost never appropriate. (See *Cundiff v. Verizon California* (2008) 84 Cal. Rptr. 3d 377, 385; see also 3 Newberg et. al, *supra*, § 10:15 ["Regardless of the form of distribution, the cy pres or fluid recovery distributions serve the objectives of compensation for the class (albeit in an indirect manner), access to judicial relief for small claims, ***and deterrence of illegal behavior***," emphasis added].) Here, the recipients of the unclaimed settlement fund, the Exchanges, were the original defendants in this action. As explained above, the Exchanges are effectively controlled by FGI, and they were complicit in the illegal activity targeted by this lawsuit – the Exchanges *have no authority to reject the AIF fees set by FGI.* (II.B, *supra*.) Therefore, it is inappropriate to allow unclaimed settlement funds to revert to the Defendant-controlled Exchanges.

2. There Is No Guarantee that the Class Will Benefit From A Transfer to the Exchanges.

The parties claim that reverting the unclaimed funds to the Exchanges will benefit the class. (See, e.g., Defendants' Memorandum of Points and Authorities in Support of Motion for Preliminary Approval, III.C., 6: 6-8) ("As owners of the Exchanges, the Class Members will benefit from the Exchanges' having additional surplus to pay claims, cover expense obligations,

and fund additional operations.") But the proposed settlement agreement contains no language or instructions that would require the Exchanges to provide refunds, credits or otherwise pass-through any of the financial relief to the class. Even if the agreement could be construed to contain a promise that the funds would be used to lower premiums for current customers, nothing in the proposed settlement prevents FGI from raising the AIF fees in the immediate future so as to offset the reduction. In any case, reverting funds to the Exchanges does nothing to benefit former customers.

Under the terms of the settlement, the Defendants and the Exchanges are not prohibited from continuing the very same practices targeted by this lawsuit—improperly charging excessive "management" fees to the Exchanges, fees that would otherwise stay with the Exchanges (and benefit their subscriber-owners). Therefore, nothing in the proposed settlement would bar Defendants from eviscerating the residual fund by increasing their management fee.

The claim that Defendants will not benefit from the unclaimed settlement dollars transferred to Exchanges is absurd and ignores the fungible nature of money. As discussed above, since the AIF fee is variable and is determined by FGI, an infusion of cash in the form of the unclaimed settlement funds will simply enable Defendants to upstream (as it did with the AIF funds) more profits from the Exchanges. The emphatic statements throughout the papers filed in support of the proposed settlement that *no settlement dollars* will go to the Defendants does not bar FGI from charging the Exchanges an equal amount of money in excessive AIF fees (See, e.g*.,* Defendants' Memorandum of Points and Authorities in Support of Motion for Preliminary Approval, III.C., 6: 8-9) ["No unpaid funds will revert to any Defendant."].)

By portraying the Exchanges as independent and a legitimate recipient of unclaimed funds, the Defendants are attempting to evade the judicial scrutiny mandated by the legislature in Civil Procedure Code section 384, which requires courts to determine whether the class is indeed benefiting from the settlement. (*In re Microsoft I-V Cases* (2006) 135 Cal.App.4th 706, 721). [The intent of the statute was to "to prevent a subsequent reversion of residue to a defendant when that reversion was not a part of the settlement terms that were previously scrutinized during the approval process."].)

Civil Procedure Code section 384 establishes a public policy that residual settlement funds should to go to non-profit organizations, "for the benefit of the class." In order to ensure benefit for the class, any unclaimed settlement funds here should be used to fund a cy pres award(s). (See, e.g., *Cundiff*, *supra*, at 384.)

Finally, as noted above, even if one were to accept the argument that reversion of the unclaimed settlement fund to the Exchange benefits class members who are *current* subscribers, reversion of funds to the Exchanges does nothing for former customers. It is not clear how many members of the putative class are no longer subscribers to the Exchanges. In any outcome, appropriate relief should be provided to these former subscribers.

C. The Proposed Settlement Contains a Grossly Overbroad Release by the Class.

This lawsuit concerns the AIF and related management fees. However, the proposed settlement agreement would release nearly all claims against the Defendants as well as the Exchanges – the recipients of the unclaimed settlement fund. As courts have noted,

> Any attempt to include in a class settlement terms which are outside the scope of the operative complaint should be closely scrutinized by the trial court to determine if the plaintiff genuinely contests those issues and adequately represents the class.

(*Trotsky v. Los Angeles Fed. Sav. & Loan Assn*. (1975) 48 Cal.App.3d 134, 148.)

The proposed settlement agreement releases "each and every Claim or Unknown Claim that Plaintiff or any other Class Member [] asserted or *could have asserted* . . . against any of the Releases in the Action." (Proposed Settlement, § I.D.43.a, p. 17, emphasis added.) Since California law permits the joinder of any and all claims that a plaintiff "has either alone or with any coplaintiffs" against the defendants, (Code Civ. Pro. § 427.10), this clause provides that ***all*** potential claims against Defendants and the Exchanges are released, with few exceptions.[10]

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[10] A subsequent clause carves out: a) coverage claims; b) claims to enforce the settlement; and c) four other class action cases pending in Texas, Oklahoma, and Minnesota. (See § II.D, *supra*.)

The agreement goes on to identify a second category of released claims that, while seemingly limited to the scope of this lawsuit, is also exceptionally broad. This second category is generally defined as claims that:

> arise out of or relate[] directly or indirectly to the subscription to the Farmers Defendant Releasees role in the purchase or obtaining of insurance . . . from any Exchange, or any payment of any AIF or management fee to any Farmers Defendant Releasee, before the final settlement date.

(Proposed Settlement, § I.D.43.b, pp. 17-18.) But the proposed settlement then explains that this ostensibly limited group of claims includes virtually any claim, far beyond the scope of the operative complaint, against the Defendants and the Exchanges and persons associated with them, including:

> any Claim or Unknown Claim that arises out of or relates to . . . (3) any amount of payment of any insurance or ***reinsurance premiums*** by the Class Members to any Exchange . . . (5) the management or AIF ***services*** that any Farmers Defendant Releasee provided to any Exchange or subscriber . . .(10) any monies or ***dividends*** that any Farmers Defendant Releasee transferred to any ZFS Releasee . . . related to the services provided to the Exchanges …(11) ***any regulatory filing*** (including any filing with any state insurance department), ***public statement, press release, disclosure or representation . . . relating to . . . any insurance*** obtained or obtainable from any Exchange . . . .

(*Ibid.*, emphasis added.) While it is unclear if this second category of claims is even necessary because of the breadth of the first category, which includes any claim whatsoever, what *is* clear is that the Defendants and the Exchanges seek to preclude ***any and all*** claims by Farmers policyholders in this lawsuit (except coverage claims and four distinct lawsuits pending in Texas, Oklahoma, and Minnesota.) As discussed above, Defendants are tellingly releasing the Exchanges from liability, even though they are no longer defendants in the lawsuit. (See § II.D, *supra*.)

V. CONCLUSION

The combination of a burdensome and unnecessary claims-made requirement, the reversion of unclaimed settlement funds to the Defendant-controlled Exchanges, and the failure to prevent the Defendants from seizing the unclaimed funds by inflating future management fees, means that the Defendants will likely retain the vast majority of the monetary relief to which the putative class is entitled.

In exchange for an all but token payment to the class, FGI and the Exchanges will be released from virtually all liability nationwide for conduct having nothing to do with the AIF fees that are the subject of this litigation. For these reasons, the Court should deny the Motion for Preliminary Approval.

Dated: February 2, 2011

Respectfully Submitted,

Harvey Rosenfield
Pamela Pressley
Todd M. Foreman
Jerry Flanagan
CONSUMER WATCHDOG

BY: ______________________
Jerry Flanagan
Attorneys for Intervenor

EXHIBIT A

REPORT OF EXAMINATION
OF THE

FARMERS INSURANCE EXCHANGE

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 23, 2008

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Los Angeles, California
June 23, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, **Zone IV-Western**
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

FARMERS INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange) at its home office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

SCOPE OF EXAMINATION

The previous examination of the Exchange was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Exchange's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances. This examination was conducted concurrently with the Exchange's California subsidiaries and affiliates, namely: Fire Insurance Exchange, Truck Insurance Exchange, Mid-Century Insurance

Company, Civic Property and Casualty Company, Exact Property and Casualty Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company.

In addition to those items specifically commented upon in this report, other phases of the Exchange's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of exchange; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

Bristol West Holdings, Inc.

On July 3, 2007, Farmers Group, Inc. (FGI), the attorney-in-fact for the three exchanges, completed the acquisition of Bristol West Holdings, Inc. (BWH), a Delaware corporation, including its two directly-owned insurance company subsidiaries; Security National Insurance Company, a Florida company, Bristol West Preferred Insurance Company, a Michigan company, and certain insurance services companies. Also included in the acquisition were BWH's directly owned insurance holding company; Coast National Holding Company, a California company, and its insurance company subsidiary Coast National Insurance Company (CNIC), a California company, which in turn owned Bristol West Insurance Company, an Ohio company, and Bristol West Casualty Insurance Company, an Ohio company.

BWH, via its insurance subsidiaries, had licenses in 38 states plus the District of Columbia, operated in 22 states and was a provider of liability and physical damage insurance, specializing in non-standard private passenger auto.

FGI paid $713.5 million plus the assumption of $100 million of debt obligations for BWH. Additional consideration for the transaction included the "commutation of certain existing affiliated reinsurance arrangements" between BWH's insurance subsidiaries, and the execution of a 90% quota

share cession agreement between CNIC and the Exchange to be effective January 1, 2007. The CNIC quota share agreement was approved by the California Department of Insurance (CDI) on June 29, 2007.

The Exchange also entered into a similar 90% quota share agreements with BWH's affiliates; Bristol West Insurance Company (Ohio), Bristol West Casualty Insurance Company (Ohio), Bristol West Preferred Insurance Company (Michigan), and Security National Insurance Company (Florida). It is recommended that the Exchange submit these reinsurance agreements with affiliates to the CDI if and when the activity underlying these agreements exceeds the thresholds indicated in California Insurance Code (CIC) Section 1215.5(b)(3).

The above transactions resulted in changes in the ultimate control of BWH's subsidiary, CNIC. The Exchange and Zurich Financial Services (ZFS), a Swiss company and FGI's ultimate parent corporation, filed a joint Form A application pursuant to CIC Section 1215.2. Additionally, Form D applications were filed pursuant to CIC Section 1215.5. On June 28, 2007, the Exchange received correspondence from the CDI that the transactions were "not disapproved".

Concurrent with the acquisition, FGI sold BWH's underlying insurance business to the Exchange, Truck Insurance Exchange (Truck), Fire Insurance Exchange (Fire), and Mid-Century Insurance Company (Mid-Century) for $420 million, which represented an equity value of $370 million plus $50 million of debt assumption. In addition, the Exchange, Truck, Fire, and Mid-Century incurred transaction fees of $13.8 million. FGI retained certain of BWH's employees, the operational systems, and the management servicing rights. The acquisition was recorded using the statutory purchase method of accounting. The following schedule depicts each exchange/company's share of the costs, fees and goodwill for the acquisition of the BWH insurance business:

Entity	Cost and Fees	Goodwill	Percentage
	(in millions)		
Farmers Insurance Exchange	$162.7	$38.2	37.50%
Truck Insurance Exchange	38.0	8.9	8.75%
Fire Insurance Exchange	16.3	3.8	3.75%
Mid-Century Insurance Company	216.8	51.0	50.00%
Totals	$433.8	$101.9	100.00%

On May 8, 2008, the intermediate-level holding structure was re-organized and FGI is now currently owned 87.9% by Zurich Insurance Company (ZIC), 10.375% by Zurich Group Holdings (ZGH), and 1.725% by three Partnerships (Zurich RegCaPs II, V, VI) having ZIC as the General Partner and ZGH as the Limited Partner. ZFS continues to be the ultimate controlling party.

Surplus Loan Note Facility

The Exchange entered into a "Credit Agreement" dated July 10, 2007, arranged by Swiss Reinsurance Company, a Swiss company. Commerzbank International S.A., a Luxembourg company acted as Administrative Agent for certain European lender banks. Pursuant to this credit agreement the lenders committed to purchase Surplus Loan Notes from the Exchange based on a Trigger Event (catastrophic windstorm losses in excess of $1.5 billion incurred losses in the states of Arkansas, Louisiana, Oklahoma, and/or Texas), at any time and from time to time prior to the commitment termination date of July 10, 2012, in an aggregate principal amount not in excess of $500 million. The Surplus Loan Notes would be subordinated obligations of the Exchange with a 10 year final maturity and the payment of principal and interest on the surplus loan notes would require the approval of the CDI. The fees paid by the Exchange for the right to access this facility were $8.9 million through the third quarter 2007.

This credit agreement establishes an advance facility in place to assure the placement of reasonably-priced surplus notes, or certificates of contribution, to re-capitalize the Exchange in the event a catastrophic wind event greater than the layers of reinsurance currently provide.

EXCHANGE HISTORY

The Exchange was incorporated in California on September 28, 1928, for the purpose of conducting property and casualty insurance.

A significant portion of the Exchange's reported surplus as regards policyholders at the examination date was composed of surplus notes (issued to non-affiliates), and contribution certificates (issued to affiliates). The following schedule depicts the specific issuances and amounts outstanding at December 31, 2006:

Date issued	Interest Rate	Par Value	Maturity Date
05/11/1994	8.625%	$300,000,000	05/01/2024
07/10/1998	7.050%	373,077,000	07/15/2028
07/10/1998	7.200%	111,923,000	07/15/2048
06/21/2004	6.150%	280,000,000	12/31/2013
08/09/2004	6.000%	100,000,000	08/01/2014
12/23/2004	6.150%	296,000,000	08/01/2014
Total		$1,461,000,000	

The aforementioned notes and certificates have restrictions, which require the approval of the California Department of Insurance (CDI) before payment of interest and principal. Interest can be paid out of earned (unassigned) surplus only. The payments of interest and repayments of principal, occurring during this examination period were made with the approvals of the CDI.

The surplus notes, transacted in 1994 and 1998, were issued to qualified institutional buyers in the open market and are administered by JP Morgan Chase Bank.

The certificate of contribution in the amount of $280 million listed above was issued to Zurich Capital Markets, Inc. (ZCM) on June 21, 2004 in consideration for its surrender and discharge of certain certificates originally issued on November 15, 2001, but assigned by Farmers Group, Inc. (FGI) to ZCM on January 30, 2004. On July 28, 2004, the certificate was assigned by ZCM to Zurich Investments LLC, a Luxembourg company.

The surplus notes listed above in the amount of $100 million were issued on August 9, 2004 to qualified institutional buyers in the open market and are administered by JP Morgan Chase Bank. These notes replace the $100 million of surplus notes that were issued during 1994 and matured on August 2, 2004.

The certificate of contribution listed above in the amount of $296 million was issued to Farmers New World Life (FNWL) on December 23, 2004, as part of a refinancing transaction in which the Exchange canceled the certificates originally issued on March 7, 2000. The certificates were transferred to FGI on October 10, 2005, and subsequently transferred to Zurich Group Holdings (ZGH) on November 21, 2005.

On September 28, 2006, Exchange repaid the $107 million of surplus notes held by ZGH which matured on September 30, 2006.

Foremost Corporation of America

In October 1999, Spartan Parent Corporation (Spartan), a jointly-owned subsidiary of the Exchange, Fire Insurance Exchange (Fire) and Truck Insurance Exchange (Truck), entered into an agreement to acquire Foremost Corporation of America (Foremost Corp.) for $812 million. Foremost Corp. owned Foremost Insurance Company of Grand Rapids, Michigan (Foremost I.C.), which predominately wrote recreational vehicle and mobile home policies. The three exchanges gave notices of the investment to the CDI under California Insurance Code Section 1215.5(b)(1). In March of 2000, the Foremost Corp. acquisition was finalized.

Effective at the time of the acquisition, Spartan was merged with and into Foremost Corp. and its outstanding common stock interest in Foremost Corp. was redistributed to the aforementioned three exchanges. The exchanges accounted for the acquisition using the statutory purchase method of accounting. The Exchange's equity ownership of Foremost Corp. is 80%, with sister exchanges Fire and Truck each owning 10%.

The three exchanges each reported their investments in Foremost Corp. as two separate and distinct investments. The investment in Foremost Corp. was reported at the GAAP equity value plus the remaining goodwill balance (after amortization) less the non-admissible portion of goodwill pursuant to National Association of Insurance Commissioners' Statutory Accounting Principles. The investment in Foremost I.C. was reported at the statutory equity value indicated in the Foremost I.C. Statutory Annual Statement.

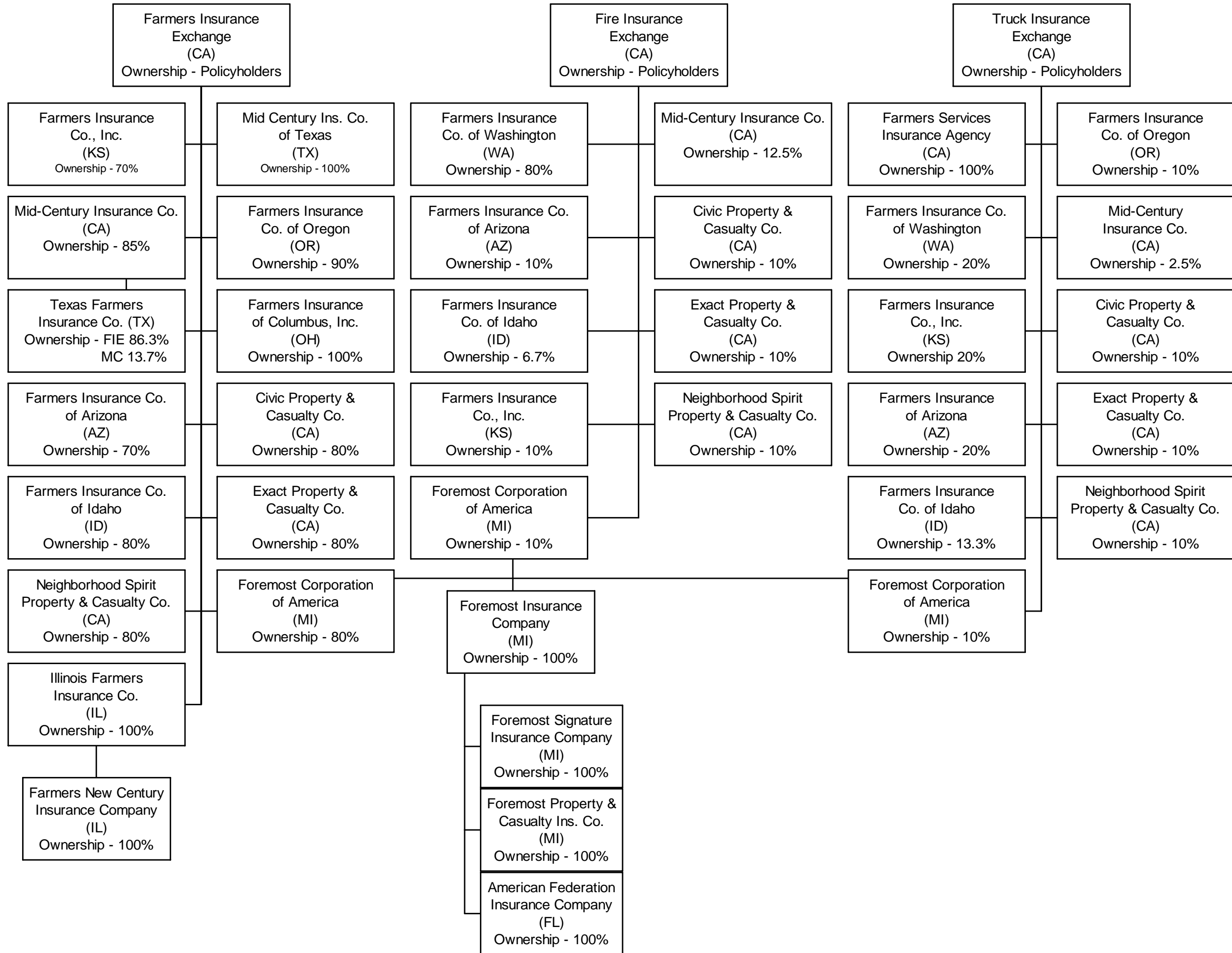
MANAGEMENT AND CONTROL

The Exchange, a reciprocal insurer organized under California Insurance Code (CIC) Section 1300 et. seq. is controlled by its attorney-in-fact, Farmers Group, Inc. (FGI), dba Farmers Underwriters Association. FGI is a U.S. subsidiary of Zurich Financial Services, a Swiss holding company.

The following abridged organizational charts show the relationship of the Exchanges to its affiliates as of December 31, 2006, and subsequent to the acquisition of Bristol West Holdings, Inc.:

FARMERS EXCHANGES

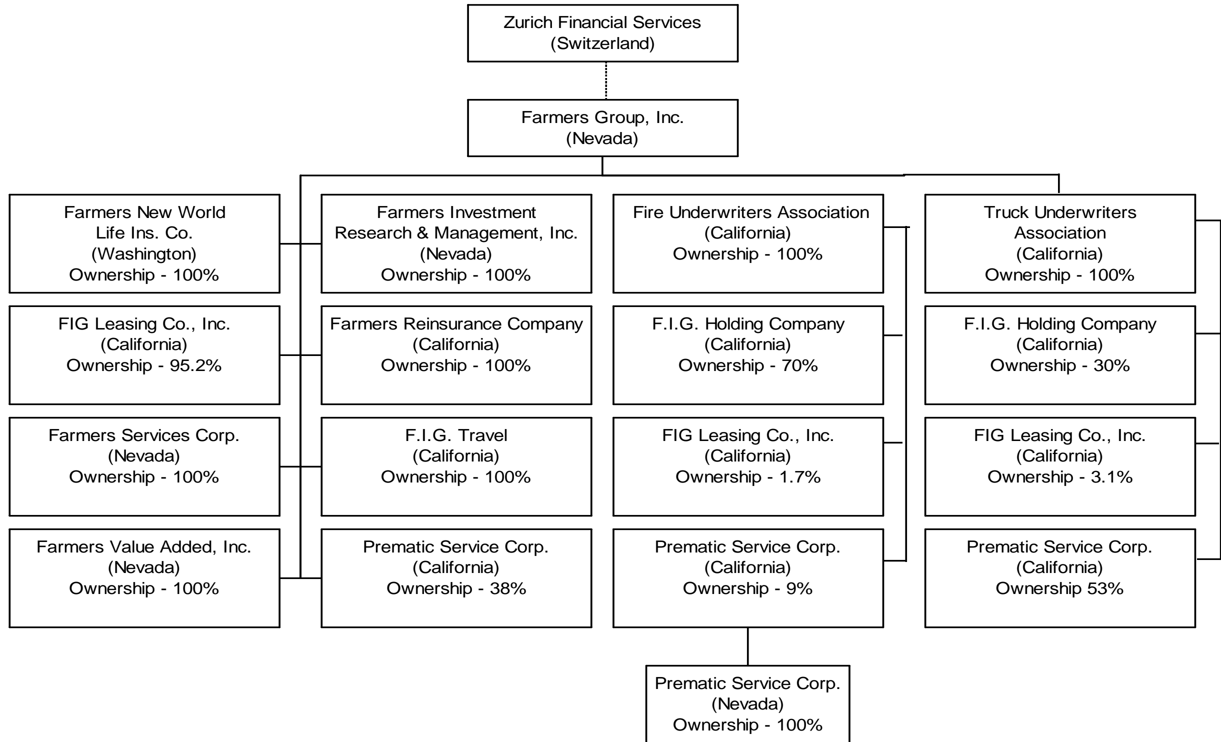
December 31, 2006



(*) all ownership is 100% unless otherwise noted.

ZURICH FINANCIAL SERVICES GROUP

December 31, 2006

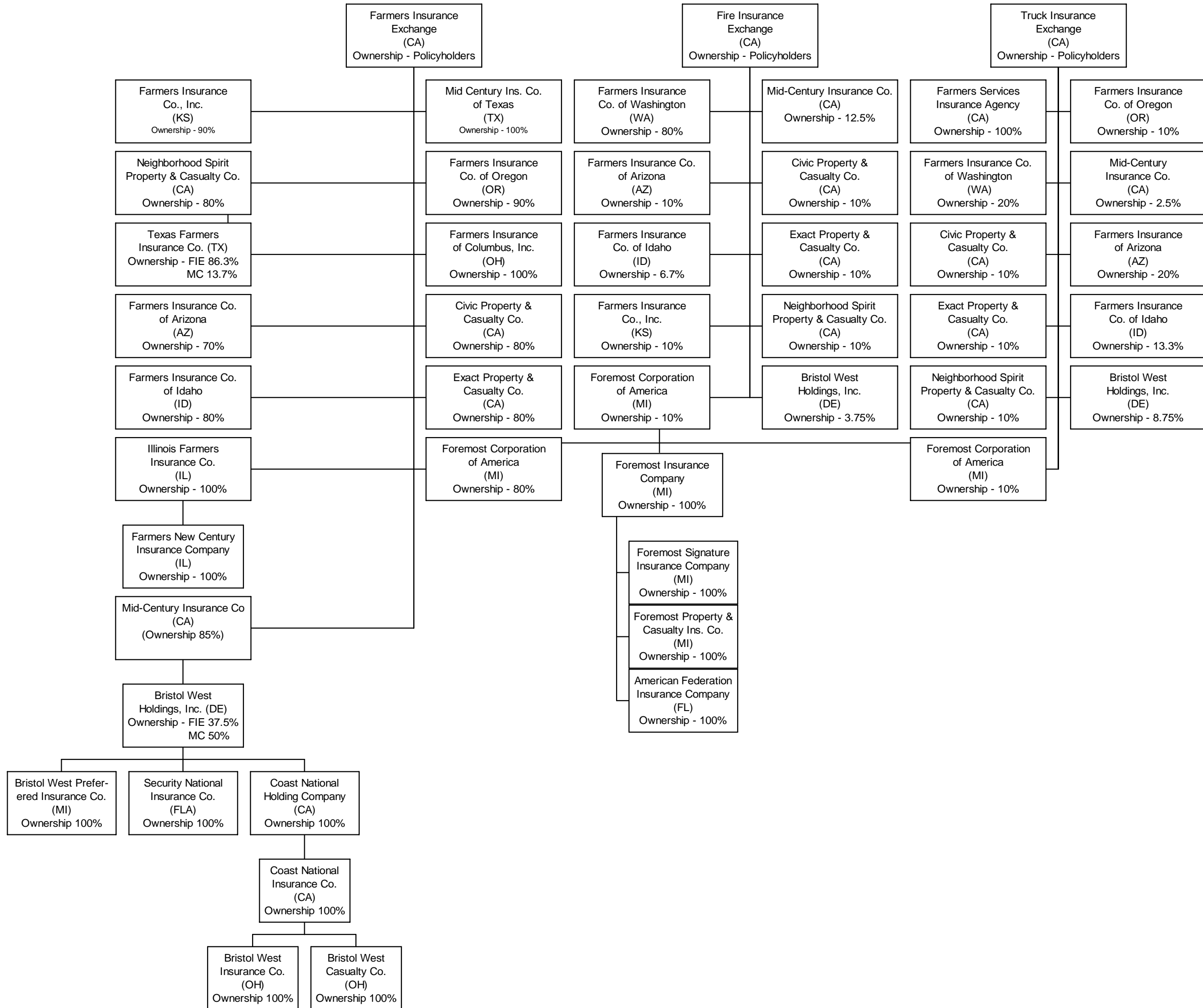


(*) all ownership is 100% unless otherwise noted.

Note: The Exchange operates directly through Farmers Group, Inc. performing as attorney-in-fact directly, with a dba of Farmers Underwriters Association.

FARMERS EXCHANGES

DECEMBER 31, 2007



(*) all ownership is 100% unless otherwise noted.

Management of the Exchange was vested in a twelve (12) member board of governors, elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

<u>Board of Governors</u>

Name and Residence	Principal Business Affiliation
William Haskell Braddock Surprise, Arizona	Retired
Vince Stolte Garrod Saratoga, California	Trustee and Manager Garrod Trust
James Ellwood Hansen Corona, California	Retired
Fredrick Henry Kruse Lake Ozark, Missouri	Banking and Financial Services
Dale Anne Marlin Newport Beach, California	Computer Consultant
Gary Alan McCarter Huntley, Illinois	Retired
Kathleen Leavey McCarthy Los Angeles, California	Trustee Leavey Foundation
Roger Lee Persons Palmdale, California	Owner and Director Chapel of the Valley Mortuary
Donnell Reid Ballwin, Missouri	Retired
Donald Eugene Rodriguez Long Beach, California	Executive Director Boys and Girls Clubs of Long Beach
Taylor Lane Stephens Fort Collins, Colorado	Consultant
Ottie Joel Wallace Merced, California	President Trucking and Logistics Company

Board of Governors

Name and Residence	Principal Business Affiliation

Principal Officers

Name	Title
Paul Norman Hopkins	President and Chief Executive Officer
Ronald Gregory Myhan	Vice President and Treasurer
Doren Eugene Hohl	Secretary
Jason Lawrence Katz	Vice President
Kevin Eugene Kelso	Vice President
Hubert Leslie Mountz	Vice President
Bryan Francis Murphy	Vice President
Mhayse Gokul Samalya	Vice President
Keitha Tullos Schofield	Vice President
Stanley Ray Smith	Vice President
Warren Benjamin Tucker (*)	Vice President
Pierre Christophe Wauthier (**)	Vice President
Frank Robert Woudstra	Vice President

(*) Resigned on May 31, 2007 and replaced by James Leslie Nutting on June 1, 2007.
(**) Resigned on October 1, 2007 and replaced by Scott Lundquist on February 11, 2008.

Management Agreements

Farmers Group, Inc. (FGI), the Attorney-In-Fact, provides all operating services (including staffing and occupancy) except claims adjustment services to the Exchange. These services were provided to the Exchange pursuant to the "subscription agreements" signed by each individual policyholder of the Exchange. There was no specific management services agreement required between the Exchange and FGI for the aforementioned services provided. California Insurance Code (CIC) Section 1215.4 and Section 1215.5 provides for an exemption from reporting for an inter-insurance exchange utilizing the subscription agreements providing that the "form of this agreement was in place prior to

1943 and it was not amended in any way to modify payments, fees, or waivers of fees or otherwise substantially amended after 1943". For 2004, 2005, and 2006, fees paid by the Exchange to FGI for such services were $803,467,192, $815,480,872, and $835,041,327, respectively.

The Exchange is responsible for the payment of claims (adjustment function), payment of commissions and the payment of premium and income taxes.

Claims Adjustment Services Arrangement

The Exchange staff a claims department for the adjustment of its own claims and to adjust certain of its affiliated insurance companies' claims. The claims adjustment services arrangement in place between the Exchange and certain of its affiliates (the pooled companies), with the Exchange providing all of their claims adjustment services, was not written.

Managed Care Services Agreement

The Exchange is a party to a managed care services agreement, effective October 1, 1998, with Zurich Services Corporation (ZSC), an affiliate. ZSC provides certain bill review and medical management services for the Exchange's workers' compensation claims. It is recommended that the Exchange submit the managed care services agreement to the California Department of Insurance (CDI) pursuant to CIC Section 1215.5 for approval.

Tax Sharing Agreement

The Exchange's federal income tax return was consolidated with various insurance and non-insurance affiliates and subsidiaries. There was a long-standing written tax sharing agreement in place. The agreement was amended on July 25, 2000 to add Foremost Corporation of America (Foremost) and certain of its subsidiaries, and subsequently amended, effective July 3, 2007, to add Bristol West Holdings, Inc. and all of its subsidiaries, plus two companies owned by Foremost. The tax allocation was based on separate return calculations with current credit for net losses. On January 3, 2008, the CDI approved this latest amended agreement. The Exchange's portion of the federal income taxes paid for 2004, 2005, and 2006, was $73,593,000, $82,392,000, and $94,504,000, respectively.

Investment Management Agreements

FGI, acting on behalf of the Exchange, Fire Insurance Exchange (Fire), Truck Insurance Exchange (Truck) and the subsidiaries of these three exchanges, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed the Exchange, Fire, Truck and the subsidiaries' fixed income and equity asset portfolios. The terms of the Investment Management Agreement have otherwise not been altered.

FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with the Exchange, Fire, Truck and the stock subsidiaries' investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the Service Level Agreement were left unchanged except for the replacement of parties.

Securities Lending Agreement

In 1999 the Exchange filed with the CDI a proposed securities lending agreement with an affiliate, Zurich Capital Markets Trust Company (Zurich).

In December 2001, the Exchange changed its securities lending agent from Zurich to the Bank of New York Western Trust (BNY), a non-affiliate, as Zurich had decided to exit the securities lending business. "Collateral" as defined in the securities lending agreement between BNY and the Exchange indicated government securities and cash. The agreement also stipulated that BNY establish a "custodial custody account" in the name of the Exchange for the purpose of holding collateral and approved investments pertaining to securities lending transactions. The custodian was Wall Street Portfolio Advisors, a division of BNY. The current agreement conformed to the securities lending limits specified in CDI Bulletin 82-2.

TERRITORY AND PLAN OF OPERATION

The Exchange is licensed in the District of Columbia and the following 42 states:

Alabama	Kansas	Nebraska	South Carolina
Arizona	Kentucky	Nevada	South Dakota
Arkansas	Louisiana	New Hampshire	Tennessee
California	Maine	New Jersey	Texas
Colorado	Maryland	New Mexico	Utah
Florida	Massachusetts	North Carolina	Virginia
Georgia	Michigan	North Dakota	Washington
Idaho	Minnesota	Ohio	Wisconsin
Illinois	Mississippi	Oklahoma	Wyoming
Indiana	Missouri	Oregon	
Iowa	Montana	Rhode Island	

Major Lines of Business:

The Exchange, and its pooled subsidiaries and affiliates, write most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal lines written or assumed by the Exchange (the lead pooling company in the pooling arrangement) were private passenger auto liability, auto physical damage, and homeowners multiple peril. By volume, commercial multiple peril, and to a lesser extent, workers' compensation writings were the more material commercial lines being written.

In 2006, the Exchange wrote $3.8 billion of direct premiums. Of the direct premiums written, $1.8 billion (47.4%) was written in California, $327.5 million (8.6%) was written in Texas, $284.3 million (7.5%) was written in Colorado and $1.4 Billion (36.5%) was written in the remaining states.

Personal and commercial business is produced for the Exchange and affiliated property and casualty companies by an exclusive agency force of more than 18,000 agents and was supported by 30 state executive offices, 12 personal and commercial service centers, and 150 branch claim offices.

Approximately one-half of the property and casualty companies' business continues to be concentrated within the states of California and Texas. However, in recent years, the Farmers property and casualty companies have been expanding market presence eastward.

The Farmers property and casualty companies announced, during the fall of 2003, that they were fully withdrawing from the writing of the Medical Malpractice line of business. Policies then-existing were runoff.

The Exchange operates directly through Farmers Group, Inc., which functions as the attorney-in-fact with a dba of Farmers Underwriters Association. Fire Insurance Exchange and Truck Insurance Exchange also operates through Farmers Group, Inc. under separate dba's: Fire Underwriters Association, and Truck Underwriters Association, respectively.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

The Exchange, and certain other property and casualty companies, participated in an intercompany reinsurance pooling agreement. Under this agreement, the affiliated participants ceded all of their business, net of all reinsurance, to the Exchange (the lead company). The Exchange then retroceded a share of the business back to certain participants based on percentages prescribed under the pooling agreement. The most recent amendment to this long-standing agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2006, were as follows:

Pool Participant	Percentage
Farmers Insurance Exchange	51.75
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Mid-Century Insurance Company	16.00
Texas Farmers Insurance Company	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Farmers Insurance of Columbus, Inc.	1.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Total	100.00

Assumed

Pursuant to long-standing 100% quota share reinsurance agreements, the Exchange also assumed business from certain members of the affiliated property and casualty companies which did not participate in the inter-company reinsurance pooling program as follows: Farmers Insurance Company of Arizona (1970); Mid-Century Insurance Company of Texas (1987); Farmers Texas County Mutual Insurance Company (1993); Maryland Casualty Company (1999); and Foremost Insurance Company Grand Rapids, Michigan (Foremost I.C.) (2000). As a result of the inter-company reinsurance pooling agreement and the reinsurance assumed agreements, the Exchange assumed 100% of the business written by all members of the Farmers Group Companies.

Effective January 1, 2000, via a quota share agreement, the Exchange assumed 100% of Foremost I.C.'s in-force business as of that effective date and 100% of renewal and new business after the effective date. This agreement was approved by the CDI on August 10, 2000.

Subsequently, effective January 1, 2007, via a quota share agreement the Exchange began assuming 90% of Coast National Insurance Company's business. The CDI approved this agreement on June 29, 2007.

Ceded

Affiliated

The Exchange maintained fronting arrangements (the so-called "RAS" treaties, which were historically long-standing reinsurance agreements with affiliates initiated between 1950 and 1995) by which all of the property business it wrote was ceded "prior to the inter-company pooling" to Fire Insurance Exchange. Similarly, all of its workers' compensation, medical malpractice, and commercial lines business was ceded to Truck Insurance Exchange via the RAS agreements.

Other affiliated reinsurance cessions that the Exchange engaged in included an auto physical damage (APD agreement) 100% quota share agreement with several participants, including the affiliated Zurich Insurance Company (Zurich) with an initial 65% participation and the affiliated Farmers Reinsurance Company (Farmers Re) with a 10% participation. Several non-affiliated reinsurers assumed the remaining 25% in participation. The premium for this APD agreement since 2001 was $2 billion annually. The APD agreement was approved by the CDI in 2001 for one year, with one-year extensions granted in 2002 and 2003. In 2004, the APD agreement was revised to reduce the quota share percentage to 50%, with Zurich assuming a 40% participation and Farmers Re assuming the remaining 10% participation. Effective January 1, 2006 the above amended APD agreement was replaced by a new APD 100% quota share agreement. The premium for this replacement APD agreement was $1 billion annually with Zurich assuming an 80% participation and Farmers Re assuming a 20% participation. The CDI approved this agreement on December 28, 2005.

On December 31, 2002, the Exchange and its property and casualty subsidiaries and affiliated exchanges entered into a 10% "all-lines" quota share reinsurance agreement ceding business to Zurich and Farmers Re. This agreement covered all lines directly written, assumed from affiliates, or assumed from pools, associations, or syndicates. This agreement was then amended, effective December 31, 2004, to increase the percentage to 12% and amended again effective December 31, 2005, to decrease the percentage down to 6% (Zurich 4.8% participation and Farmers Re 1.2% participation), which was the cession at the examination date. The CDI approved this 2005 amendment on December 28, 2005. Subsequently, the agreement was amended effective December 31, 2007 to decrease the percentage to 5% (Zurich 4% participation and Farmers Re 1% participation) and extend the duration to December 31, 2010. This latest amendment was approved by the CDI on December 28, 2007.

Effective January 1, 2000, the Exchange entered into a Retrocession Agreement with Foremost I.C. through which the Exchange retroceded to Foremost I.C. 95% of mobile home, manufactured homes and recreational vehicle business concurrently ceded by Foremost I.C. under the reinsurance agreement. The Exchange retained business (assumed from Foremost I.C.) other than insurance on

mobile homes, manufactured homes and recreational vehicles. The CDI approved this agreement on August 10, 2000.

Non-affiliated

Treaties ceding risks to non-affiliated reinsurers were written with the Exchange and all of its subsidiaries and affiliates as the cedents. The following is a summary of the principal non-affiliated ceded excess of loss reinsurance treaties inforce as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss – 1st Layer	Lloyds of London (26.62%) Various reinsurers (63.38%)	$200 million per occurrence	90% of $450 million excess of $200 million retention each and every loss occurrence. Terrorism excluded.
Property Catastrophe Excess of Loss – 2nd Layer	Various reinsurers (90%)	$650 million per occurrence	90% of $300 million excess of $650 million retention each and every loss occurrence. Terrorism excluded. For Texas only, this layer is in excess of the $500 million excess of $650 million layer immediately below.
Property Catastrophe Excess of Loss – Texas	Lloyds of London (22.93%) Various reinsurers (76.07%)	$650 million per occurrence	99% of $500 million excess of $650 million, Texas only. Terrorism excluded (Property CAT Excess of Loss treaty above covers resulting loss corridor – resulting in Company net retention of $200 million.).
Multi-Event Property Catastrophe Excess of Loss	Lloyds of London (32.74%) Various reinsurers (57.26%)	$20 million per event plus a $360 million aggregate deductible	90% of $180 million excess of $20 million. Excludes California earthquake, Florida hurricane, mold, and terrorism.
Property Per Risk Excess of Loss – 1st Layer	Lloyds of London (48.28%) Various reinsurers (51.72%)	$3 million each and every loss, any one risk	100% of $7 million excess of $3 million each and every loss, any one risk
Property Per Risk Excess	Lloyds of London	$10 million each and	100% of $40 million excess of

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
of Loss – 2nd Layer	(46.88%) Various reinsurers (53.12%)	every loss, any one risk	$10 million each and every loss, any one risk
Casualty/Workers' Comp. Excess of Loss – 1st Layer	Lloyds of London (37%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (25%) Various reinsurers (13%)	$10 million each occurrence	100% of $15 million excess of $10 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 2nd Layer	Lloyds of London (47%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (17%) Various reinsurers (11%)	$25 million each occurrence	100% of $25 million excess of $25 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 3rd Layer	Lloyds of London (18.5%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (20%) Various reinsurers (6.5%)	$50 million each occurrence, plus 30% of $50 million excess	70% of $50 million excess of $50 million each occurrence. For Workers' Comp. portion only an additional 30% is covered under the following CAT XOL treaty.
Workers' Compensation Catastrophic Excess of Loss	AXA RE (20%) Flagstone Reinsurance Limited (10%)	$50 million each occurrence	30% of $50 million excess of $50 million each occurrence

As of December 31, 2006, reinsurance recoverables for all ceded reinsurance totaled $11.3 billion or 358% of surplus as regards policyholders. Of the reinsurance recoverables 92% were from admitted affiliates, primarily resulting from the pooling arrangement of which the Exchange was the lead company, and 7.2% of the reinsurance recoverables were from Zurich, a non-admitted affiliate.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 5,822,650,660	$	$ 5,822,650,660	
Stocks:				
Preferred stocks	1,154,793		1,154,793	
Common stocks	2,761,378,869		2,761,378,869	
Real estate:				
Properties occupied by the company	34,039,848		34,039,848	
Properties held for production of income	791,804		791,804	
Cash and short-term investments	373,523,650		373,523,650	
Other invested assets	10,983,255		10,983,255	
Aggregate write-ins for invested assets	286,134,458		286,134,458	
Investment income due and accrued	58,733,545	1,750	58,731,795	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	451,710,518	51,827,523	399,882,995	
Deferred premiums, agents' balances and booked but deferred and not yet due	1,111,126,127		1,111,126,127	
Accrued retrospective premiums	3,810,312		3,810,312	
Amounts recoverable from reinsurers	468,443,664		468,443,664	
Net deferred tax asset	264,255,950		264,255,950	
Guaranty funds receivable or on deposit	7,627,298		7,627,298	
Electronic data processing equipment	634,341		634,341	
Furniture and equipment	2,044,011	2,044,011		
Receivables from parent, subsidiaries and affiliates	303,589,790		303,589,790	
Aggregate write-ins for other than invested assets	12,632,846	2,285,306	10,347,540	
Total assets	$11,975,265,739	$ 56,158,590	$11,919,107,149	

Liabilities, Surplus and Other Funds		Note
Losses	$ 2,873,253,226	(1)
Reinsurance payable on paid losses and loss adjustment expenses	667,542,443	
Loss adjustment expenses	829,132,440	(1)
Commissions payable, contingent commissions and other similar charges	2,320,558	
Other expenses	378,735	
Taxes, licenses and fees	5,379,576	
Current federal and foreign income taxes	73,115,962	
Unearned premiums	2,394,863,306	
Advance premium	57,515,707	
Dividends declared and unpaid: Policyholders	1,552,499	
Ceded reinsurance premiums payable	552,408,594	
Funds held by company under reinsurance treaties	833,444,567	

Amounts withheld or retained by company for account of others		8,888,149
Remittances and items not allocated		92,878,458
Provision for reinsurance		952,321
Payable for securities		84,474
Aggregate write-ins for liabilities		376,829,070
Total liabilities		8,770,540,085
Surplus notes	$1,460,480,000	
Unassigned funds (surplus)	1,688,087,064	
Surplus as regards policyholders		3,148,567,064
Total liabilities, surplus and other funds		$11,919,107,149

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 5,894,713,241
Deductions:		
Losses incurred	$ 3,278,871,038	
Loss expenses incurred	677,150,147	
Other underwriting expenses incurred	1,706,394,296	
Aggregate write-ins for underwriting deductions	13	
Total underwriting deductions		5,662,415,494
Net underwriting gain		232,297,747
Investment Income		
Net investment income earned	$ 177,828,949	
Net realized capital gains	8,793,622	
Net investment gain		186,622,571
Other Income		
Net loss from agents' or premium balances charged off	$ (36,535,385)	
Finance and service charges not included in premiums	13,370,321	
Aggregate write-ins for miscellaneous income	(52,828,253)	
Total other income		(75,993,317)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		342,927,001
Dividends to policyholders		2,692,734
Federal and foreign income taxes incurred		95,491,673
Net income		$ 244,742,594

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 2,721,024,752
Net income	$ 244,742,594	
Change in net unrealized capital gains	284,924,193	
Change in net deferred income tax	22,959,689	
Change in nonadmitted assets	(13,106,555)	
Change in provision for reinsurance	1,011,208	
Change in surplus notes	(106,935,000)	

Aggregate write-ins for gains and losses in surplus	(6,053,817)	
Change in surplus as regards policyholders		427,542,312
Surplus as regards policyholders, December 31, 2006		$ 3,148,567,064

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$1,400,049,255
Net income	$ 913,084,371	$	
Change in net unrealized capital gains	723,173,098		
Change in net deferred income tax	101,450,012		
Change in nonadmitted assets	128,788,095		
Change in provision for reinsurance		73,961	
Change in surplus notes		107,520,000	
Aggregate write-ins for losses in surplus		10,383,806	
Totals	$1,866,495,576	$117,977,767	
Net change in surplus as regards policyholders for the examination			1,748,517,809
Surplus as regards policyholders, December 31, 2006, per Examination			$3,148,567,064

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Exchange was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Exchange's loss and loss adjustment expense reserves. Because the business of the Farmers property and casualty companies was pooled, it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, the Exchange's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Managed Care Services Agreement (Page 13): Zurich Services Corporation (ZSC), an affiliate, provided certain bill review and medical management services for the Exchange's workers' compensation claims. It is recommended that the Exchange submit the managed care services agreement to CDI for approval pursuant to CIC Section 1215.5.

Previous Report of Examination

Contingent Liabilities (Page 3): Based on discussions with Exchange's attorneys (and the limited review of public domain documents obtained), the examiners were able to obtain an understanding of the volume and range of "class action either claims-related or non-claims-related" lawsuits that the Farmers property and casualty group appeared to be exposed to. However, due to the constraints evident in the Exchange limiting the examiners' access only to "public domain" documents or

attorney discussion, a sufficiently complete understanding of the Exchange's contingent liability exposure was not practical or accomplished. The current examination's review of legal data/documents was limited to "public-domain" only, similar to that of the previous examination.

Common Stocks (Page 26): The carrying value of the common stock of certain pooled subsidiaries of the Exchange was reduced by their participation in the higher level of loss and loss adjustment expense reserves determined on a group-wide basis by the CDI actuaries, and for their pooled share of the accrual of liabilities for the Bell and MDL cases. These reductions in the carrying value of common stocks owned by the Exchange totaled $364,906,655. The December 31, 2006, carrying values of common stocks in pooled subsidiaries owned by the Exchange were accepted as reasonable for the current examination.

Federal and Foreign Income Tax Recoverable (Page 27): The examination increased the amount of federal income tax recoverable by $186,931,799. This was the result of accruing for the tax effect of the higher level of net loss and loss adjustment expense reserves, and the accrual of the Bell and MDL cases, as recorded in the prior examination report. This tax effect amount appeared to qualify for treatment as a Net Operating Loss (NOL) carry back. The amount reported by the Exchange for Federal and Foreign Income Tax Recoverables was accepted as reasonable for this examination.

Losses and Loss Adjustment Expenses (Page 27): Based upon an independent actuarial review, the Exchange's net loss and loss adjustment expense reserves as of December 31, 2003 were determined to be $469,374,000 deficient and were adjusted for purposes of the examination. Current carried net loss and loss adjustment expense reserves appeared adequate.

Aggregate Write-Ins for Liabilities (Page 28): The amount of "aggregate write-ins for liabilities" per the prior examination was $101,844,338 greater then the Exchange stated amount. The current balance carried in aggregate write-ins for liabilities was accepted as reasonable.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Exchange's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_______/S/____________________
Gary W. McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance

EXHIBIT B

REPORT OF EXAMINATION
OF THE

TRUCK INSURANCE EXCHANGE

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 26, 2008

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Los Angeles, California
June 25, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, **Zone IV-Western**
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

TRUCK INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange or Truck) at its home office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

SCOPE OF EXAMINATION

The previous examination of Truck was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of Truck's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

This examination was conducted concurrently with examination of Truck's California subsidiaries and affiliates, namely: Fire Insurance Exchange, Farmers Insurance Exchange, Mid-Century

Insurance Company, Civic Property and Casualty Company, Exact Property and Casualty Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company.

In addition to those items specifically commented upon in this report, other phases of Truck's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of exchange; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

Bristol West Holdings, Inc.

On July 3, 2007, Farmers Group, Inc. (FGI), the attorney-in-fact for the three exchanges, completed the acquisition of Bristol West Holdings, Inc. (BWH), a Delaware corporation, including its two directly-owned insurance company subsidiaries; Security National Insurance Company, a Florida company, Bristol West Preferred Insurance Company, a Michigan company, and certain insurance services companies. Also included in the acquisition were BWH's directly owned insurance holding company; Coast National Holding Company, a California company, and its insurance company subsidiary Coast National Insurance Company (CNIC), a California company which in turn owned Bristol West Insurance Company, an Ohio company, and Bristol West Casualty Insurance Company, an Ohio company.

BWH, via its insurance subsidiaries, had licenses in 38 states plus the District of Columbia, operates in 22 states and was a provider of liability and physical damage insurance, specializing in non-standard private passenger auto.

FGI paid $713.5 million plus the assumption of $100 million of debt obligations for BWH. Additional consideration for the transaction included the "commutation of certain existing affiliated reinsurance arrangements" between BWH's subsidiaries, and the execution of a 90% quota share

cession agreement between CNIC and Farmers Insurance Exchange (FIE) to be effective January 1, 2007. The CNIC quota share agreement was approved by the California Department of Insurance (CDI) on June 29, 2007.

The above transactions resulted in changes in the ultimate control of BWH's subsidiary, CNIC. FIE and Zurich Financial Services (ZFS), a Swiss company and FGI's ultimate parent corporation, filed a joint Form A application pursuant to California Insurance Code (CIC) Section 1215.2. Additionally, Form D applications were filed pursuant to CIC Section 1215.5. On June 28, 2007, Truck received correspondence from the CDI that the transactions were "not disapproved".

Concurrent with the acquisition, FGI sold BWH's underlying insurance business to FIE, Truck, Fire Insurance Exchange (Fire) and Mid-Century Insurance Company (Mid-Century) for $420 million, which represented an equity value of $370 million plus $50 million of debt assumption. In addition, FIE, Truck, Fire, and Mid-Century incurred transaction fees of $13.8 million. FGI retained certain of BWH's employees, the operational systems, and the management servicing rights. The acquisition was recorded using the statutory purchase method of accounting. The following schedule depicts each exchange/company's share of the costs, fees and goodwill for the acquisition of the BWH insurance business:

	(in millions)		
Entity	Cost and Fees	Goodwill	Percentage
Farmers Insurance Exchange	$162.7	$38.2	37.50%
Truck Insurance Exchange	38.0	8.9	8.75%
Fire Insurance Exchange	16.3	3.8	3.75%
Mid-Century Insurance Company	216.8	51.0	50.00%
Totals	$433.8	$101.9	100.00%

On May 8, 2008, the intermediate-level holding structure was re-organized and FGI is now currently owned 87.9% by Zurich Insurance Company (ZIC), 10.375% by Zurich Group Holdings (ZGH), and

1.725% by three Partnerships (Zurich RegCaPS II, V, VI) having ZIC as the General Partner and ZGH as the Limited Partner. ZFS continues to be the ultimate controlling party.

Access Rights Agreeements and 100% Quota Share Reinsurance Agreement

Effective June 1, 2008, the CDI authorized the following agreements filed by Truck pursuant to CIC Section 1215.5:

(1) "Access Rights Agreements" (Access Agreements) under which four admitted affiliates of Truck, American Zurich Insurance Company, Assurance Company of America, Maryland Casualty Company, and Northern Insurance Company of New York (collectively referred to as transferors) sold and transferred to Truck all their rights under insurance policies, producer agreements, and other legal arrangements, regarding both renewal and new sales of commercial business insurance policies written by the transferors' Zurich Small Business Unit (referred to as SBS Business). The net effect enables Truck to conduct the SBS Business that was previously produced by the transferors.

(2) "100% Quota Share Reinsurance Agreement" (Reinsurance Agreement), under which Truck accepted from the transferors, and reinsured on an indemnity basis, all liability for losses arising after June 1, 2008 on the SBS Business covered by the Access Agreement together with all unearned premium and net written premium on that business. The net effect renders Truck liable for the SBS Business in force. Additionally, the transferors will provide specified administrative services to Truck during a transition period, for which Truck shall reimburse transferors for actual costs of providing those services.

In addition to the two authorized agreements are other agreements under which assets used to produce the SBS Business are transferred by Zurich American Insurance Company, the parent of the transferors to FGI. The entire consideration and rationale for these arrangements are not finalized, therefore the CDI reserves all rights under CIC Section 1215.5 and any other statutes with respect to

these arrangements insofar as it affect Truck or costs it pays to FGI in connection with the authorized agreements.

TRUCK HISTORY

Truck was incorporated in California on February 5, 1935, for the purpose of conducting property and casualty insurance.

A significant portion of Truck's reported surplus as regards policyholders at the examination date was composed of surplus notes (issued to non-affiliates), and contribution certificates (issued to affiliates). The following schedule depicts the specific issuances and amounts outstanding at December 31, 2006:

Date issued	Interest Rate	Par Value	Maturity Date
7/10/1998	7.050%	$ 73,077,000	7/15/2028
7/10/1998	7.200%	21,923,000	7/15/2048
6/21/2004	6.150%	136,500,000	12/31/2013
	Total	$231,500,000	

The aforementioned notes and certificates have restrictions, which require the approval of the California Department of Insurance (CDI) before payment of interest and principal. Interest can be paid out of earned (unassigned) surplus only. The payments of interest and repayments of principal, occurring during this examination period were made with the approvals of the CDI.

The surplus notes, transacted on July 10, 1998, were issued to qualified institutional buyers in the open market and are administered by Chase Manhattan.

On June 21, 2004, a new certificate of contribution in the amount of $136,500,000 was issued in consideration for the surrender and discharge of three earlier certificates issued on March 7, 2000,

November 15, 2001 and December 31, 2001 to Truck Underwriters Association (TUA) in the same total amount, but then assigned by TUA to Zurich Capital Markets, Inc. (ZCM) on January 30, 2004. On July 28, 2004, the certificate was assigned by ZCM to Zurich Investments LLC, a Luxembourg company.

Foremost Corporation of America

In October 1999, Spartan Parent Corporation (Spartan), a jointly-owned subsidiary of Truck, Farmers Insurance Exchange (FIE), and Fire Insurance Exchange (Fire), entered into an agreement to acquire Foremost Corporation of America (Foremost Corp.) for $812 million. Foremost Corp. owned Foremost Insurance Company of Grand Rapids, Michigan (Foremost I.C.), which predominately wrote recreational vehicle and mobile home policies. The three exchanges gave notices of the investment to the CDI under California Insurance Code Section 1215.5(b)(1). In March of 2000, the Foremost Corp. acquisition was finalized.

Effective at the time of acquisition, Spartan was merged with and into Foremost Corp. and its outstanding common stock interest in Foremost Corp. was redistributed to the aforementioned three exchanges. The exchanges accounted for the acquisition using the statutory purchase method of accounting. Truck's equity ownership of Foremost Corp. is 10%, with sister exchanges Fire owning 10%, and FIE owning 80%.

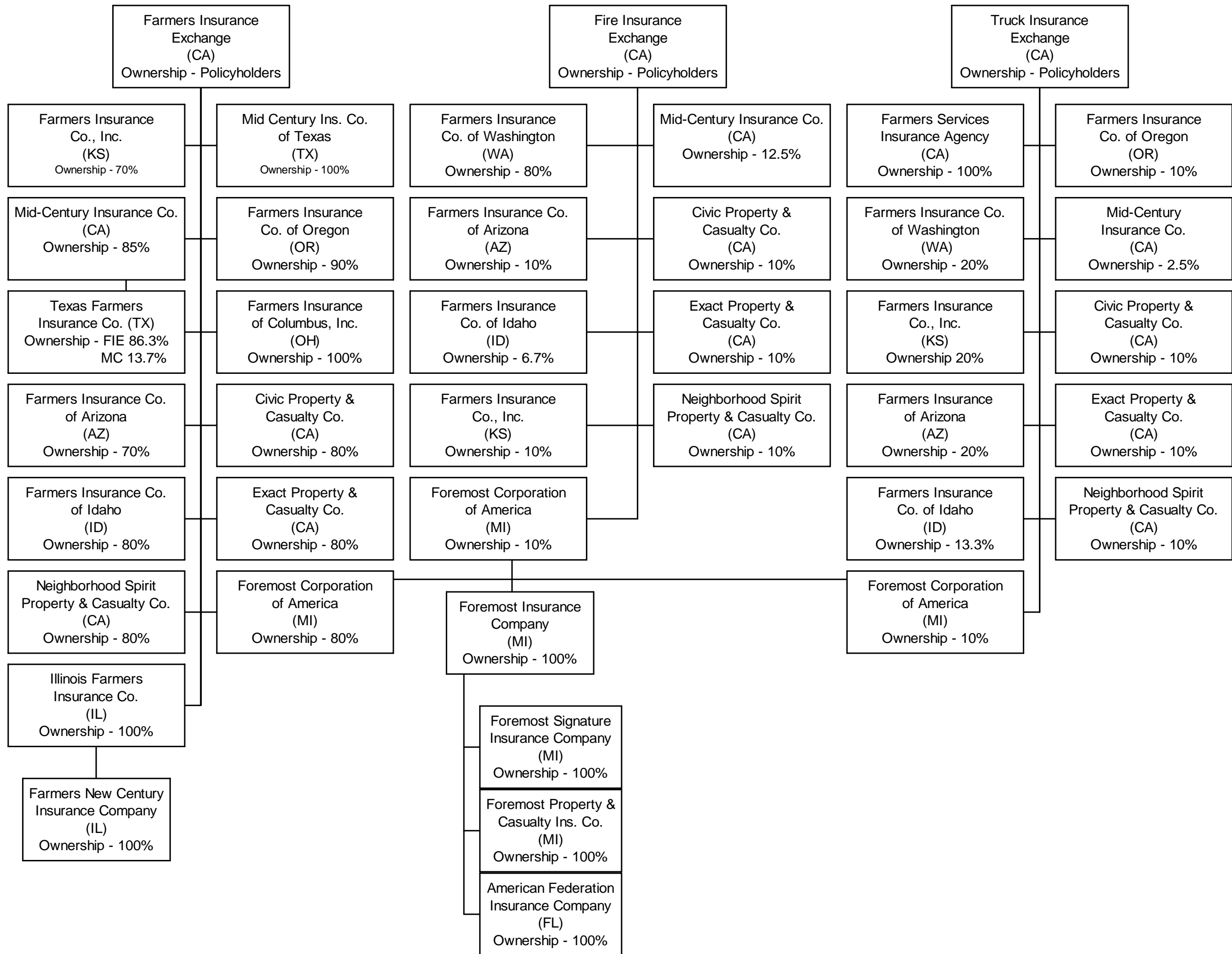
The three exchanges reported their investments in Foremost Corp. as two separate and distinct investments. The investment in Foremost Corp. was reported at the GAAP equity value plus the remaining goodwill balance (after amortization) less the non-admissible portion of goodwill pursuant to National Association of Insurance Commissioners' Statements of Statutory Accounting Principles. The investment in Foremost I.C. was reported at the statutory equity value indicated in the Foremost I.C. Statutory Annual Statement.

MANAGEMENT AND CONTROL

Truck, a reciprocal insurer organized under California Insurance Code (CIC) Section 1300 et. seq. was controlled by its attorney-in-fact, Farmers Group, Inc. (FGI), dba Truck Underwriters Association. FGI is a U.S. subsidiary of Zurich Financial Services, a Swiss holding company. The following abridged organizational charts show the relationship of Truck to its affiliates as of December 31, 2006, and subsequent to the acquisition of Bristol West Holding, Inc.:

FARMERS EXCHANGES

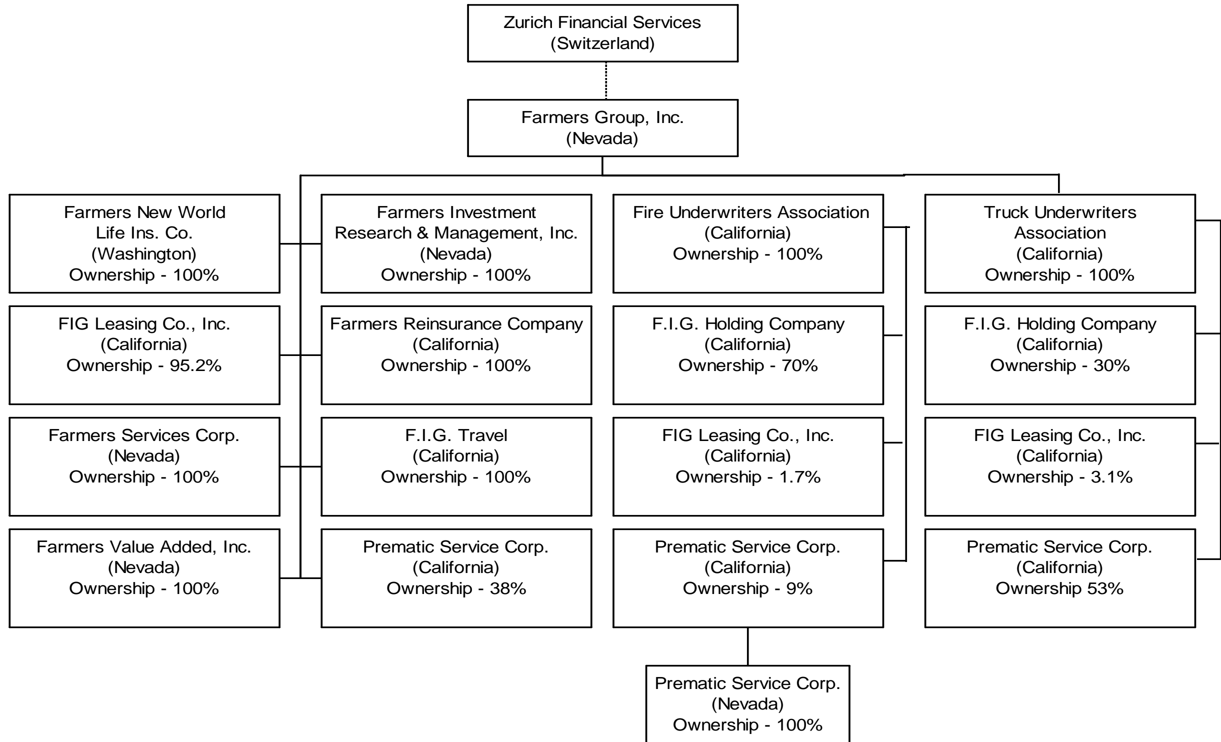
December 31, 2006



(*) all ownership is 100% unless otherwise noted.

ZURICH FINANCIAL SERVICES GROUP

December 31, 2006

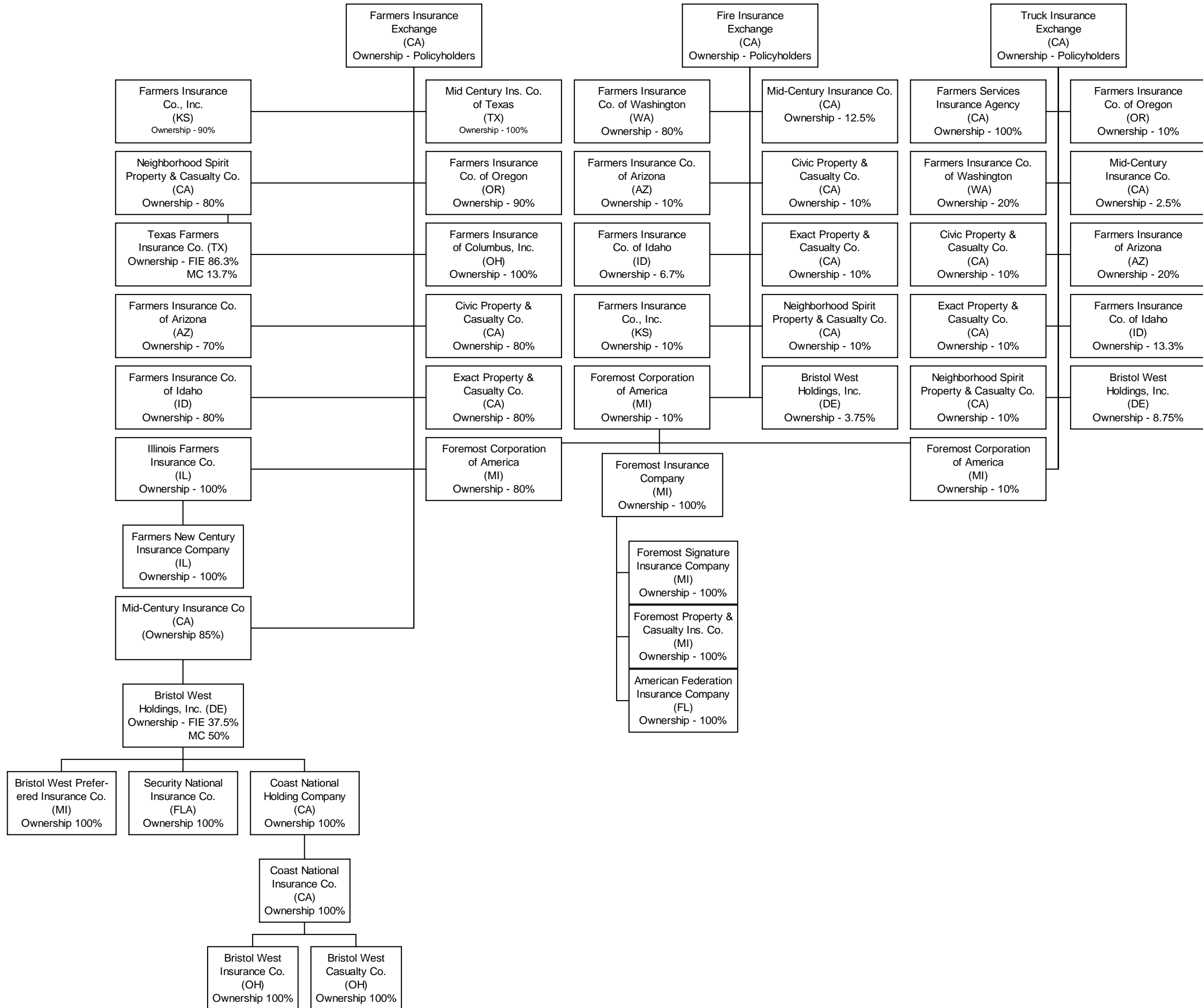


(*) all ownership is 100% unless otherwise noted.

Note: Truck operates through Farmers Group, Inc. (FGI) under a separate dba's: Truck Underwriters Association.

FARMERS EXCHANGES

DECEMBER 31, 2007



(*) all ownership is 100% unless otherwise noted.

Management of Truck was vested in a fifteen (15) member board of governors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Board of Governors

Name and Residence	Principal Business Affiliation
Kenneth Wayne Bentley Los Angeles, California	Vice President of Public Relations
James Earl Blincoe Lodi, California	President Trucking company
Frank Anthony Bonello Edina, Minnesota	Retired
Thomas David Brown Clive, Iowa	President Truck leasing company
Joe David Bryant Oklahoma City, Oklahoma	Owner Ribbon and Medal Company
James Junior Devine Carmel, California	Retired
Hugh Cromer Dunlap Quitman, Arizona	Consultant
Alan Roy Gildemeister Schaumburg, Illinois	Owner Machine tool manufacturing company
Guy Meade Hanson Missoula, Montana	Retail business owner
Peter David Kaplan Los Angeles, California	President Clothing store
Ronald Lee Marrone Pittsburg, Kansas	Co-owner Wholesale food service distributor
Gary Randolph Martin Encinitas, California	President Commercial real estate management company

Board of Governors

Name and Residence	Principal Business Affiliation
Kathleen Leavey McCarthy Los Angeles, California	Trustee Leavey Foundation
Ottie Joel Wallace Planada, California	Owner Trucking and logistics company
Richard Lewis Wells Lake Ozark, Missouri	Retired

Principal Officers

Name	Title
Frank Robert Woudstra	President
Ronald Gregory Myhan	Vice President and Treasurer
Doren Eugene Hohl	Secretary
Gerald Anthony Dulek	Vice President
Paul Norman Hopkins	Vice President
Jason Lawrence Katz	Vice President
Kevin Eugene Kelso	Vice President
Peter Andrew Klute	Vice President
Bryan Francis Murphy	Vice President
Jeffry Vincent Reinig	Vice President
Mhayse Gokul Samalya	Vice President
Keitha Tullos Schofield	Vice President
Stanley Ray Smith	Vice President
Lonnie Alan Sproat	Vice President
Michael Marion Sullivan	Vice President
Warren Benjamin Tucker (*)	Vice President
Pierre Christophe Wauthier (**)	Vice President

(*) Resigned on May 31, 2007 and replaced by James Leslie Nutting on June 1, 2007.
(**) Resigned on October 1, 2007 and was replaced by Scott Lundquist February 11, 2008.

Management Agreements

Farmers Group, Inc. (FGI), the Attorney-In-Fact, provides all operating services (including staffing and occupancy) except claims adjustment services to Truck. These services were provided to Truck pursuant to the "subscription agreements" signed by each individual policyholder of Truck. There was no specific management services agreement required between Truck and FGI for the aforementioned services provided. California Insurance Code (CIC) Section 1215.4 and Section 1215.5 provides for an exemption from reporting for an inter-insurance exchange utilizing the subscription agreements providing that the "form of this agreement was in place prior to 1943 and it was not amended in any way to modify payments, fees, or waivers of fees or otherwise substantially amended after 1943". For 2004, 2005, and 2006, fees paid by Truck to FGI for such services were $120,326,004, $122,125,154, and $125,054,498, respectively. Truck is responsible for the payment of claims (adjustment function), payment of commissions and the payment of premium and income taxes.

Claims Adjustment Services Arrangement

Farmers Insurance Exchange (FIE) staffs a claims department for the adjustment of its own claims and to adjust certain of its affiliated insurance companies' claims including Truck's. The claims adjustment services arrangement in place between FIE and certain of its affiliates (the pooled companies including Truck), with FIE providing all of their claims adjustment services, was not written. During 2004, 2005, and 2006, net claims adjustment service fees paid by Truck to FIE as a result of its participation in the intercompany reinsurance agreement were $67,355,000, $64,762,000, and $67,496,000, respectively.

Managed Care Services Agreement

Truck is a party to a managed care services agreement effective October 1, 1998, with Zurich Service Corporation (ZSC), an affiliate. ZSC provided certain bill review and medical management services

for Truck's workers' compensation claims. It is recommended that Truck submit the managed care services agreement to the CDI pursuant to CIC Section 1215.5 for approval.

Tax Sharing Agreement

Truck's federal income tax return was consolidated with an affiliate, Farmers Services Insurance Agency. There was a written tax sharing agreement in place, effective May 1, 1995. The tax allocation was based on separate return calculations with current credit for net losses. Truck's portion of the federal income taxes paid/recovered for 2004, 2005, and 2006, were ($2,797,000) $12,861,000, $17,741,000, respectively.

Investment Management Agreements

FGI acting on behalf of Truck, Fire Insurance Exchange (Fire), FIE and the subsidiaries of these three exchanges, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed Truck, Fire, FIE and the subsidiaries' fixed income and equity asset portfolios. The terms of the Investment Management Agreement have otherwise not been altered.

FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with Truck, Fire, FIE and the stock subsidiaries' investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the Service Level Agreement were left unchanged except for the replacement of parties.

Securities Lending Agreement

In 1999 Truck filed with the CDI a proposed securities lending agreement with an affiliate, Zurich Capital Markets Trust Company (Zurich).

In December 2001, Truck changed its securities lending agent from Zurich to the Bank of New York Western Trust (BNY) a non-affiliate, as Zurich had decided to exit the securities lending business. "Collateral" as defined in the securities lending agreement between BNY and Truck indicated government securities and cash. The agreement also stipulated that BNY establish a "custodial custody account" in the name of Truck for the purpose of holding collateral and approved investments pertaining to securities lending transactions. The custodian was Wall Street Portfolio Advisors, a division of BNY. The current agreement conformed to the securities lending limits specified in CDI Bulletin 82-2.

TERRITORY AND PLAN OF OPERATION

Truck is licensed in the District of Columbia and the following 48 states:

Alabama	Idaho	Michigan	New York	Tennessee
Alaska	Illinois	Minnesota	North Carolina	Texas
Arizona	Indiana	Mississippi	North Dakota	Utah
Arkansas	Iowa	Missouri	Ohio	Virginia
California	Kansas	Montana	Oklahoma	Washington
Colorado	Kentucky	Nebraska	Oregon	West Virginia
Connecticut	Louisiana	Nevada	Pennsylvania	Wisconsin
Florida	Maine	New Hampshire	Rhode Island	Wyoming
Georgia	Maryland	New Jersey	South Carolina	
Hawaii	Massachusetts	New Mexico	South Dakota	

Major Lines of Business:

Truck principally writes commercial lines on a direct basis. However, Farmers Insurance Exchange (FIE), and its a pooled subsidiaries and affiliates, write most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal lines written or assumed by Truck from FIE (the lead pooling Company in a pooling arrangement) were private passenger auto liability, auto physical damage, and homeowners multiple peril. By volume, commercial multiple peril, workers' compensation, and commercial auto writings were the more material commercial lines being written by Truck.

In 2006, Truck wrote $815.9 million of direct premiums. Of the direct premiums written, $370 million (45.3%) was written in California, $69 million (8.5%) was written in Texas, $38.6 million (4.7%) was written in Colorado and $338.3 million (41.5%) was written in the remaining states.

Approximately one-half of the Farmers property and casualty companies' business continues to be concentrated within the states of California and Texas. However, in recent years, the Farmers property and casualty companies have been expanding market presence eastward.

Personal and commercial business is produced for the Farmers property and casualty companies (including Truck) by an exclusive agency force of more than 18,000 agents and was supported by 30 state executive offices, 12 personal and commercial service centers, and 150 branch claim offices.

The Farmers property and casualty companies announced, during the fall of 2003, that they were fully withdrawing from the writing of the Medical Malpractice line of business. Policies then-existing were runoff.

Truck and Fire operates through Farmers Group, Inc. (FGI) under separate dba's: Truck Underwriters Association, and Fire Underwriters Association, respectively. FIE also operates directly through FGI, which functions as attorney-in-fact with a dba of Farmers Underwriters Association.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Truck and certain other members of the Farmers property and casualty companies participated in an intercompany reinsurance pooling agreement. Under this agreement, the affiliated participants including Truck ceded all of their business, net of all reinsurance, to the Farmers Insurance Exchange (FIE) acting as the lead company. FIE then retroceded a share of the business back to certain participants based on percentages prescribed under the pooling agreement. The most recent amendment to this long-standing agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2006, were as follows:

Pool Participant	Percentage
Farmers Insurance Exchange	51.75
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Mid-Century Insurance Company	16.00
Texas Farmers Insurance Company	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Farmers Insurance of Columbus, Inc.	1.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Total	100.00

Assumed

FIE maintains fronting arrangements (the so-called "RAS" treaties, which are historically long-standing reinsurance agreements with affiliates initiated between 1950 and 1995) by which all of the property business it writes is ceded "prior to the inter-company pooling" to Fire Insurance Exchange (FIRE). Similarly all of FIE's workers' compensation, medical malpractice, and commercial lines business are ceded to Truck via the RAS agreements. FIE then retrocedes the remaining business of the Farmers property and casualty companies to the insurers participating in the inter-company reinsurance pooling agreement according to their respective participation percentages.

Ceded

Affiliated

Treaties ceding quota share risks to affiliated reinsurers are written with FIE and all of its subsidiaries and affiliates (including Truck) as the cedent and remain in effect at December 31, 2006. Included is an auto physical damage (APD agreement) 100% quota share agreement with several participants including the affiliated Zurich Insurance Company (Zurich) with an initial 65% participation, and the affiliated Farmers Reinsurance Company (Farmers Re) with a 10% participation. Several non-affiliated reinsurers assumed the remaining 25% in participation. The premium for this APD agreement since 2001 was $2 billion annually. The APD agreement was approved by the CDI in 2001 for one year, with one-year extensions granted in 2002 and 2003. In 2004, the APD agreement was revised to reduce the quota share percentage to 50%, with Zurich assuming a 40% participation and Farmers Re assuming the remaining 10% participation. Effective January 1, 2006 the above amended APD agreement was replaced by a new APD 100% quota share agreement. The premium of this replacement APD agreement was $1 billion annually with Zurich assuming an 80% participation and Farmers Re assuming a 20% participation. The CDI approved this agreement on December 28, 2005.

On December 31, 2002, Truck and its property and casualty subsidiaries and affiliated exchanges (including FIE), entered into a 10% "all-lines" quota share reinsurance agreement ceding business to Zurich and Farmers Re. This agreement covers all lines directly written, assumed from affiliates, or assumed from pools, associations, or syndicates. This agreement was then amended, effective December 31, 2004, to increase the percentage to 12% and amended again effective December 31, 2005, to decrease the percentage down to 6% (Zurich 4.8% participation and Farmers Re 1.2% participation) which is the current cession. The CDI approved this 2005 amendment on December 28, 2005. Subsequently, the agreement was amended, effective December 31, 2007, to decrease the percentage to 5% (Zurich 4% participation and Farmers Re 1% participation) and extend the duration to December 31, 2010. This latest amendment was approved by the CDI on December 28, 2007.

Non-affiliated

Treaties ceding risks to non-affiliated reinsurers are written with Truck and its sister exchanges (FIE and FIRE) as the cedent. The following is a summary of the principal non-affiliated ceded excess of loss reinsurance treaties inforce as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss – 1st Layer	Lloyds of London (26.62%) Various reinsurers (63.38%)	$200 million per occurrence	90% of $450 million excess of $200 million retention each and every loss occurrence. Terrorism excluded
Property Catastrophe Excess of Loss – 2nd Layer	Various reinsurers (90%)	$650 million per occurrence	90% of $300 million excess of $650 million retention each and every loss occurrence. Terrorism excluded. For Texas only, this layer is in excess of the $500 million excess of $650 million layer immediately below.
Property Catastrophe Excess of Loss – Texas	Lloyds of London (22.93%) Various reinsurers (76.07%)	$650 million per occurrence	99% of $500 million excess of $650 million, Texas only. Terrorism excluded (Property CAT Excess of Loss treaty above covers resulting loss corridor – resulting in Company net retention of $200 million.).

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Multi-Event Property Catastrophe Excess of Loss	Lloyds of London (32.74%) Various reinsurers (57.26%)	$20 million per event plus a $360 million aggregate deductible	90% of $180 million excess of $20 million. Excludes California earthquake, Florida hurricane, mold, and terrorism.
Property Per Risk Excess of Loss – 1st Layer	Lloyds of London (48.28%) Various reinsurers (51.72%)	$3 million each and every loss, any one risk	100% of $7 million excess of $3 million each and every loss, any one risk
Property Per Risk Excess of Loss – 2nd Layer	Lloyds of London (46.88%) Various reinsurers (53.12%)	$10 million each and every loss, any one risk	100% of $40 million excess of $10 million each and every loss, any one risk
Casualty/Workers' Comp. Excess of Loss – 1st Layer	Lloyds of London (37%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (25%) Various reinsurers (13%)	$10 million each occurrence	100% of $15 million excess of $10 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 2nd Layer	Lloyds of London (47%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (17%) Various reinsurers (11%)	$25 million each occurrence	100% of $25 million excess of $25 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 3rd Layer	Lloyds of London (18.5%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (20%) Various reinsurers (6.5%)	$50 million each occurrence, plus 30% of $50 million excess	70% of $50 million excess of $50 million each occurrence. For Workers' Comp. portion only an additional 30% is covered under the following CAT XOL treaty.
Workers' Compensation Catastrophic Excess of Loss	AXA RE (20%) Flagstone Reinsurance Limited (10%)	$50 million each occurrence	30% of $50 million excess of $50 million each occurrence

As of December 31, 2006, reinsurance recoverables for all ceded reinsurance totaled $3.8 billion or 806% of surplus as regards policyholders. Of the reinsurance recoverables 95% were from admitted affiliates resulting from the pooling arrangement.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 699,505,065	$	$ 699,505,065	
Stocks:				
Preferred stocks	1,637,592		1,637,592	
Common stocks	354,348,477		354,348,477	
Real estate:				
Properties occupied by the company	3,496,183		3,496,183	
Properties held for production of income	231,901		231,901	
Cash and short-term investments	155,007,125		155,007,125	
Aggregate write-ins for invested assets	38,038,717		38,038,717	
Investment income due and accrued	7,870,799	138,967	7,731,832	
Premiums and considerations:				
Uncolledted premiums and agents' balances in the course of collection	43,000,399	7,761,610	35,238,789	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	179,791,337		179,791,337	
Accrued retrospective premiums	570,626		570,626	
Amounts recoverable from reinsurers	124,401,093		124,401,093	
Current federal and foreign income tax recoverable	569,987		569,987	
Net deferred tax asset	44,874,494	10,892,936	33,981,558	
Guaranty funds receivable or on deposit	4,631,200		4,631,200	
Aggregate write-ins for other than invested assets	2,658,103	308,218	2,349,885	
Total assets	$ 1,660,633,098	$ 19,101,731	$ 1,641,531,367	

Liabilities, Surplus and Other Funds		Note
Losses	$ 430,024,523	(1)
Reinsurance payable on paid losses and loss adjustment expenses	84,364,537	
Loss adjustment expenses	124,095,212	(1)
Commissions payable, contingent commissions and other similar charges	7,201,125	
Taxes, licenses and fees	3,076,739	
Current federal and foreign income taxes	8,537,939	
Unearned premiums	358,640,197	
Advance premium	8,613,463	
Dividends declared and unpaid: Policyholders	232,500	
Ceded reinsurance premiums payable	106,593,815	
Funds held by company under reinsurance treaties	487,243	
Amounts withheld or retained by company for account of others	8,393,868	
Remittances and items not allocated	630,591	

Provision for reinsurance		28,614,283
Drafts outstanding		8,874,684
Payable to parent, subsidiaries and affiliates		11,936,514
Aggregate write-ins for liabilities		(19,944,502)
Total liabilities		1,170,372,731
Surplus notes	$ 231,500,000	
Unassigned funds (surplus)	239,658,636	
Surplus as regards policyholders		471,158,636
Total liabilities, surplus and other funds		$1,641,531,367

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 882,799,856
Deductions:		
Losses incurred	$ 490,962,260	
Loss expense incurred	101,361,041	
Other underwriting expenses incurred	255,637,113	
Aggregate write-ins for underwriting deductions	2	
Total underwriting deductions		847,960,416
Net underwriting gain		34,839,440
Investment Income		
Net investment income earned	$ 21,698,055	
Net realized capital gains	29,721,028	
Net investment gain		51,419,083
Other Income		
Net loss from agents' or premium balances charged off	$ (5,471,483)	
Finance and service charges not included in premiums	2,002,319	
Aggregate write-ins for miscellaneous income	3,590,632	
Total other income		121,468
Net income before dividends to policyholders, after capital tax gains and before all other federal and foreign income taxes		86,379,991
Dividends to policyholders		403,259
Federal and foreign income taxes incurred		17,741,384
Net income		$ 68,235,348

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 399,278,657
Net income	$ 68,235,348	
Change in net unrealized capital gains	108,045	
Change in net deferred income tax	(9,189,255)	
Change in nonadmitted assets	13,495,531	
Change in provision for reinsurance	(5,321,962)	
Aggregate write-ins for gains and losses in surplus	4,552,272	
Change in surplus as regards policyholders		71,879,979
Surplus as regards policyholders, December 31, 2006		$ 471,158,636

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 209,549,002
Net income	$ 194,416,180	$	
Change in net unrealized capital gains	5,207,294		
Change in net deferred income tax	26,341,956		
Change in nonadmitted assets	38,638,214		
Change in provision for reinsurance	13,653,504		
Aggregate write-ins for losses in surplus		16,647,514	
Totals	$ 278,257,148	$ 16,647,514	
Net change in surplus as regards policyholders for the examination			261,609,634
Surplus as regards policyholders, December 31, 2006, per Examination			$ 471,158,636

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Truck was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Truck's loss and loss adjustment expense reserves. Because the business of the Farmers property and casualty companies was pooled, it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, Truck's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: - Managed Care Services Agreement (Page 13): Zurich Service Corporation, an affiliate of Truck, provided certain bill review and medical management services for Truck's workers' compensation claims. It is recommended that Truck submit the managed care services agreement to the CDI for approval pursuant to CIC Section 1215.5.

Previous Report of Examination

Contingent Liabilities (Page 2): Based on discussions with Truck's attorneys (and the limited review of public domain documents obtained) the examiners were able to obtain an understanding of the volume and range of "class action either claims-related or non-claims-related" lawsuits that the Farmers property & casualty group appeared to be exposed to. However, due to the constraints evident in Truck limiting the examiners' access only to "public domain" documents or attorney

discussion, a sufficiently complete understanding of its contingent liability exposure was not practical or accomplished. The current examination's review of legal data/documents was limited to "public-domain" only, similar to that of the previous examination.

Common Stocks (Page 24): The carrying value of the common stock of certain pooled subsidiaries of Truck was reduced by their participation in the higher level of loss and loss adjustment expense reserves determined on a group-wide basis by the CDI actuaries, and for their pooled share of the accrual of liabilities for the Bell and MDL cases. These reductions in the carrying value of common stocks owned by Truck totaled $24,066,085. The December 31, 2006 carrying values of common stocks in pooled subsidiaries owned by Truck were accepted as reasonable for the current examination.

Federal and Foreign Income Tax Recoverable (Page 24): The examination increased the amount of federal income tax recoverable by $27,671,055. This was the result of accruing for the tax effect of the higher level of net loss and loss adjustment expense reserves, and the accrual of the Bell and MDL cases, as recorded in prior examination report. This tax effect amount appears to qualify for treatment as a Net Operating Loss (NOL) carry back. The amount reported by Truck for Federal and Foreign Income Tax Recoverables was accepted as reasonable for this examination.

Losses and Loss Adjustment Expenses (Page 25): Based upon an independent actuarial review, Truck's net loss and loss adjustment expense reserves as of December 31, 2003 were determined to be $69,417,000 deficient and were adjusted for purposes of the examination. Current carried net loss and loss adjustment expense reserves appeared adequate.

Aggregate Write-Ins for Liabilities (Page 26): The amount of "aggregate write-ins for liabilities" per the examination was $15,252,051 greater than Truck's stated amount. The current balance carried in aggregate write-ins for liabilities was accepted as reasonable.

<u>ACKNOWLEDGEMENT</u>

The courtesy and cooperation extended by Truck's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

______/S/____________________
Gary W. McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance

EXHIBIT C

REPORT OF EXAMINATION
OF THE

FIRE INSURANCE EXCHANGE

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 23, 2008

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Los Angeles, California
June 23, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, **Zone IV-Western**
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

FIRE INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange or FIRE) at its home office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

SCOPE OF EXAMINATION

The previous examination of FIRE was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of FIRE's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

This examination was conducted concurrently with examinations of FIRE's California subsidiaries and affiliates, namely: Farmers Insurance Exchange, Truck Insurance Exchange, Mid-Century

Insurance Company, Civic Property and Casualty Company, Exact Property and Casualty Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company.

In addition to those items specifically commented upon in this report, other phases of FIRE's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of exchange; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

Bristol West Holdings, Inc.

On July 3, 2007, Farmers Group, Inc. (FGI), the attorney-in-fact for the three exchanges, completed the acquisition of Bristol West Holdings, Inc. (BWH), a Delaware corporation, including its two directly-owned insurance company subsidiaries; Security National Insurance Company, a Florida company, Bristol West Preferred Insurance Company, a Michigan company, and certain insurance services companies. Also included in the acquisition were BWH's directly owned insurance holding company; Coast National Holding Company, a California company, and its insurance company subsidiary Coast National Insurance Company (CNIC), a California company which in turn owned Bristol West Insurance Company, an Ohio company, and Bristol West Casualty Insurance Company, an Ohio company.

BWH, via its insurance subsidiaries, had licenses in 38 states plus the District of Columbia, operated in 22 states and was a provider of liability and physical damage insurance, specializing in non-standard private passenger auto.

FGI paid $713.5 million plus the assumption of $100 million of debt obligations for BWH. Additional consideration for the transaction included the commutation of certain existing affiliated reinsurance arrangements between BWH's insurance subsidiaries, and the execution of a 90% quota

share cession agreement between CNIC and Farmers Insurance Exchange to be effective January 1, 2007. The CNIC quota share agreement was approved by the California Department of Insurance (CDI) on June 29, 2007.

The above transactions resulted in changes in the ultimate control of BWH's subsidiary, CNIC. FIE and Zurich Financial Services (ZFS), a Swiss company and FGI's ultimate parent corporation, filed a joint Form A application pursuant to California Insurance Code (CIC) Section 1215.2. Additionally, Form D applications were filed pursuant to CIC Section 1215.5. On June 28, 2007, FIRE received correspondence from CDI that the transactions were "not disapproved".

Concurrent with the acquisition, FGI sold BWH's underlying insurance business to FIRE, Farmers Insurance Exchange (FIE), Truck Insurance Exchange (Truck), and Mid-Century Insurance Company (Mid-Century) for $420 million, which represented an equity value of $370 million plus $50 million of debt assumption. In addition, FIRE, FIE, Truck, and Mid-Century incurred transaction fees of $13.8 million. FGI retained certain of BWH's employees, the operational systems, and the management servicing rights. The acquisition was recorded using the statutory purchase method of accounting. The following schedule depicts each exchange/company's share of the costs, fees and goodwill for the acquisition of the BWH insurance business:

	(in millions)		
Entity	Cost and Fees	Goodwill	Percentage
Farmers Insurance Exchange	$162.7	$38.2	37.50%
Truck Insurance Exchange	38.0	8.9	8.75%
Fire Insurance Exchange	16.3	3.8	3.75%
Mid-Century Insurance Company	216.8	51.0	50.00%
Totals	$433.8	$101.9	100.00%

On May 8, 2008, the intermediate-level holding structure was re-organized and FGI is now currently owned 87.9% by Zurich Insurance Company (ZIC), 10.375% by Zurich Group Holdings (ZGH), and

1.725% by three Partnerships (Zurich RegCaPS II, V, VI) having ZIC as the General Partner and ZGH as the Limited Partner. ZFS continues to be the ultimate controlling party.

FIRE HISTORY

FIRE was incorporated in California on November 10, 1942, for the purpose of conducting property and casualty insurance.

A significant portion of FIRE stated surplus as regards policyholders at the examination date was composed of surplus notes (issued to non-affiliates), and contribution certificates (issued to affiliates). The following schedule depicts the specific issuances and amounts outstanding at December 31, 2006:

Date issued	Interest Rate	Par Value	Maturity Date
12/22/1958	4.000%	$ 1,130,000	Conditional
12/27/1962	4.000%	200,000	Conditional
12/19/1963	4.500%	250,000	Conditional
12/04/1964	4.500%	250,000	Conditional
12/27/1966	6.000%	500,000	Conditional
12/29/1967	6.000%	500,000	Conditional
12/31/1969	8.500%	500,000	Conditional
06/30/1984	variable	20,000,000	Conditional
07/10/1998	7.050%	53,846,000	07/15/2028
07/10/1998	7.200%	16,154,000	07/15/2048
06/21/2004	6.150%	107,000,000	12/31/2013
Total		$200,330,000	

The aforementioned notes and certificates have restrictions, which require the approval of the California Department of Insurance (CDI) before payment of interest and principal. Interest can be

paid out of earned (unassigned) surplus only. The payments of interest and repayments of principal, occurring during this examination period were made with the approvals of the CDI.

The above eight contribution certificates, transacted between 1958 and 1984, were issued to Fire Underwriters Association (FUA), FIRE's attorney-in-fact.

The above trust surplus notes, transacted on July 10, 1998, were issued to qualified institutional buyers in the open market and are administered by Chase Manhattan.

On June 21, 2004, a new certificate of contribution in the amount of $107,000,000 was issued in consideration for the surrender and discharge of two earlier certificates issued on March 7, 2000, and December 31, 2001 to FUA in the same total amount, but then assigned by FUA to Zurich Capital Markets, Inc (ZCM) on January 30, 2004. On July 28, 2004, the new certificate was assigned by ZCM to Zurich Investments LLC, a Luxembourg company.

Foremost Corporation of America

In October 1999, Spartan Parent Corporation (Spartan), a jointly-owned subsidiary of FIRE, Farmers Insurance Exchange (FIE) and Truck Insurance Exchange (Truck), entered into an agreement to acquire Foremost Corporation of America (Foremost Corp.) for $812 million. Foremost Corp. owned Foremost Insurance Company of Grand Rapids, Michigan (Foremost I.C.), which predominately wrote recreational vehicle and mobile home policies. The three exchanges gave notices of the investment to the CDI under California Insurance Code Section 1215.5(b)(1). In March of 2000, the Foremost Corp. acquisition was finalized.

Effective at the time of acquisition, Spartan was merged with and into Foremost Corp. and its outstanding common stock interest in Foremost Corp. was redistributed to the aforementioned three exchanges. The exchanges accounted for the acquisition using the statutory purchase method of

accounting. FIRE's equity ownership of Foremost Corp. is 10%, with sister exchanges FIE owning 80% and Truck owning 10%.

The three exchanges each reported their investments in Foremost Corp. as two separate and distinct investments. The investment in Foremost Corp. was reported at GAAP equity value plus the remaining goodwill balance (after amortization) less the non-admissible portion of goodwill pursuant to the National Association of Insurance Commissioners' Statement of Statutory Accounting Principles. The investment in Foremost I.C. was reported at the statutory equity value indicated in the Foremost I.C. Statutory Annual Statement.

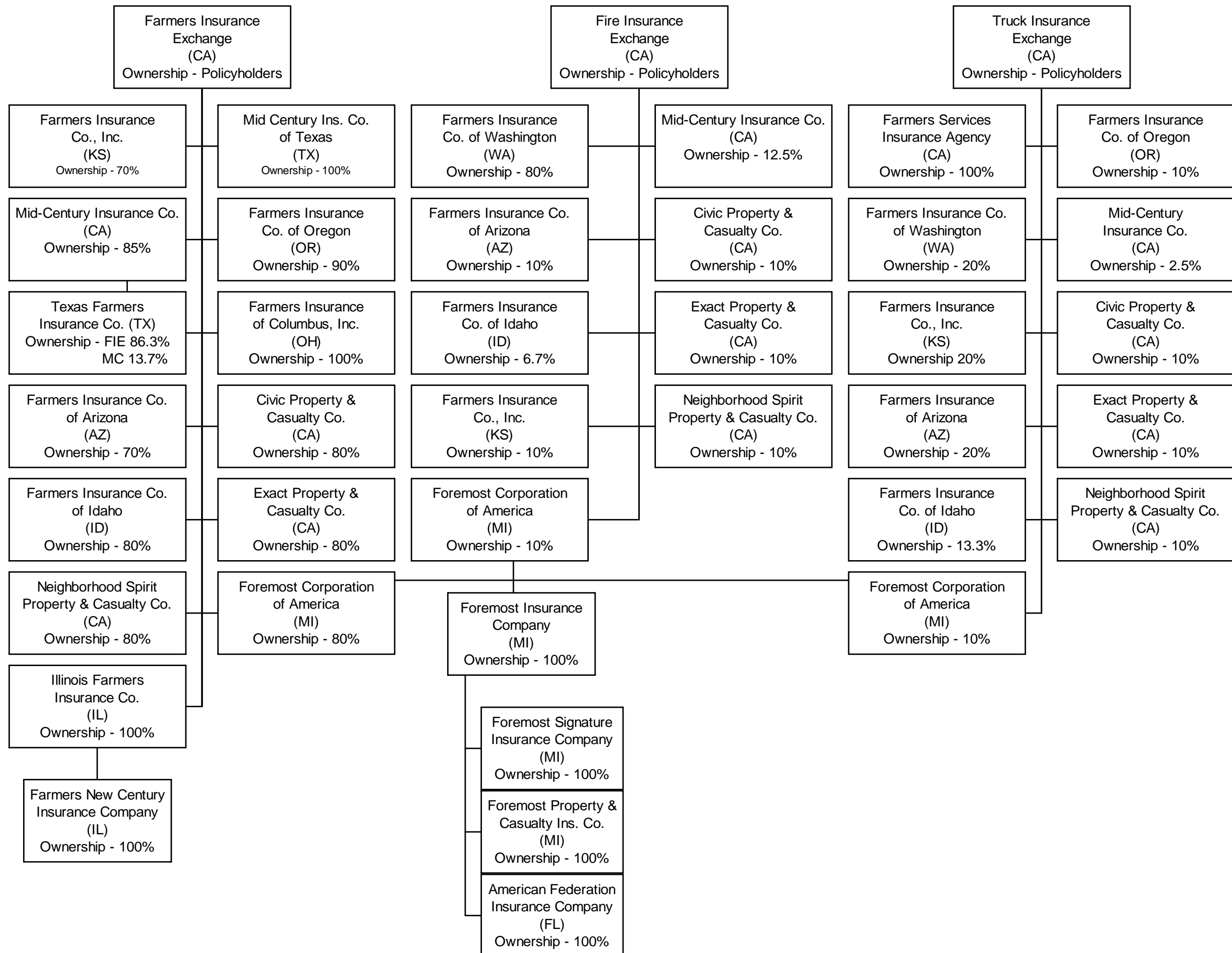
MANAGEMENT AND CONTROL

FIRE, a reciprocal insurer organized under California Insurance Code (CIC) Section 1300 et. seq. was controlled by its attorney-in-fact, Farmers Group, Inc. (FGI), dba Fire Underwriters Association. FGI is a U.S. subsidiary of Zurich Financial Services, a Swiss holding company.

The following abridged organizational charts show the relationship of FIRE to its affiliates as of December 31, 2006 and subsequent to the acquisition of Bristol West Holdings, Inc.:

FARMERS EXCHANGES

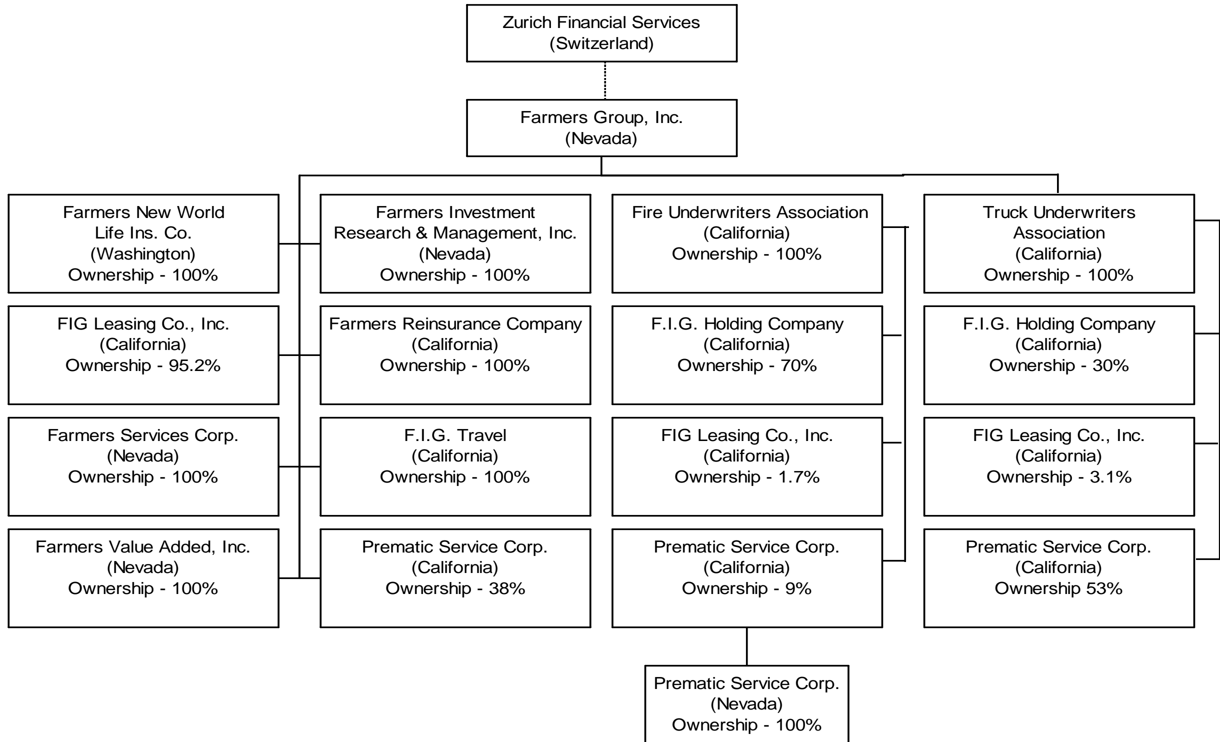
December 31, 2006



(*) all ownership is 100% unless otherwise noted.

ZURICH FINANCIAL SERVICES GROUP

December 31, 2006

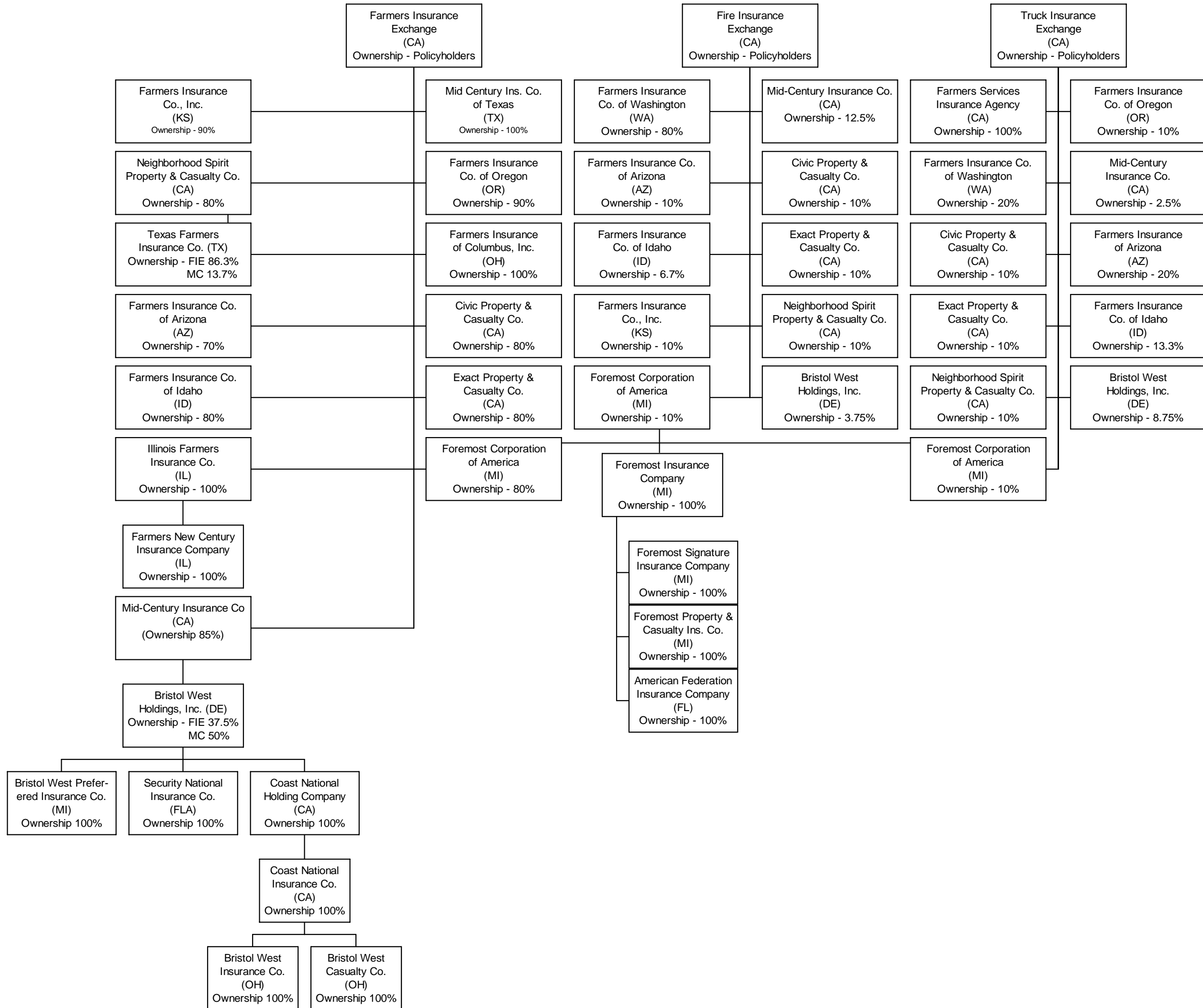


(*) all ownership is 100% unless otherwise noted.

Note: FIRE operates through Farmers Insurance Group, Inc. (FGI) under a separate dba: Fire Underwriters Association.

FARMERS EXCHANGES

DECEMBER 31, 2007



(*) all ownership is 100% unless otherwise noted.

Management of FIRE was vested in a twelve (12) member board of governors, elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Board of Governors

Name and Residence	Principal Business Affiliation
Gisselle Acevedo-Franco Monrovia, California	Director Non-profit organization
William Haskell Braddock Surprise, Arizona	Retired
James Ellwood Hansen Corona, California	Retired
Peter David Kaplan Los Angeles, California	President Academy Award Cloths, Inc.
Frederick Henry Kruse Lake Ozark, Missouri	Banking and financial services
Dale Ann Marlin Newport Beach, California	Computer consultant
Gary Alan McCarter Huntley, Illinois	Retired
Kathleen Leavey McCarthy Los Angeles, California	Trustee Leavey Foundation
Gerald Alden McElroy La Quinta, California	Managing Director Gerald A. McElroy & Associates, LLP
Roger Lee Persons Palmdale, California	Owner and Director Chapel of the Valley Mortuary
Taylor Lane Stephens Fort Collins, Colorado	Consultant
Richard Lewis Wells	Retired

Board of Governors

Name and Residence	Principal Business Affiliation
Lake Ozark, Missouri	

Principal Officers

Name	Title
Frank Robert Woudstra	President
Ronald Gregory Myhan	Vice President and Treasurer
Doren Eugene Hohl	Secretary
Paul Norman Hopkins	Vice President
Jason Lawrence Katz	Vice President
Kevin Eugene Kelso	Vice President
Bryan Francis Murphy	Vice President
Mhayse Gokul Samalya	Vice President
Keitha Tullos Schofield	Vice President
Stanley Ray Smith	Vice President
Lonnie Alan Sproat	Vice President
Warren Benjamin Tucker (*)	Vice President
Pierre Christophe Wauthier (**)	Vice President

(*) Resigned on May 31, 2007 and replaced by James Leslie Nutting on June 1, 2007.
(**) Resigned on October 1, 2007 and was replaced by Scott Lundquist February 11, 2008.

Management Agreements

Farmers Group, Inc. (FGI), the Attorney-In-Fact, provides all operating services (including staffing and occupancy) except claims adjustment services to FIRE. These services were provided to FIRE pursuant to the subscription agreements signed by each individual policyholder of FIRE. There was no specific management services agreement required between FIRE and FGI for the aforementioned services provided. California Insurance Code (CIC) Section 1215.4 and Section 1215.5 provides for an exemption from reporting for an inter-insurance exchange utilizing the subscription agreements providing that the "form of this agreement was in place prior to 1943 and it was not amended in any

way to modify payments, fees, or waivers of fees or otherwise substantially amended after 1943". For 2004, 2005, and 2006, fees paid by FIRE to FGI for such services were $116,444,520, $118,185,633, and $121,020,482, respectively.

FIRE is responsible for the payment of claims (adjustment function), payment of commissions and the payment of premium and income taxes.

Claims Adjustment Services Arrangement

Farmers Insurance Exchange (FIE) staffs a claims department for the adjustment of its own claims and to adjust certain of its affiliated insurance companies' claims, including FIRE's. The claims adjustment services arrangement in place between FIE and certain of its affiliates (the pooled companies including FIRE), with FIE providing all of their claims adjustment services, was not written. During 2004, 2005, and 2006, net claims adjustment service fees paid by FIRE to FIE as a result of its participation in the intercompany reinsurance agreement were $65,158,000, $62,659,000, and $65,415,000, respectively.

Managed Care Services Agreement

Fire is a party to a managed care services agreement, effective October 1, 1998, with Zurich Services Corporation (ZSC), an affiliate. ZSC provides certain bill review and medical management services for FIRE's workers' compensation claims. It is recommended that FIRE submit this managed care services agreement to the California Department of Insurance (CDI) pursuant to CIC Section 1215.5 for approval.

Tax Sharing Agreement

FIRE's federal income tax return was consolidated with an affiliate, Farmers Insurance Company of Washington. There was a written tax sharing agreement in place effective May 1, 1995. The tax allocation was based on separate return calculations with current credit for net losses. FIRE's portion

of the federal income taxes recovered for 2004, 2005, and 2006, was ($6,989,156), ($5,679,267), and ($7,444,000), respectively.

Investment Management Agreements

FGI, acting on behalf of FIRE, FIE, Truck Insurance Exchange (Truck) and the subsidiaries of these three exchanges, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed FIRE, FIE, Truck and the subsidiaries' fixed income and equity asset portfolios. The terms of the Investment Management Agreement have otherwise not been altered.

FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with FIRE, FIE, Truck and the stock subsidiaries' investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the Service Level Agreement were left unchanged except for the replacement of parties.

Securities Lending Agreement

In 1999 FIRE filed with the CDI a proposed securities lending agreement with its affiliate, Zurich Capital Markets Trust Company (Zurich).

In December 2001, FIRE changed its securities lending agent from Zurich to the Bank of New York Western Trust (BNY), a non-affiliate, as Zurich had decided to exit the securities lending business. "Collateral" as defined in the securities lending agreement between BNY and FIRE indicated government securities and cash. The agreement also stipulated that BNY establish a "custodial custody account" in the name of FIRE for the purpose of holding collateral and approved investments

pertaining to securities lending transactions. The custodian was Wall Street Portfolio Advisors, a division of BNY. The current agreement conformed to the securities lending limits specified in the CDI Bulletin 82-2.

TERRITORY AND PLAN OF OPERATION

FIRE is licensed in the following 31states:

Alabama	Kansas	Ohio
Arizona	Michigan	Oklahoma
Arkansas	Minnesota	Oregon
California	Missouri	South Dakota
Colorado	Montana	Texas
Florida	Nebraska	Utah
Georgia	Nevada	Washington
Idaho	New Hampshire	Wisconsin
Illinois	New Jersey	Wyoming
Indiana	New Mexico	
Iowa	North Dakota	

Major Lines of Business:

Principally, FIRE directly writes homeowners multiple peril business. However, Farmers Insurance Exchange (FIE), and its pooled subsidiaries and affiliates, writes most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal lines written or assumed by FIRE from FIE (the lead pooling company in the pooling arrangement) were private passenger auto liability, auto physical damage, and homeowners multiple peril. By volume, commercial multiple peril is the more material commercial line that was directly written by FIRE.

In 2006, FIRE wrote $2 billion of direct premiums. Of the direct premiums written, $1.2 billion (60%) was written in California, $207.7 million (10.4%) was written in Texas, $176.7 million (8.8%) was written in Colorado, and $415.6 million (20.8%) was written in the remaining states.

Personal and commercial business is produced for the Farmers property and casualty companies (including FIRE) by an exclusive agency force of more than 18,000 agents and was supported by 30 state executive offices, 12 personal and commercial service centers, and 150 branch claim offices.

Approximately one-half of the Farmers property and casualty companies' business continues to be concentrated within the states of California and Texas. However, in recent years, the Farmers property and casualty companies have been expanding market presence eastward.

The Farmers property and casualty companies announced, during the fall of 2003, that they were fully withdrawing from the writing of the Medical Malpractice line of business. Policies then-existing were runoff.

FIRE and Truck operate through Farmers Group, Inc. (FGI) under separate dba's: Fire Underwriters Association and Truck Underwriters Association, respectively. FIE also operates directly through FGI, which functions as the attorney-in-fact with a dba of Farmers Underwriters Association.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

FIRE and certain other members of the Farmers property and casualty companies, participated in an intercompany reinsurance pooling agreement. Under this agreement, the affiliated participants including FIRE ceded all of their business, net of all reinsurance, to the Farmers Insurance Exchange (FIE) acting as the lead company. FIE then retroceded a share of the business back to certain participants based on percentages prescribed under the pooling agreement. The most recent amendment to this long-standing agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2006, were as follows:

Pool Participant	Percentage
Farmers Insurance Exchange	51.75
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Mid-Century Insurance Company	16.00
Texas Farmers Insurance Company	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Farmers Insurance of Columbus, Inc.	1.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Total	100.00

Assumed

FIE maintained fronting arrangements (the so-called “RAS” treaties, which were historically long-standing reinsurance agreements with affiliates initiated between 1950 and 1995) by which all of the property business it wrote was ceded “prior to the inter-company pooling” to FIRE. Similarly, all of FIE’s workers’ compensation, medical malpractice, and commercial lines business was ceded to Truck Insurance Exchange (Truck) via the RAS agreements. FIE then retroceded the remaining business of the Farmers property and casualty companies to the insurers participating in the intercompany reinsurance pooling agreement according to their respective participation percentages. Mid-Century Insurance Company also fronted for FIRE in situations where a stock insurer was required.

Ceded

Affiliated

Treaties ceding quota share risks to affiliated reinsurers were written with FIE and all of its subsidiaries and affiliates (including FIRE) as the cedents and remained in effect at December 31, 2006. Included was an auto physical damage (APD agreement) 100% quota share agreement with several participants including the affiliated Zurich Insurance Company (Zurich) with an initial 65% participation and the affiliated Farmers Reinsurance Company (Farmers Re) with a 10% participation. Several non-affiliated reinsurers assumed the remaining 25% in participation. The premium for this APD agreement since 2001 was $2 billion annually. The APD agreement was approved by the CDI in 2001 for one year, with one-year extensions granted in 2002 and 2003. In 2004, the APD agreement was revised to reduce the quota share percentage to 50%, with Zurich assuming a 40% participation and Farmers Re assuming the remaining 10% participation. Effective January 1, 2006, the above amended APD agreement was replaced by a new APD 100% quota share agreement. The premium for this replacement APD agreement was $1 billion annually with Zurich assuming an 80% participation and Farmers Re assuming a 20% participation. The CDI approved this agreement on December 28, 2005.

On December 31, 2002, FIRE and its property and casualty subsidiaries and affiliated exchanges (including FIE) entered into a 10% "all-lines" quota share reinsurance agreement ceding business to Zurich and Farmers Re. This agreement covered all lines directly written, assumed from affiliates, or assumed from pools, associations, or syndicates. This agreement was then amended, effective December 31, 2004, to increase the percentage to 12% and amended again effective December 31, 2005, to decrease the percentage down to 6% (Zurich 4.8% participation and Farmers Re 1.2% participation) which was the cession at the examination date. The CDI approved this 2005 amendment on December 28, 2005. Subsequently, the agreement was amended effective December 31, 2007 to decrease the percentage to 5% (Zurich 4% participation and Farmers Re 1% participation)

and extend the duration to December 31, 2010. This latest amendment was approved by the CDI on December 28, 2007.

Ceded

Non-affiliated

Treaties ceding risks to non-affiliated reinsurers were written with FIRE and its sister exchanges (FIE and Truck) as the cedents. The following is a summary of the principal non-affiliated ceded excess of loss reinsurance treaties inforce as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss – 1st Layer	Lloyds of London (26.62%) Various reinsurers (63.38%)	$200 million per occurrence	90% of $450 million excess of $200 million retention each and every loss occurrence. Terrorism excluded
Property Catastrophe Excess of Loss – 2nd Layer	Various reinsurers (90%)	$650 million per occurrence	90% of $300 million excess of $650 million retention each and every loss occurrence. Terrorism excluded. For Texas only, this layer is in excess of the $500 million excess of $650 million layer immediately below.
Property Catastrophe Excess of Loss – Texas	Lloyds of London (22.93%) Various reinsurers (76.07%)	$650 million per occurrence	99% of $500 million excess of $650 million, Texas only. Terrorism excluded (Property CAT Excess of Loss treaty above covers resulting loss corridor – resulting in Company net retention of $200 million.).
Multi-Event Property Catastrophe Excess of Loss	Lloyds of London (32.74%) Various reinsurers (57.26%)	$20 million per event plus a $360 million aggregate deductible	90% of $180 million excess of $20 million. Excludes California earthquake, Florida hurricane, mold, and terrorism.
Property Per Risk Excess of Loss – 1st Layer	Lloyds of London (48.28%)	$3 million each and every loss, any one risk	100% of $7 million excess of $3 million each and every loss, any

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Various reinsurers (51.72%)		one risk
Property Per Risk Excess of Loss – 2nd Layer	Lloyds of London (46.88%) Various reinsurers (53.12%)	$10 million each and every loss, any one risk	100% of $40 million excess of $10 million each and every loss, any one risk
Casualty/Workers' Comp. Excess of Loss – 1st Layer	Lloyds of London (37%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (25%) Various reinsurers (13%)	$10 million each occurrence	100% of $15 million excess of $10 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 2nd Layer	Lloyds of London (47%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (17%) Various reinsurers (11%)	$25 million each occurrence	100% of $25 million excess of $25 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 3rd Layer	Lloyds of London (18.5%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (20%) Various reinsurers (6.5%)	$50 million each occurrence, plus 30% of $50 million excess	70% of $50 million excess of $50 million each occurrence. For Workers' Comp. portion only an additional 30% is covered under the following CAT XOL treaty.
Workers' Compensation Catastrophic Excess of Loss	AXA RE (20%) Flagstone Reinsurance Limited (10%)	$50 million each occurrence	30% of $50 million excess of $50 million each occurrence

As of December 31, 2006, reinsurance recoverables for all ceded reinsurance totaled $3.4 billion or 620% of surplus as regards policyholders. Of the reinsurance recoverables 97.7% were from admitted affiliates resulting from the pooling arrangement.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 905,495,941	$	$ 905,495,941	
Common stocks	381,544,124		381,544,124	
Real estate:				
Properties occupied by the company	1,365,408		1,365,408	
Properties held for production of income	90,441		90,441	
Cash and short-term investments	165,222,977		165,222,977	
Aggregate write-ins for invested assets	82,945,449		82,945,449	
Investment income due and accrued	10,826,474		10,826,474	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	70,813,600	7,511,235	63,302,365	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	237,812,967		237,812,967	
Accrued retrospective premiums	552,219		552,219	
Amounts recoverable from reinsurers	151,954,255		151,954,255	
Current federal and foreign income tax recoverable	7,500,000		7,500,000	
Net deferred tax asset	48,773,788	11,262,974	37,510,814	
Guaranty funds receivable or on deposit	1,655,977		1,655,977	
Aggregate write-ins for other than invested assets	15,256,434		15,256,434	
Total assets	$2,081,810,054	$ 18,774,209	$2,063,035,845	

Liabilities, Surplus and Other Funds		
Losses	$ 416,070,167	(1)
Reinsurance payable on paid losses and loss adjustment expenses	118,499,377	
Loss adjustment expenses	120,044,873	(1)
Taxes, licenses and fees	6,581,142	
Current federal and foreign income taxes	15,842,347	
Unearned premiums	347,071,159	
Advance premium	8,335,610	
Dividends declared and unpaid: Policyholders	225,000	
Ceded reinsurance premiums payable	201,195,994	
Funds held by company under reinsurance treaties	2,270,973	
Amounts withheld or retained by company for account of others	35,348,144	
Provision for reinsurance	1,906,460	
Payable to parent, subsidiaries and affiliates	126,443,742	
Aggregate write-ins for liabilities	119,449,387	
Total liabilities	1,519,284,375	

Surplus notes	$ 200,330,050	
Unassigned funds (surplus)	343,421,420	
Surplus as regards policyholders		543,751,470
Total liabilities, surplus and other funds		$2,063,035,845

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 854,316,684
Deductions:		
Losses incurred	$ 475,094,529	
Loss expenses incurred	98,067,094	
Other underwriting expenses incurred	247,896,043	
Aggregate write-ins for underwriting deductions	2	
Total underwriting deductions		821,057,668
Net underwriting gain		33,259,016
Investment Income		
Net investment income earned	$ 43,078,269	
Net realized capital losses	(406,250)	
Net investment gain		42,672,019
Other Income		
Net loss from agents' or premium balances charged off	$ (5,294,983)	
Finance and service charges not included in premiums	1,937,728	
Aggregate write-ins for miscellaneous loss	(2,536,889)	
Total other loss		(5,894,144)
Net income before dividends to policyholders, after capital tax gains and before all other federal and foreign income taxes		70,036,891
Dividends to policyholders		390,251
Federal and foreign income taxes incurred		24,503,809
Net income		$ 45,142,831

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 456,775,919
Net income	$ 45,142,831	
Change in net unrealized capital gains	38,180,006	
Change in net deferred income tax	(5,628,734)	
Change in nonadmitted assets	10,029,817	
Change in provision for reinsurance	4,975,913	
Aggregate write-ins for losses in surplus	(5,724,282)	
Change in surplus as regards policyholders		86,975,551
Surplus as regards policyholders, December 31, 2006		$ 543,751,470

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 195,055,425
Net income	$ 167,059,459	$	
Change in net unrealized capital gains	135,761,431		
Change in net deferred income tax	11,305,172		
Change in nonadmitted assets	37,960,874		
Change in provision for reinsurance	141,312		
Aggregate write-ins for losses in surplus		3,532,203	
Totals	$ 352,228,248	$ 3,532,203	
Net change in surplus as regards policyholders for the examination			348,696,045
Surplus as regards policyholders, December 31, 2006, per Examination			$ 543,751,470

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

FIRE was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of FIRE's loss and loss adjustment expense reserves. Because the business of the Farmers property and casualty companies was pooled, it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, FIRE's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: - Managed Care Services Agreement (Page 122): Zurich Services Corporation, an affiliate, provided certain bill review and medical management services for FIRE's workers' compensation claims. It is recommended that FIRE submit the managed care services agreement to the California Department of Insurance (CDI) for approval pursuant to CIC Section 1215.5.

Previous Report of Examination

Contingent Liabilities (Page 2): Based on discussions with FIRE's attorneys (and the limited review of public domain documents obtained), the examiners were able to obtain an understanding of the volume and range of "class action either claims-related or non-claims-related" lawsuits that the Farmers property & casualty group appeared to be exposed to. However, due to the constraints evident in FIRE limiting the examiners' access only to "public domain" documents or attorney

discussion, a sufficiently complete understanding of its contingent liability exposure was not practical or accomplished. The current examination's review of legal data/documents was limited to "public-domain" only, similar to that of the previous examination.

Common Stocks (Page 24): The carrying value of the common stock of certain pooled subsidiaries of Fire were reduced by their participation in the higher level of loss and loss adjustment expense reserves determined on a group-wide basis by CDI actuaries, and for their pooled share of the accrual of liabilities for the Bell and MDL cases. These reductions in the carrying value of common stocks owned by FIRE totaled $71,271,532. The December 31, 2006 carrying values of common stocks in pooled subsidiaries owned by FIRE were accepted as reasonable for the current examination.

Federal and Foreign Income Tax Recoverable (Page 25): The examination increased the amount of federal income tax recoverable by $26,736,338. This was the result of accruing for the tax effect of the higher level of net loss and loss adjustment expense reserves, and the accrual of the Bell and MDL cases, as recorded in the prior examination report. This tax effect amount appeared to qualify for treatment as a Net Operating Loss (NOL) carryback. The amount reported by FIRE for Federal and Foreign Income Tax Recoverable was accepted as reasonable for this examination.

Losses and Loss Adjustment Expenses (Page 27): Based upon an independent actuarial review, FIRE's net loss and loss adjustment expense reserves as of December 31, 2003 were determined to be $67,025,000 deficient and were adjusted for purposes of the examination. Current carried net loss and loss adjustment expense reserves appeared adequate.

Aggregate Write-Ins for Liabilities (Page 28): The amount of "aggregate write-ins for liabilities" per the examination is $14,760,049 greater than the FIRE stated amount. The current balance carried in aggregate write-ins for liabilities was accepted as reasonable.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by FIRE's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/______________________
Gary W. McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance

EXHIBIT D

Zurich Financial Services Group

Paul N. Hopkins

Chairman of the Board of Farmers Group, Inc. and Regional Chairman of the Americas

Paul N. Hopkins (born 1956, US Citizen) is a member of the Group Executive Committee of Zurich Financial Services Group (Zurich) as well as Chairman of the Board of Farmers Group, Inc. and Regional Chairman of the Americas. He joined the Farmers organization in 1978 as an agent and subsequently became a Farmers employee, where he held positions of increasing responsibility in the sales and marketing area. In 1992 he transferred to the Los Angeles Regional Office as Assistant Vice President, Regional Operations. He became Vice President, Agencies in 1995, and Senior Vice President, Agencies two years later. Mr. Hopkins was assigned as Senior Vice President and Chief Marketing Officer in 1998, a position he held until January 1, 2000 when he was appointed Senior Vice President of State Operations. His next assignment, as Senior Vice President of Strategic Alliances, became effective April 2001. In August 2002 he was promoted to Executive Vice President, Market Management, and two years later became President of Farmers Group, Inc. Mr. Hopkins was appointed a member of Zurich's Group Management Board in December 2004. From April 2005 until December 2008 he was Chief Executive Officer (CEO) of Farmers Group, Inc. and a member of Zurich's Group Executive Committee (GEC). He is Chairman of the Board of Farmers New World Life Insurance Company. In 2006, Mr. Hopkins was named Chairman of the Board of ZFUS Services, LLC, Zurich's North American shared services platform. Since January 1, 2009 Mr. Hopkins has served as Chairman of the Board of Farmers Group, Inc. and CEO of Americas, responsible for Farmers Management Services, Latin America and the ZFUS shared services operation. In April 2009 Mr. Hopkins' duties on Zurich's Group Management Board were expanded to include oversight of the Group's global growth activities. Mr. Hopkins was elected to the Zurich Holding Company of America Board (ZHCA) in Novmeber 2007; and effective January 2010, he was named Chairman of the Board of ZHCA. In July 2010 he assumed the newly created role of Regional Chairman of the Americas.

Mr. Hopkins also serves as a member of the board of Trustees for the American Institute for Chartered Property Casualty Underwriters, as well as of the board of the Insurance Information Institute.

Mr. Hopkins holds a Bachelor of Science degree in business of the Eastern Illinois University and completed the Advanced Executive Education program of the Wharton Business School.

Download	Language		Size / Format
CV Paul N. Hopkins	en	de	57 KB / pdf

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PROOF OF SERVICE
[BY OVERNIGHT OR U.S. MAIL, FAX TRANSMISSION, EMAIL TRANSMISSION AND/OR PERSONAL SERVICE]

State of California, City of Santa Monica, County of Los Angeles

I am employed in the City of Santa Monica and County of Los Angeles, State of California. I am over the age of 18 years and not a party to the within action. My business address is 1750 Ocean Park Blvd., Suite #200, Santa Monica, California 90405, and I am employed in the city and county where this service is occurring.

On February 2 2011, I caused service of true and correct copies of the document entitled

INTERVENOR R.C. HEUBLEIN'S [PROPOSED] OPPOSITION TO MOTION FOR PRELIMINARY APPROVAL OF SETTLEMENT

upon the persons named in the attached service list, in the following manner:

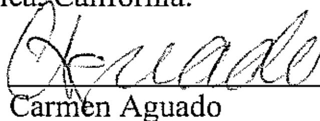
1. If marked FAX SERVICE, by facsimile transmission this date to the FAX number stated to the person(s) named.

2. If marked EMAIL, by electronic mail transmission this date to the email address stated.

3. If marked U.S. MAIL or OVERNIGHT or HAND DELIVERED, by placing this date for collection for regular or overnight mailing true copies of the within document in sealed envelopes, addressed to each of the persons so listed. I am readily familiar with the regular practice of collection and processing of correspondence for mailing of U.S. Mail and for sending of Overnight mail. If mailed by U.S. Mail, these envelopes would be deposited this day in the ordinary course of business with the U.S. Postal Service. If mailed Overnight, these envelopes would be deposited this day in a box or other facility regularly maintained by the express service carrier, or delivered this day to an authorized courier or driver authorized by the express service carrier to receive documents, in the ordinary course of business, fully prepaid.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on February 2 2011, at Santa Monica, California.



Carmen Aguado

SERVICE LIST

Person Served	**Method of Service**
WALTER J. LACK DANIEL G. WHALEN ENGSTROM, LIPSCOMB & LACK 10100 Santa Monica Blvd., 16th Floor Los Angeles, CA 90067 Ph: (310) 552-3800 Fax: (310) 552-9434 *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX ___X__ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED _______ EMAIL
JOE K. LONGLEY, Admitted *Pro Hac Vice* LAW OFFICES OF JOE K. LONGLEY 1609 Shoal Creek Blvd., Suite 100 Austin, TX 78701 Ph: (512) 477-4444 Fax: (512) 477-4470 joe@joelongley.com *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX _______ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED ___X __ EMAIL
THOMAS V. GIRARDI GRAHAM B. LIPPSMITH GIRARDI & KEESE 1126 Wilshire Blvd. Los Angeles, CA 90017 Ph: (213) 977-0211 Fax: (213) 481-1554 tgirardi@girardikeese.com glippsmith@girardikeese.com *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX _______ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED ___X __ EMAIL

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PHILIP K. MAXWELL, Admitted *Pro Hac Vice* LAW OFFICES OF PHILIP K. MAXWELL 1717 West Avenue Austin, TX 78701 Ph: (512) 457-1111 Fax: (512) 457-4111 *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX ___X__ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED _______ EMAIL
DAVID BURROW, Admitted *Pro Hac Vice* BURROW & PARROTT, L.L.P. 3500 Chevron Tower, 1301 McKinney Houston, TX 77010-3092 Ph: (713) 222-6333 Fax: (713) 650-6333 *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX ___X__ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED _______ EMAIL
MICHAEL GALLAGHER, Admitted *Pro Hac Vice* THE GALLAGHER LAW FIRM 2905 Sackett St. Houston, TX 77098 Ph: (713) 222-8080 Fax: (713) 222-0066 *Attorneys for Plaintiff Benjamin Fogel and the Class*	_______ FAX ___X__ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED _______ EMAIL
DARREL J. HIEBER SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLP 300 South Grand Ave., Ste. 3400 Los Angeles, CA 90071 Ph: (213) 687-5000 Fax: (213) 621-5220 darrel.hieber@skadden.com *Attorneys for Defendant Farmers Group, Inc.*	_______ FAX _______ U.S. MAIL _______ OVERNIGHT MAIL _______ HAND DELIVERED ___X __ EMAIL

MATTHEW M. WALSH, ESQ.
JOHN E. SCHREIBER, ESQ.
DEWEY& LEBOEUF LLP
333 South Grand Avenue, Ste. 2600
Los Angeles, CA 90071-1530
Ph: (213) 621-6000
Fax: (213) 621-6100
mwalsh@dl.com
schreiber@d1.com

_______ FAX
_______ U.S. MAIL
_______ OVERNIGHT MAIL
_______ HAND DELIVERED
___X __ EMAIL

Attorneys for Defendant Farmers Group, Inc.

RAOUL D. KENNEDY, ESQ.
RICHARD J. ZUROMSKI, JR., ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLP
Four Embarcadero Center, Ste. 3800
San Francisco, CA 94111-4144
Ph: (415) 984-6400
Fax: (415) 984-2698
raoul.kermedytgskaddea.com
richard.zuromsJd@skadden.com

_______ FAX
_______ U.S. MAIL
_______ OVERNIGHT MAIL
_______ HAND DELIVERED
___X __ EMAIL

Attorneys for Defendant Farmers Group, Inc.

RALPH FERRARA
DEWEY& LEBOEUF LLP
1101 New York Avenue, NW
Washington, DC 20005-4213
Ph: (202) 346-8020
Fax: (202) 346-8102
rferrara@dl.com

_______ FAX
_______ U.S. MAIL
_______ OVERNIGHT MAIL
_______ HAND DELIVERED
___X __ EMAIL

Attorneys for Defendant Farmers Group, Inc.

JOHNATHAN E. RICHMAN
DEWEY& LEBOEUF LLP
1301 Avenue of the Americas
New York, NY 10019-6092
Ph: (212) 259-8004
Fax: (212) 259-6333
jrichman@dl.com

_______ FAX
_______ U.S. MAIL
_______ OVERNIGHT MAIL
_______ HAND DELIVERED
___X __ EMAIL

Attorneys for Defendant Farmers Group, Inc.