REPORT OF EXAMINATION
OF THE

CALIFORNIA INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed February 22, 2011

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San Francisco, California
December 15, 2010

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

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

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

CALIFORNIA INSURANCE COMPANY

(also referred to as the Company) at its financial accounting office located at 10805 Old Mill Road, Omaha, Nebraska 68154. The Company's statutory home office and main administrative office are located at 950 Tower Lane, Foster City, California 94404.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

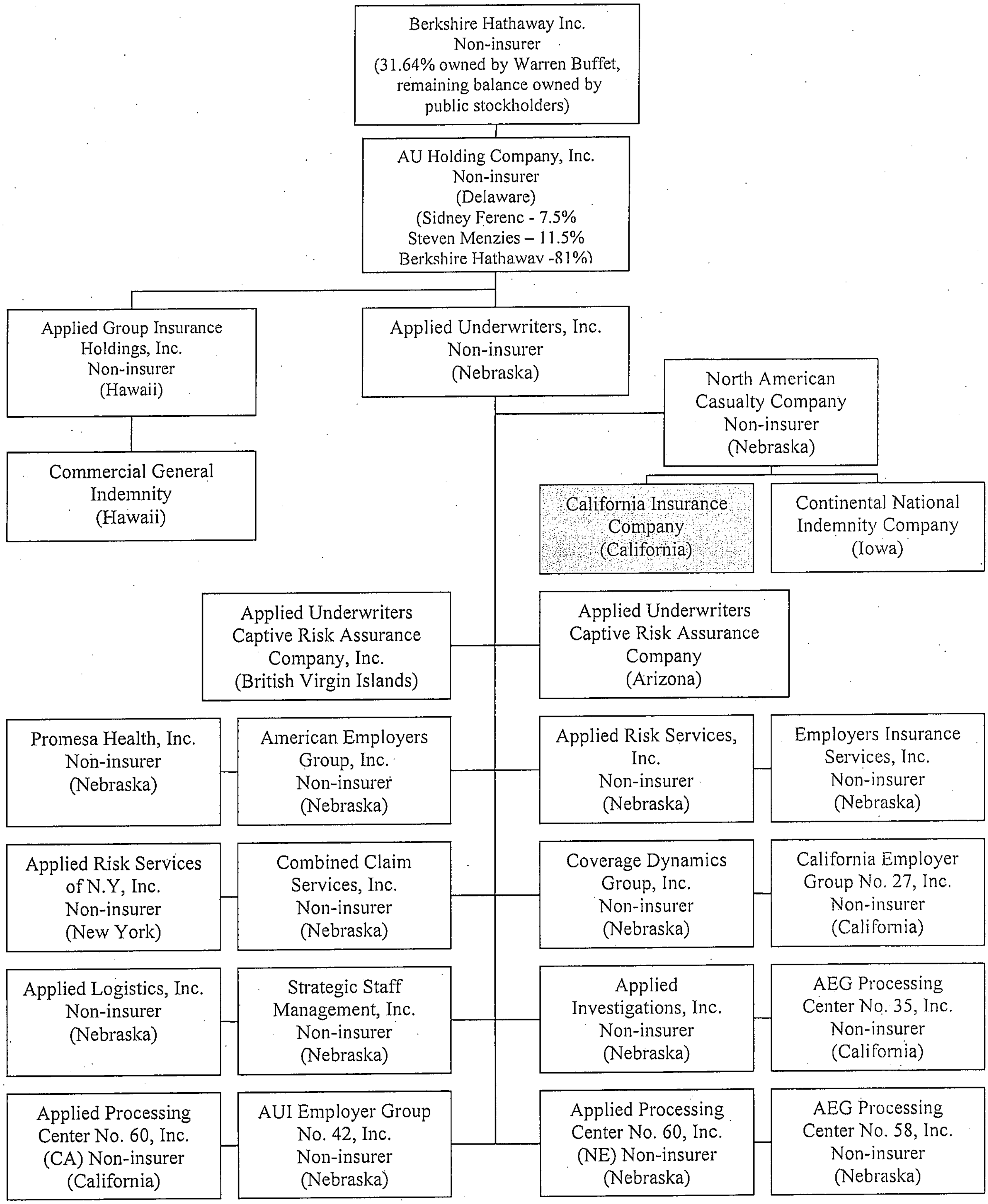
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers' and employees' welfare and pension plans; growth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

COMPANY HISTORY

On June 26, 2009, the Company amended its Articles of Incorporation to increase the authorized number of shares of common stock. The California Secretary of State's office gave approval of the change on July 23, 2009. The Company did not file the amended Articles of Incorporation with the California Department of Insurance (CDI) as required by California Insurance Code (CIC §713) until July 8, 2010. On August 1, 2009, pursuant to the amendment to the Articles of Incorporation, an additional 10,000 shares of the Company's capital common stock was sold to North American Casualty Co., its direct parent for $1 million. As such, the Company stated that it did not believe it required a permit to issue additional stock as required by CIC §827 based on the exempt transactions as defined in CIC §827.3. On July 8, 2010 a request was made pursuant to CIC §827.6 to waive the required permit to issue additional stock. This request is currently pending review by the CDI. It is recommended that the Company develop procedures to insure compliance with the California Insurance Code and make filings in a timely manner.

MANAGEMENT AND CONTROL

As of December 31, 2009, the Company is a member of the Berkshire Hathaway Inc. holding company system. The following abridged organizational chart, which is limited to the companies under the AU Holding Company, Inc. branch of Berkshire Hathaway, depicts the Company's relationship within the holding company system. All ownership is 100% unless otherwise indicated.


Berkshire Hathaway Inc. Non-insurer (31.64% owned by Warren Buffet, remaining balance owned by public stockholders)
AU Holding Company, Inc. Non-insurer (Delaware) (Sidney Ferenc - 7.5% Steven Menzies – 11.5% Berkshire Hathaway -81%)
Applied Group Insurance Holdings, Inc. Non-insurer (Hawaii)
Commercial General Indemnity (Hawaii)
Applied Underwriters, Inc. Non-insurer (Nebraska)
North American Casualty Company Non-insurer (Nebraska)
California Insurance Company (California)
Continental National Indemnity Company (Iowa)
Applied Underwriters Captive Risk Assurance Company, Inc. (British Virgin Islands)
Applied Underwriters Captive Risk Assurance Company (Arizona)
Promesa Health, Inc. Non-insurer (Nebraska)
American Employers Group, Inc. Non-insurer (Nebraska)
Applied Risk Services, Inc. Non-insurer (Nebraska)
Employers Insurance Services, Inc. Non-insurer (Nebraska)
Applied Risk Services of N.Y, Inc. Non-insurer (New York)
Combined Claim Services, Inc. Non-insurer (Nebraska)
Coverage Dynamics Group, Inc. Non-insurer (Nebraska)
California Employer Group No. 27, Inc. Non-insurer (California)
Applied Logistics, Inc. Non-insurer (Nebraska)
Strategic Staff Management, Inc. Non-insurer (Nebraska)
Applied Investigations, Inc. Non-insurer (Nebraska)
AEG Processing Center No. 35, Inc. Non-insurer (California)
Applied Processing Center No. 60, Inc. (CA) Non-insurer (California)
AUI Employer Group No. 42, Inc. Non-insurer (Nebraska)
Applied Processing Center No. 60, Inc. (NE) Non-insurer (Nebraska)
AEG Processing Center No. 58, Inc. Non-insurer (Nebraska)

Management of the Company is vested in a three-member board of directors elected annually. The following are the directors and principal officers serving as of December 31, 2009:

Directors

Name and Residence	Principal Business Affiliation
Sidney R. Ferenc Highland Beach, Florida	Chairman and Chief Executive Officer Applied Underwriters, Inc.
Steven M. Menzies Omaha, Nebraska	President and Chief Operating Officer Applied Underwriters, Inc.
Jeffrey A. Silver Omaha, Nebraska	Secretary and General Counsel Applied Underwriters, Inc.

Principal Officers

Name	Title
Steven M. Menzies	President and Treasurer
Jeffrey A. Silver	Secretary
Robert L. Stafford	Vice President of Finance
Ellen M. Gardiner	Vice President of Underwriting and Chief Actuary

Management Agreements

Agency Agreement: Effective June 1, 2005, the Company entered into an Agency Agreement with Applied Risk Services, Inc. (ARS). Under the terms of the agreement, ARS is appointed as the Company's agent for underwriting and servicing the Company's workers' compensation insurance policies. ARS is authorized to collect and account for all premiums generated by the Company. For this service, the Company pays ARS a commission equal to the actual amount that ARS pays to the approximately 1,500 brokers who produce business for the Company. During 2009, the Company paid ARS $3.8 million for its services under this agreement.

Claim Services Agreement: Effective June 1, 2005, the Company entered into a Claim Services Agreement with ARS. Under the agreement, ARS provides all claims adjusting services to the Company with respect to any claim that is made under any of the Company's policies which involve an actual or alleged loss. The agreement states that compensation to ARS is based on actual cost without a profit factor built into cost. Additionally, the agreement states that indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with Statements of Statutory Accounting Principles No. 70. As of July 1, 2007, the Company discontinued using the services under this agreement.

Management Services Agreement: Effective July 1, 2005, the Company entered into a Management Services Agreement with Applied Underwriters Inc. (AUI). Under the agreement, AUI provides the Company with management, investment, and loss prevention services. Compensation to AUI for the services under this agreement is at actual cost. During 2009, the Company paid AUI $22.9 million for the services under this contract.

Tax Allocation Agreement: Effective May 29, 2006, the Company became a participant in a tax allocation agreement with Berkshire Hathaway, Inc. and its approximately 600 affiliates. Under this agreement, the consolidated tax liability is allocated in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. Affiliates that generate a net tax benefit (i.e. net operating loss) are entitled to reimbursement from affiliates that generate a separate return tax liability. Each affiliate with a separate return tax liability will be assessed an amount equal to the ratio that its separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates times the sum of the tax benefits generated by all affiliates with a net tax benefit. However, in no event will an affiliate be assessed an amount in excess of the affiliate's separate return tax liability. To the extent that the tax benefits allocated above to an affiliate that generated the net tax benefit is less than the refund that would have resulted if the affiliate filed a separate federal income tax return, Berkshire Hathaway Inc. will pay the difference between the amount allocated to the affiliate and the amount of such refund as a contribution to capital. The Agreement was approved by the California Department of Insurance on December 22, 2009, effective as of May

29, 2006. The filing for approval was made pursuant to the recommendation in the 2006 Report of Examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact property and casualty insurance in the following 26 states: Alaska, Arizona, California, Connecticut, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Missouri, Montana, Nevada, New Jersey, New York, North Carolina, North Dakota, Oregon, Pennsylvania, Texas, Utah, Virginia, Washington, and Wisconsin. In 2007, the Company became licensed in Wisconsin. In 2008 it became licensed in Connecticut and Illinois. In 2009 it became licensed in Indiana, Kansas, Maryland, Missouri, New Jersey, North Carolina, Pennsylvania and Virginia.

Direct premiums written were $109,167,292 in 2007, $76,149,794 in 2008 and $59,908,973 in 2009. The states producing the most business in 2009 were:

California	86.1%
Connecticut	3.7%
Georgia	2.6%
Texas	2.5%
Iowa	1.7%

The Company had no writings in 2009 in Illinois, Indiana, Kansas, Maryland, Missouri, New Jersey, New York, North Carolina, North Dakota, Pennsylvania, Virginia, Washington, and Wisconsin. The Company plans to develop a marketing program for these states.

Direct premiums written by line of business in 2009 were as follows: workers' compensation premiums ($58.2 million) and employment practices liability insurance classified as other liability – claims made ($1.7 million).

All of the Company's direct business is related to the SolutionOne, Premier Exclusive and EquityComp products that are marketed and distributed by an affiliate, Applied Risk Services, Inc. (ARS). The SolutionOne product is an integrated package combining workers' compensation with payroll services, risk management tools, and employment protection coverage and is targeted to small and medium-sized employers in blue collar industries with workers' compensation premiums between $5,000 and $250,000. The payroll services under the SolutionOne product are provided by Applied Underwriters, Inc., (AUI) an affiliate. Premier Exclusive is offered to employers who do not want to have payroll services, but independently provide electronic payroll information to the Company and have premium in excess of $25,000. EquityComp is a workers' compensation-only product targeted to medium-sized businesses with workers' compensation premiums from $100,000 to $2 million and up (no payroll services are provided). SolutionOne is the Company's primary product. These products are sold through approximately 1,500 independent brokers and the insurance policies are serviced by ARS.

The profit sharing plan is similar to an incurred loss retro plan. The profit sharing plan allows the insured to share in the benefit of good loss experience at the risk of bearing the cost of unfavorable loss experience, within the limits of the plan. Under the profit sharing plan, the profit and risk sharing components are accounted for through protected cell accounts in the Company's affiliated captive risk facility, Applied Underwriters Captive Risk Assurance Company (AUCRAC). EquityComp is by design a profit sharing product. Profit sharing is also available under the SolutionOne and the Premier Exclusive products. During 2009, 38.4% of the Company's workers' compensation policies had a profit sharing plan. The Company ceded $36.2 million in premiums to AUCRAC in 2009.

The other liability – claims made line of business consists of employment practices liability insurance (EPLI). EPLI covers the employer's legal expenses in defending against claims brought against the employer involving employment practices (i.e. sexual harassment, wrongful termination, job discrimination, etc.). EPLI does not cover damages for which the employer is liable. Limits of liability are $100,000 each loss and $100,000 in the aggregate. There is a $2,000 deductible per claim. Coverage for the EPLI is provided through a master policy issued to Applied Employers Group, Inc.

The warranty line of business only has one policyholder – (AEG). The policy provides Tax Liability Protection Warranty, Administrative Compliance Warranty and Payroll Processing Accuracy and Delivery Warranty under the SolutionOne product. Premiums are paid by AEG on a monthly basis.

REINSURANCE

Pooling Agreement

Effective January 1, 2006, the Company entered into a reinsurance pooling agreement with its affiliate, Continental National Indemnity Company (CNI). Under this agreement, the Company is the lead pool participant and retains 85% of the pooled business. CNI cedes 100% of its direct business to the Company. After applying reinsurance, the Company cedes CNI's pooling percentage of 15% to CNI. The Company is responsible for managing and administering the pooled business on behalf of each pooled company and acting as the agent for each pooled company with respect to collecting and disbursing funds.

Assumed

The Company did not assume reinsurance during the examination period except for the pooling agreement mentioned above.

Ceded

Effective January 1, 2005, the Company entered into a Master Facultative Reinsurance Agreement with its affiliate, Applied Underwriters Captive Risk Assurance Company (AUCRAC). This agreement covers the workers' compensation policies subject to profit sharing (i.e. EquityComp, Premier Exclusive and SolutionOne Profit Sharing) as described above under the section "Territory and Plan of Operation." A captive cell account is established within AUCRAC for each profit sharing participant and each captive cell is a party to the reinsurance agreement between the Company and AUCRAC. Participants pay AUCRAC a security deposit to capitalize their captive cell account and the Company cedes a portion of each participant's workers' compensation premiums to fund each participant's captive cell.

Under the above reinsurance agreement, AUCRAC reinsures the Company for a layer of aggregate loss up to the participating insured's retention point as set forth in the Participating Client's proposal. The participating insured's retention consists of the security deposit and the premiums ceded by the Company to AUCRAC. AUCRAC is an unauthorized reinsurer and, as such, the Company withholds the premiums to secure the losses ceded to AUCRAC. The Company only takes reserve credits for the funds it actually holds to be in compliance with California Insurance Code §922.5.

Effective March 24, 2003, the Company entered into a 100% quota share reinsurance agreement with Coregis Insurance Company (Coregis). This agreement was entered into at the time of the Company's sale to Applied Underwriters, Inc. and it covers the Company's run-off business which is all workers' compensation insurance. Under this agreement, Coregis agrees to reinsure 100% of all reported and unreported liabilities incurred prior to the sale date (accident years 2003 and prior losses) and to assume full responsibility for administering and servicing policies and adjusting and paying claims. The Company assigns its rights to any salvage, subrogation and other recoveries in connection with the liabilities reinsured to Coregis. Coregis' liabilities for each policy begins simultaneously with that of the Company's and terminate at the same time as when the Company's liability for its policy or contract expires.

In an agreement dated December 30, 2008, but effective as of April 15, 2005, the Company retroactively assumed 100% of the workers' compensation insurance written by National Liability and Fire Insurance Company, an affiliate, in the State of Connecticut during 2007 and 2008. The agreement is accounted for on a retrospective basis.

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general information systems controls. Weaknesses were noted in the areas of disaster recovery/business continuity planning, physical security, and policies and procedures. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. These findings are the same as reported in the last Report of Examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Assets				
Bonds	$172,222,455	$	$172,222,455	
Cash and short-term investments	124,713,040		124,713,040	
Investment income due & accrued	1,139,241		1,139,241	
Uncollected premiums and agents' balances in course of collection	6,373,641	191,247	6,182,394	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,378,908	7,551	1,371,357	
Amounts recoverable from reinsurers	1,014,035		1,014,035	
Current federal and foreign income tax recoverable and interest thereon	2,501,742		2,501,742	
Net deferred tax asset	13,113,379	5,342,632	7,770,747	
Guaranty funds receivable	5,346,575		5,346,575	
Electronic data processing equipment	23,316	23,316	0	
Receivable from parent, subsidiaries and affiliates	5,073,238		5,073,238	
Aggregate write-ins for other than invested assets	529,617	70,030	459,587	
Total assets	$ 333,429,186	$ 5,634,776	$ 327,794,411	
Liabilities, Surplus and Other Funds				
Losses			$ 107,475,530	(1)
Reinsurance payable on paid losses and loss adjustment expenses			2,558,164	
Loss adjustment expenses			26,620,104	
Commissions payable, contingent commissions and other similar charges			526,171	
Other expenses			44,730	
Taxes, licenses and fees			411,592	
Unearned premiums			778,794	
Ceded reinsurance premiums payable			(392,095)	
Funds held by company under reinsurance treaties			57,346,483	
Payable to parent, subsidiaries and affiliates			163,866	
Retroactive reinsurance assumed			965,454	
Schedule P provision			1,520,973	
Total liabilities			198,019,766	
Common capital stock		$ 4,000,000		
Gross paid-in and contributed surplus		53,560,000		
Unassigned funds		72,214,644		
Surplus as regards policyholders			129,774,644	
Total liabilities, surplus and other funds			$ 327,794,411	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$ 71,511,939
Deductions:		
Losses incurred	$43,025,450	
Loss adjustment expenses incurred	12,589,745	
Other underwriting expenses incurred	22,806,489	
Total underwriting deductions		78,421,684
Net underwriting loss		(6,909,745)
Investment Income		
Net investment income earned	$ 5,106,271	
Net realized capital gains	219	
Net investment gain		5,106,490
Other Income		
Finance and service charges not included in premium	$ 146,684	
Aggregate write-ins for miscellaneous income	(140,754)	
Total other income		5,930
Net loss before federal income taxes		(1,797,326)
Federal income taxes incurred		2,621,792
Net loss		$ (4,419,118)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 129,432,308
Net loss	$ (4,419,118)	
Change in unrealized capital gains	359,125	
Change in deferred income tax	3,567,083	
Change in nonadmitted assets	(612,435)	
Capital paid in	1,000,000	
Change in Schedule P provision	447,681	
Change in surplus as regards policyholders for the year		342,336
Surplus as regards policyholders, December 31, 2009		$ 129,774,644

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination			$ 87,738,348
	Gain in Surplus	Loss in Surplus	
Net income	$23,032,593	$	
Change in net unrealized capital gains	359,125		
Change in net deferred income tax	11,170,078		
Change in nonadmitted assets		4,053,147	
Change in provision for reinsurance	5,828,265		
Change in paid in capital	1,000,000		
Aggregate write-ins for gains and losses in surplus	4,699,382		
Totals	$46,089,443	$4,053,147	
Net increase in surplus as regards policyholders			42,036,296
Surplus as regards policyholders, December 31, 2009, per Examination			$129,774,644

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Company History (Page 2): It is recommended that the Company develop procedures to insure compliance with the California Insurance Code and make filings in a timely manner.

Accounts and Records – Information System Controls (Page 10): It is recommended that the Company review its information systems and make appropriate changes to strengthen internal controls.

Previous Report of Examination

Management and Control – Management Agreements (Page 5): It was recommended that the Tax Allocation Agreement be amended to comply with the California Department of Insurance (CDI) requirements for tax allocation agreements. It was further recommended that the Company obtain CDI approval of the agreement pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) and disclose this tax allocation agreement in its Holding Company (Form B) filings each year in accordance with CIC Section 1215.4(b)(3)(H). The Company is now in compliance. The Agreement was approved by the CDI on December 22, 2009, effective as of May 29, 2006.

Reinsurance (Page 10): It was recommended that the Company only take reserve credits for the funds it actually holds in compliance with CIC Section 922.5. The Company is now in compliance.

Accounts and Records (Page 11): It was recommended that the Company develop a more comprehensive claims practices and procedures manual. The Company is now in compliance.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 17): It was recommended that the Company develop procedures to ensure that the year-end claims inventory is complete. The Company is now in compliance.

Comments on Financial Statement Items – Commissions Payable, Contingent Commissions and Other Similar Charges (Page 18): It was recommended that the Company set up an accrual for the provisional ceding commission and comply with Statement of Statutory Accounting Principles (SSAP) No. 62, paragraph 46. Additionally, it was recommended that the arrangements with brokers be formalized in a written agreement to comply with SSAP No. 71, paragraph 3, and as a matter of prudent business practice. The Company is now in compliance.

Comments on Financial Statement Items – Unearned Premiums (Page 19): It was recommended that the Company use a method prescribed under SSAP No. 53, paragraph 7, when calculating unearned premiums. The Company is now in compliance by using the monthly pro rata method.

Comments on Financial Statement Items – Funds Held by Company under Reinsurance Treaties and Provision for Reinsurance (Page 19): It was recommended that the Company ensure that its funds held under reinsurance treaties comply with CIC Section 922.5(a). The Company is now in compliance.

It was recommended that the Company ensure that its letters of credits comply with CIC Section 922.5(b)(1) and comply with CDI Bulletin 97-5 Sections 9(b) and 9(d). The Company is now in compliance.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,

/s/

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California