REPORT OF EXAMINATION
OF THE

CYPRESS INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

Filed April 7, 2010

TABLE OF CONTENTS

Page

SCOPE OF EXAMINATION 1

COMPANY HISTORY 2

MANAGEMENT AND CONTROL: 2
Intercompany Agreements 4

TERRITORY AND PLAN OF OPERATION 5

REINSURANCE: 6
Assumed 6
Ceded 7

FINANCIAL STATEMENTS: 8
Statement of Financial Condition as of December 31, 2008 9
Underwriting and Investment Exhibit for the Year Ended December 31, 2008 10
Reconciliation of surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008 11

COMMENTS ON FINANCIAL STATEMENT ITEMS: 12
Uncollected Premiums and Agents' Balances in the Course of Collection 12
Losses and Loss Adjustment Expenses 12

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 12
Current Report of Examination 12
Prior Report of Examination 13

ACKNOWLEDGEMENT 14

San Francisco, California
March 3, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) 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:

In accordance with your instructions, an examination has been conducted of the

CYPRESS INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 9290 West Dodge Road, Suite 300, Omaha, Nebraska 68114. The Company's statutory home office and main administrative office is located at 50 California Street, 14th Floor, San Francisco, California 94111. In February 2010, the primary location for books and records was moved to 3333 Farnam Street, Suite 300, Omaha, Nebraska 68131.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008. The examination was conducted in accordance with the National Association of Insurance Commissioners' plan of examination. The Nebraska Department of Insurance concurrently examined the following eight affiliated insurers domiciled in Nebraska: Wesco-Financial Insurance Company, Berkshire Hathaway Life Insurance Company of Nebraska, National Fire &

Marine Insurance Company, National Indemnity Company, Redwood Fire and Casualty Insurance Company, Cornhusker Casualty Company, Columbia Insurance Company, and Oak River Insurance Company. The examination of the Company was coordinated with Nebraska and work was shared to avoid duplication of examination procedures. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

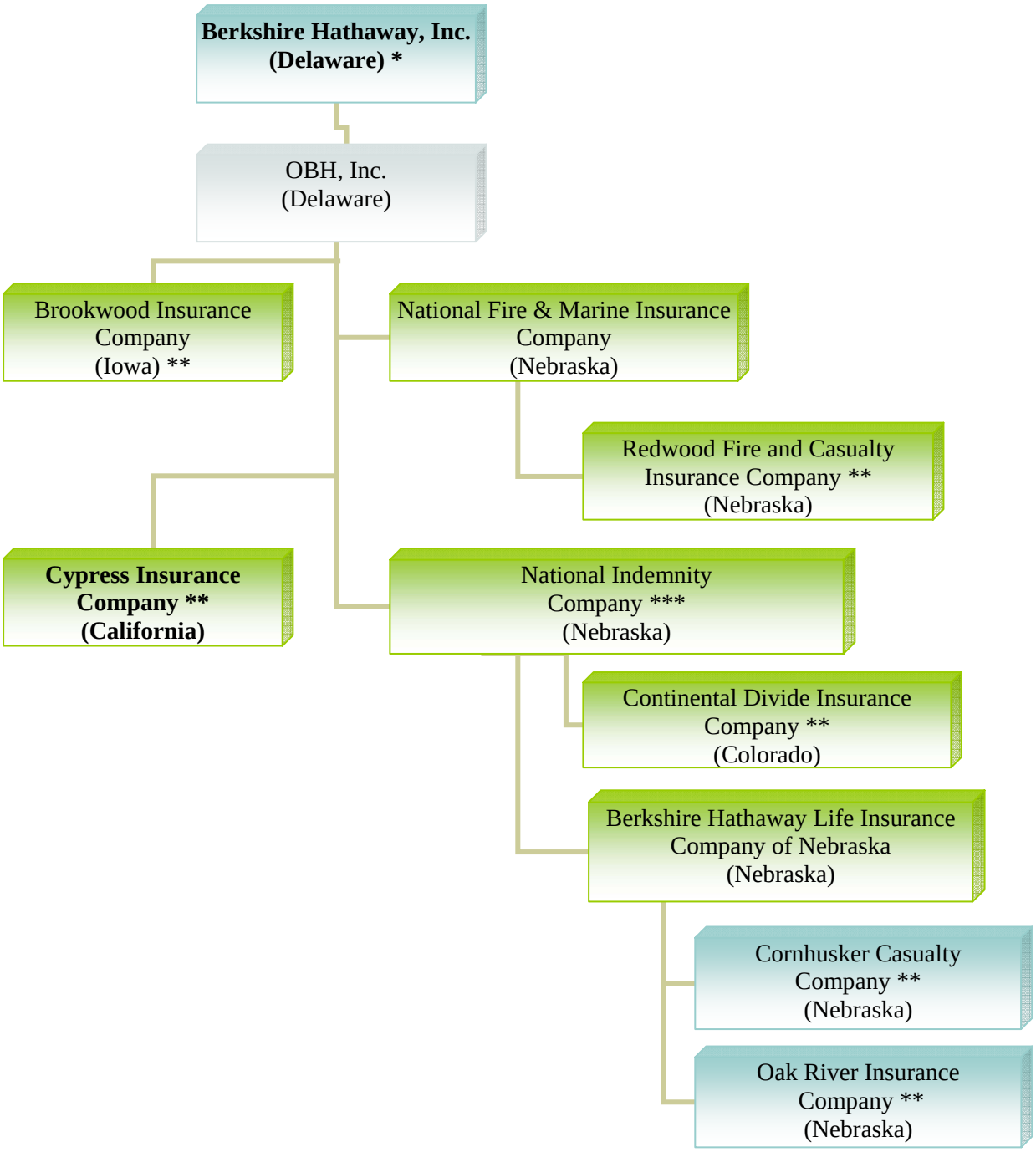
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans;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

COMPANY HISTORY

The Company declared an ordinary cash dividend to its parent, OBH, Inc. in the amount of $50 million on December 26, 2006, payable January 10, 2007. The Company failed to report this transaction in its 2006 holding company (Form B) filings as required by California Insurance Code Section 1215.4(b)(3)(G). At the request of the examiners, the Company amended its holding company filings during the examination to reflect this transaction.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Berkshire Hathaway Inc. is the ultimate controlling entity. Financial control of the holding company is held by Warren E. Buffett. The Company is one of forty-eight insurance companies under the financial control of Berkshire Hathaway, Inc. The following abridged organizational chart depicts the Company's relationship within the holding company system (all ownership is 100% unless otherwise indicated):



* 31.0% owned by Warren E. Buffet at December 31, 2008
** Referred to internally as the Berkshire Hathaway Homestate Companies
*** The largest affiliated insurer.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
Rodney D. Eldred * Alpharetta, Georgia	President Berkshire Hathaway Homestate Companies
Joseph G. Casaccio Stamford, Connecticut	Vice President and Legal Counsel National Liability & Fire Insurance Company
Brian P. Hall Alpharetta, Georgia	Assistant Vice President Berkshire Hathaway Homestate Companies

Principal Officers

Name	Title
Rodney D. Eldred *	President
Jackie L. Perry	Secretary, Treasurer and Controller
Robert N. Darby, Jr.	Senior Vice President
Mark Barba	Executive Vice President – Underwriting
William M. Lawrence	Vice President – Underwriting
Margaret A. Hartmann	Vice President – Marketing
Therissa E. McKelvey	Vice President – Information Technology
Richard O. Kirste	Chief Operating Officer
Thomas R. Dashel **	Vice President - Claims

* Resigned effective August 1, 2009 and was replaced by Donald F. Wurster effective the same date.
** Replaced by Reagan Pufall effective August 31, 2009

Intercompany Agreements

Effective November 23, 1994, the Company entered into a formal written Intercompany Service Agreement, with five affiliated insurance subsidiaries, which provides for the following services: accounting, tax and auditing; underwriting; claims; investments; and functional support services

such as (i) actuarial, including rate development and actuarial certifications, (ii) telecommunications and electronic data processing, (iii) legal, and (iv) purchasing, payroll and employee relations services. Each member may provide to other members any of the noted services. The costs of these shared services are allocated on an actual cost basis.

The Company has a Consolidated Federal Income Tax Allocation Agreement with its ultimate parent, Berkshire Hathaway Inc., effective November 23, 1994. Under this agreement, the consolidated federal tax liability is allocated among the subsidiaries in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. The Company filed these two intercompany agreements with the California Department of Insurance on January 11, 1995.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance in Alabama, Arkansas, California, Georgia, Idaho, Mississippi, New Mexico, Oklahoma, South Carolina, and Tennessee. During 2009, the Company obtained its Certificate of Authority from the Commonwealth of Virginia and a surplus lines insurer license from the States of Delaware and Texas. The Company is an accredited reinsurer in Colorado, Iowa and Nebraska. The Company has a pending application for a license to transact insurance business in Hawaii.

The Company operates as a specialty carrier, focusing on workers' compensation business principally in California and four other southeastern states. Of the total direct premiums written of $139.6 million in 2008, $106.3 million or 76.2% was written in California.

Business is marketed through about 576 independent agents. The Company maintains branch offices in San Francisco, San Diego, and Pasadena, California, as well as Atlanta, Georgia. The Pasadena branch office was closed effective November 2009.

REINSURANCE

Assumed

Effective June 1, 2008, the Company entered into a 90% Quota Share Reinsurance Agreement with Oak River Insurance Company (Oak River), an affiliate, covering all California workers' compensation policies. Under the terms of this agreement, Oak River pays the Company 90% of its subject net earned premium and also receives a 34% ceding commission for reimbursement of related underwriting and additional expenses. The Company pays Oak River 90% of the net loss sustained by Oak River. This agreement was approved by the Nebraska Director of Insurance. The California Department of Insurance approved the agreement on August 25, 2008.

In addition to the above, the Company assumes reinsurance from certain affiliates. The principal treaties, retentions and assumed limits in effect at December 31, 2008 follow:

Type of Contract	Ceding Company	Ceding Company's Retention	Company's Maximum Limits
Workers' Compensation			
Quota Share	National Fire & Marine Insurance Company	None	100% of all gross liabilities
Quota Share	National Indemnity Company	None	100% of all gross liabilities
Quota Share	National Liability & Fire Insurance Company	None	100% of all gross liabilities
Quota Share	Cornhusker Casualty Company	None	100% of all gross liabilities
Quota Share	Oak River Insurance Company	None	100% of all gross liabilities
Quota Share	Redwood Fire & Casualty Insurance Company	None	100% of all gross liabilities
Quota Share	Brookwood Insurance Company	None	100% of all gross liabilities

Type of Contract	Ceding Company	Ceding Company's Retention	Company's Maximum Limits
Surety			
Quota Share (runoff)	National Indemnity Company	None	100% of all gross liabilities
Casualty			
Quota Share (runoff)	Dean's & Homer MGA	None	10% of all gross liabilities
Excess of Loss	Redwood Fire & Casualty Insurance Company	$100,000	$500,000 each and every loss occurrence
Property			
Excess of Loss	Redwood Fire & Casualty Insurance Company, Oak River Insurance Company and Cornhusker Casualty Company	$250,000	$750,000 per risk

Ceded

The principal treaties, retentions and ceded limits in effect or in runoff at December 31, 2008 follow:

Type of Contract	Reinsurer	Company's Retention	Reinsurer's Maximum Limit
Workers' Compensation			
Excess of Loss	National Indemnity Company – California business only	$2,000,000	$3,000,000
	Munich Reinsurance America – Non-California business only**		
Excess of Loss	Munich Reinsurance America – California and non-California business only **	$5,000,000	$5,000,000

Type of Contract	Reinsurer	Company's Retention	Reinsurer's Maximum Limit
Excess of Loss	National Indemnity Company – California and non-California business only	$10,000,000	$5,000,000
Excess of Loss (runoff)	North American Reinsurance	$200,000	$4,800,000
Quota Share (runoff)	Wesco-Financial Insurance Company	None	50% Quota Share for policy years 1990 & 1991
Quota Share (runoff)	General Reinsurance Company	None	75% Facultative Quota Share
Quota Share	Cornhusker Casualty	None	100% Quota Share
Quota Share	Oak River Insurance Company	None	100% Quota Share

** Company did not renew or replace this reinsurance coverage effective June 30, 2009.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders from December 31, 2004 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Assets				
Bonds	$ 56,344,715	$	$ 56,344,715	
Stocks:				
Common stocks	161,899,040		161,899,040	
Cash and short-term investments	363,766,224		363,766,224	
Receivable for securities	14,625		14,625	
Investment income due and accrued	1,116,901		1,116,901	
Uncollected premiums and agents' balances in the course of collection	9,422,483	334,847	9,087,636	(1)
Amounts recoverable from reinsurers	252,046		252,046	
Guaranty funds receivable or on deposit	293,332	213,552	79,780	
Furniture and equipment	357,206	357,206	0	
Receivables from parent, subsidiaries and affiliates	477,733		477,733	
Aggregate write-ins for other than invested assets	1,420,008	70,171	1,349,837	
Total assets	$595,364,313	$ 975,776	$594,388,537	
Liabilities, Surplus and Other Funds				
Losses			$236,903,361	(2)
Reinsurance payable on paid losses and loss adjustment expenses			1,186,026	
Loss adjustment expenses			44,366,993	(2)
Other expenses			1,643,501	
Taxes, licenses, and fees			7,567,154	
Current federal and foreign income taxes			1,770,172	
Net deferred tax liability			29,470,145	
Unearned premiums			31,944,314	
Ceded reinsurance premiums payable			283,300	
Provision for reinsurance			199,000	
Total liabilities			355,333,966	
Common capital stock		$ 5,200,000		
Gross paid-in and contributed surplus		3,255,000		
Unassigned funds		230,599,571		
Surplus as regards policyholders			239,054,571	
Total liabilities, surplus and other funds			$594,388,537	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$185,684,240
Deductions:		
Losses incurred	$124,519,941	
Loss expenses incurred	25,091,137	
Other underwriting expenses incurred	52,934,442	
Total underwriting deductions		202,545,520
Net underwriting loss		(16,861,280)
Investment Income		
Net investment income earned	$ 16,101,529	
Net investment gain		16,101,529
Other Income		
Net gain from agents' or premium balances charged off	$ (120,063)	
Aggregate write-ins for miscellaneous income	8,540	
Total other income		(111,523)
Net income before federal income taxes		(871,274)
Federal income taxes incurred		4,773,937
Net loss		$ (5,645,211)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$263,224,924
Net loss	$ (5,645,211)	
Change in net unrealized capital losses less capital gains tax	(24,869,819)	
Change in net deferred income tax	5,843,556	
Change in nonadmitted assets	486,121	
Change in provision for reinsurance	15,000	
Change in surplus as regards policyholders for the year		(24,170,353)
Surplus as regards policyholders, December 31, 2008		$239,054,571

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008

Surplus as regards policyholders, December 31, 2004, per Examination			$203,027,374
	Gain in Surplus	Loss in Surplus	
Net income	$217,339,147	$	
Change in net unrealized capital gains or (losses)		104,528,750	
Change in net deferred income tax		22,320,351	
Change in nonadmitted assets	22,328		
Change in provision for reinsurance		66,000	
Cumulative effect of changes in accounting principles		4,419,177	
Dividends to stockholders		50,000,000	
Totals	$217,361,475	$ 181,334,278	
Net increase in surplus as regards policyholders			36,027,197
Surplus as regards policyholders, December 31, 2008 per Examination			$239,054,571

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Uncollected Premiums and Agents' Balances in the Course of Collection

It was noted that the Company does not estimate and record audit premiums on workers' compensation policies, the amount generally referred to as earned but unbilled (EBUB) premium. It is recommended that the Company estimate and record EBUB in accordance with Statements of Statutory Accounting Principles No. 53.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2008 were found to be reasonably stated and have been accepted for purposes of this examination. It was noted that as of December 31, 2009, the Company recorded adverse development in loss and loss adjustment expense reserves for accident years 2008 and prior of $6.0 million, or 2.1% of the carried reserves at December 31, 2008. The Company stated the development was largely attributable to the Almaraz-Guzman and Ogilvie decisions made by the California Workers Compensation Appeals Board in 2009, which will increase the expected cost of pending and new workers compensation claims in California.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Uncollected Premiums and Agents' Balances in the Course of Collection (Page 12): It is recommended that earned but unbilled (EBUB) premium be estimated and recorded in the Annual Statement in accordance with Statements of Statutory Accounting Principles (SSAP) No. 53.

Prior Report of Examination

Accounts and Records – Information Systems Control Environment (Page 6): It was recommended that the Company work with its data processing vendor, Remote Data Solutions, to resolve the deficiencies identified during the information systems review. During 2007, the Company discontinued using Remote Data Solutions and replaced it with different computer systems. This examination issue was deemed resolved.

Comments on Financial Statement Items – Cash and Short-term Investments (Page 11): It was recommended that the Company adopt formal written procedures in accordance with the unclaimed property laws of applicable states. The Company has complied with this recommendation.

Comments on Financial Statement Items – Unearned Premiums (Page 11): It was recommended the Company comply with SSAP 53 by setting up a liability for unearned premium that accurately reflects the amount of premium related to the unexpired portion of the policy. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

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

Respectfully submitted,

/s/

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California