

Report for Special Master's Status Conference

November 4, 2019

R-561 Capson Physicians Insurance Company

SDR: CANTILO & BENNETT, L.L.P.
Primary Responsible Person: Joseph N. West
Estate Counsel: Greg Pierce and Christopher Fuller
Receiver's Counsel: Liz Solka and James Kennedy
RLO Analyst: Kathy Gartner

Background on Receivership

- Date of Permanent Injunction (Rehabilitation/Liquidation): Feb. 11, 2019/June 28, 2019
- Date of SDR Rehabilitation Appointment: February 11, 2019
- Date of Conversion to Liquidation: June 28, 2019
- Claims Filing Deadline: TBD
- States Where Licensed: TX, AL, AK, AZ, AR, D.C., ID, IL, IN, KY, LA, MD, MS, MO, MT, NE, NV, NM, ND, OK, OR, SD, WA, WV, WI
- Lines of Business: medical malpractice
- Texas Property and Casualty Insurance Guaranty Association Triggered: June 28, 2019
- Early Access Distributions: TBD

Statement of Assets and Liabilities as of September 30, 2019

Total Assets:	\$ 17,298,244
Cash & Invested Assets:	\$ 8,447,843
Non-Cash Assets:	\$ 8,850,401
Total Liabilities:	\$ 29,274,738
Negative Equity:	(\$ 11,976,494)

Status and Activity Since Last Status Conference

General Matters

Closure of Company Offices: The SDR has closed the offices of Capson Physicians Insurance Company ("CPIC") and relocated receivership operations to the offices of the SDR located in Austin, Texas. As part of this process, the Company's staff was reduced to three employees, whom the SDR identified as being essential to receivership operations which included one employee from the underwriting, accounting, and information technology departments. All physical records held at CPIC's offices were transferred to Safesite. Closure of the CPIC offices and relocation to the offices of the SDR was completed on August 30, 2019.

Receivership Services: Following the filing of the Capson Corp. (“Corp.”) bankruptcy, the SDR completed new service agreements with all providers of vital services, including certain IT vendors, by substituting CPIC for Corp. as the contracting party.

Claims Activity

Proof of Claim Application: On November 1, 2019, the SDR filed with the Receivership Court its Application for Approval of Claims Filing Deadline, Notice to Creditors, and Procedures for Processing Claims. Therein, the SDR asks the Court to set December 28, 2020, as the deadline for creditors to file claims.

Claim Litigation: There were no new lawsuits filed against CPIC and/or the SDR during the last quarter.

Granite State Insurance Company Program: As previously reported, the SDR is currently working with Granite State Insurance Company (“GSIC”) on a wind-down of the GSIC fronting arrangement including the transfer from CPIC to GSIC of all further management and claims handling of the GSIC policies. The SDR has provided GSIC with its analysis of amounts due between the parties under the program documents in an effort to resolve all GSIC claims against the CPIC receivership estate. The parties are in discussions with reinsurers to determine if reinsurance of GSIC policies can continue as a stand-alone agreement separate from the reinsurance of CPIC policies. The parties are also working to schedule a settlement conference before year-end.

Guaranty Associations and Claims: As of October 21, 2019, UDS-A records have been sent to the associations for 332 open claims. The SDR and its claims staff continue to work with the state guaranty associations on any data transfer issues and additional required data transfers including data related to policy cancellations and other premium bearing adjustments.

State	Report Date	Loss Payments	Expense Payments	Loss Reserves	Expense Reserves
AK	9/30/19	\$0.00	\$4,817.28	\$1,000,000.00	\$663,182.72
AL	9/30/19	\$0.00	\$4,338.63	\$170,000.00	\$8,411.37
AR	9/30/19	\$0.00	\$9,311.15	\$323,004.00	\$120,688.85
IL	8/31/19	\$0.00	\$0.00	\$565,000.00	\$275,000.00
IN	8/31/19	\$0.00	\$0.00	\$272,004.00	\$25,000.00
KY	9/30/19	\$0.00	\$1,787.00	\$450,002.00	\$205,867.70
NM	8/31/19	\$0.00	\$241.10	\$1,615,982.50	\$291,000.00
NV	9/30/19	\$175,000.00	\$30,772.35	\$1,225,000.00	\$363,727.65
OK	9/30/19	\$0.00	\$0.00	\$748,001.00	\$0.00
TN	9/30/19	\$0.00	\$10,883.39	\$400,000.00	\$289,116.61
TX	9/30/19	\$0.00	\$50,319.77	\$3,002,034.00	\$1,093,926.03
WV	8/31/19	\$0.00	\$0.00	\$2,755,042.00	\$0.00
Totals	9/30/19	\$175,000.00	\$112,470.67	\$12,526,069.50	\$3,335,920.93

Asset Recovery Activity

Receivership Action Against Corp. and Affiliated Subsidiaries: On September 24, 2019, the SDR and Corp. recovered the Nationwide insurance policy proceeds totaling approximately \$5 million and have deposited these funds in a joint escrow account pending resolution of all issues in dispute between CPIC, Corp. and its affiliated subsidiaries. The SDR and Corp. are working to conclude a settlement to be submitted to the Receivership Court for approval. At this time, the receivership action brought by the State of Texas against Corp. and its affiliated subsidiaries remains pending and, to facilitate settlement, the SDR has taken no further action in addressing the jurisdictional dispute regarding the Receivership and Bankruptcy Courts. In an effort to further facilitate settlement, the SDR and Corp. agreed on an extension of the SDR's deadline to file a proof of claim in the bankruptcy proceeding until December 13, 2019.

Potential Sale of CPIC Charter: On October 3, 2019, the SDR received and accepted a non-binding letter of intent from a party interested in purchasing CPIC's charter and state licenses. The interested party is currently conducting due diligence, and any agreement on the proposed transaction will be subject to Receivership Court approval.

Statutory Deposits: CPIC had statutory deposits in Texas (\$1,907,000), New Mexico (\$330,000), and Oregon (\$425,000). The Texas statutory deposit was recovered by the SDR on October 2, 2019, and transferred to CPIC's account at the Texas Treasury for safekeeping. The SDR continues to work with the Oregon Division of Financial Regulation seeking release of CPIC's statutory deposit. The New Mexico statutory deposit is being held in an ancillary receivership for the protection of New Mexico policyholders.

Reinsurance: As reported above, the SDR is in discussions with reinsurers to determine if reinsurance of GSIC policies can continue as a stand-alone agreement separate from the reinsurance of CPIC policies.

CPIC Insurance Coverages: All E&O, D&O, and professional liability insurance policies expired as of September 1, 2019. On or about September 27, 2019, the SDR and Corp. agreed to share the cost of purchasing the extended reporting endorsement under the D&O/E&O policy providing for a one-year period during which the SDR or Corp. may provide notice to the insurer of claims occurring prior to expiration of the policy.

General Legal Activities

Litigation: No first party lawsuits involving CPIC exist. With respect to lawsuits against CPIC insureds, most courts continue to honor the automatic stay.

Regulatory Action: CPIC's license has been suspended or revoked in Alaska, Arkansas, Idaho, Illinois, Iowa, Kentucky, Louisiana, Maryland, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Washington, and West Virginia. Regulators in New Mexico are currently administering an ancillary receivership for the protection of New Mexico policyholders.

Conclusion

Summary of Major Achievements

- Completed the closure of CPIC offices and relocation of receivership operations to the offices of the SDR.
- Filed the SDR's Application for Approval of Claims Filing Deadline, Notice to Creditors, and Procedures for Processing Claims.
- Recovered the Nationwide policy proceeds and placed them in a joint escrow account with Corp. pending resolution of disputed matters between CPIC, Corp., and its affiliated subsidiaries.
- Completed new service agreements with all providers of vital services, substituting CPIC for Corp. as the contracting party.
- Completed recovery of the Texas statutory deposit.
- Accepted non-binding letter of intent for the purchase of CPIC charter and licenses.

Estate Goals to Achieve Prior to Next Status Conference

- Complete the resolution of all disputes existing between CPIC, Corp., and its affiliated subsidiaries.
- Complete termination of GSIC fronting arrangement and resolution of all GSIC claims against CPIC.
- Provide notice of Proof of Claim deadline in compliance with order of Receivership Court.
- Complete recovery of the Oregon statutory deposits.
- Complete sale of CPIC's charter and licenses.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD