COMPSOURCE OKLAHOMA

Statutory Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

COMPSOURCE OKLAHOMA

Table of Contents

	Page
Independent Auditors' Report	1
Statutory Statements of Admitted Assets, Liabilities, and Surplus, December 31, 2010 and 2009	3
Statutory Statements of Operations and Surplus, Years ended December 31, 2010 and 2009	4
Statutory Statements of Cash Flow, Years ended December 31, 2010 and 2009	5
Notes to Statutory Financial Statements	6
Schedules	
1 – Summary Schedule of Investments, December 31, 2010	26
2 – Schedule of Investment Risk Interrogatories, December 31, 2010	27
3 – Schedule of Reinsurance Interrogatories, December 31, 2010	29

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Independent Auditors' Report

The Board of Managers
CompSource Oklahoma:

We have audited the accompanying statutory statements of admitted assets, liabilities, and surplus of CompSource Oklahoma (CompSource), a component unit of the State of Oklahoma, as of December 31, 2010 and 2009, and the related statutory statements of operations and surplus, and cash flow for the years then ended. These financial statements are the responsibility of CompSource's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CompSource's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 1 to the statutory financial statements, CompSource prepared these statutory financial statements using accounting practices prescribed or permitted by the Oklahoma Insurance Department or prescribed by Title 85 of the Oklahoma Statutes, which practices differ from U.S. generally accepted accounting principles. The effects on the financial statements of the variances between the statutory basis of accounting and U.S. generally accepted accounting principles also are described in note 15.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of CompSource Oklahoma as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of CompSource Oklahoma as of December 31, 2010 and 2009, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in note 1.

As discussed in note 1 to the statutory financial statements, CompSource adopted the revised guidance in Statement of Statutory Accounting Principles (SSAP) No. 91R, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and the provisions of SSAP No. 100, *Fair Value Measurements*, in 2010 and SSAP No. 43R, *Loan-Backed and Structured Securities*, in 2009.

Our audits were made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information included on the summary schedule of investments, schedule of investment risk interrogatories, and schedule of reinsurance interrogatories is presented for purposes of additional analysis and is not a required part of the statutory financial statements, but is information required to be presented. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the statutory financial statements taken as a whole.

KPMG LLP

March 25, 2011

COMPSOURCE OKLAHOMA

Statutory Statements of Admitted Assets, Liabilities, and Surplus

December 31, 2010 and 2009

Admitted Assets		2010	2009
Investments:			
Debt securities, at amortized cost (fair value of $986,299,969 and $934,596,898 at December 31, 2010 and 2009, respectively)	$	916,757,027	894,229,351
Equity securities, at fair value (cost of $120,095,037 and $115,371,738 at December 31, 2010 and 2009, respectively)		191,772,083	153,161,014
Cash and short-term investments, at cost, which approximates fair value		65,659,997	74,156,454
Total cash and investments		1,174,189,107	1,121,546,819
Accrued investment income		9,773,164	9,689,805
Premiums due and other receivables (less allowance for doubtful accounts of $3,057,817 and $2,681,084 at December 31, 2010 and 2009, respectively)		46,981,156	39,522,650
Earned but unbilled premiums		1,484,370	1,685,497
Receivable from sale of securities		711,505	207,854
Note receivable from Multiple Injury Trust Fund		22,966,223	24,227,651
Property occupied by CompSource, at cost (less accumulated depreciation of $5,817,500 and $5,251,275 at December 31, 2010 and 2009, respectively)		14,355,422	14,757,352
Electronic data processing equipment, at cost (less accumulated depreciation of $6,854,640 and $6,340,851 at December 31, 2010 and 2009, respectively)		1,097,776	851,389
Securities lending reinvested collateral assets		117,871,960	—
Other assets		11,364,257	11,051,610
Total admitted assets	$	1,400,794,940	1,223,540,627
Liabilities and Surplus			
Reserve for losses	$	883,559,923	852,676,143
Reserve for loss adjustment expenses		72,911,126	71,582,934
Unearned premiums		32,699,343	30,698,776
Policyholder deposit premiums		37,941,783	38,405,280
Payable for securities lending		121,972,337	—
Accounts payable and other liabilities		15,906,326	19,745,659
Total liabilities		1,164,990,838	1,013,108,792
Assigned surplus for catastrophes		5,000,000	5,000,000
Unassigned surplus		230,804,102	205,431,835
Total surplus		235,804,102	210,431,835
Contingencies (notes 8, 10, and 16)			
Total liabilities and surplus	$	1,400,794,940	1,223,540,627

See accompanying notes to statutory financial statements.

COMPSOURCE OKLAHOMA

Statutory Statements of Operations and Surplus

Years ended December 31, 2010 and 2009

		2010	2009
Premiums earned	$	247,263,714	243,919,452
Underwriting deductions:			
Losses incurred		(241,036,247)	(242,687,014)
Loss adjustment expenses		(21,063,286)	(21,956,744)
Other underwriting expenses		(40,540,388)	(39,541,981)
Bad debt expense		(1,748,745)	(1,526,854)
Total underwriting deductions		(304,388,666)	(305,712,593)
Net underwriting loss		(57,124,952)	(61,793,141)
Investment income:			
Net investment income		43,786,383	45,738,972
Net realized capital gains (losses)		6,003,540	(626,725)
Net investment income		49,789,923	45,112,247
Other income:			
Finance and service charges		12,219	58,094
Loss on sale of fixed assets		3,131	(5,929)
Interest from other invested asset		413,241	464,285
Total other income		428,591	516,450
Net loss	$	(6,906,438)	(16,164,444)
Surplus, beginning of year	$	210,431,835	183,697,469
Net loss		(6,906,438)	(16,164,444)
Net unrealized capital gains		33,580,498	42,941,966
Change in nonadmitted assets		(1,079,300)	(1,983,246)
Cumulative effect of change in accounting principle, note 1(q)		—	1,940,090
Temporary impairment on securities lending		(222,493)	—
Net change in surplus		25,372,267	26,734,366
Surplus, end of year	$	235,804,102	210,431,835

See accompanying notes to statutory financial statements.

COMPSOURCE OKLAHOMA

Statutory Statements of Cash Flow

Years ended December 31, 2010 and 2009

	2010	2009
Premiums collected	$ 241,917,125	247,549,903
Loss and loss adjustment expenses paid	(229,887,561)	(233,455,869)
Underwriting expenses paid	(39,661,340)	(34,282,205)
Other underwriting expense	(1,748,745)	(1,526,854)
Cash used in underwriting	(29,380,521)	(21,715,025)
Net investment income received	46,970,014	47,842,675
Other income	428,591	516,450
Net cash provided by operations	18,018,084	26,644,100
Proceeds from investments sold, matured, or repaid:		
Debt securities	129,030,573	127,349,367
Equity securities	10,339,286	5,089,838
Notes receivable from Multiple Injury Trust Fund	1,261,426	1,135,682
Miscellaneous proceeds	712,192	4,419,141
Total investment proceeds	141,343,477	137,994,028
Cost of investments acquired:		
Debt securities	(151,155,977)	(170,453,104)
Equity securities	(12,513,842)	(8,141,183)
Real estate	(164,294)	(4,875)
surplus debenture	(246,180)	—
Net change in (receivable) payable for securities	(77,228)	(345,829)
Miscellaneous applications	(557,876)	(4,419,980)
Total investments acquired	(164,715,397)	(183,364,971)
Other cash applied	(3,142,621)	(3,708,946)
Net change in cash and short-term investments	(8,496,457)	(22,435,789)
Cash and short-term investments, beginning of year	74,156,454	96,592,243
Cash and short-term investments, end of year	$ 65,659,997	74,156,454

See accompanying notes to statutory financial statements.

(1) Operational Authority and Summary of Significant Accounting Policies

(a) Operational Authority

CompSource Oklahoma (CompSource) was created in 1933 under Title 85 of the Oklahoma Statutes (Title 85). The primary purpose of CompSource is to provide a source for workers' compensation insurance for all Oklahoma employers. CompSource operates in a manner similar to any other insurance company. It is governed by a Board of Managers (the Board) and is administered by the President and Chief Executive Officer, who is appointed by the Board.

CompSource is a component unit of the State of Oklahoma (the State) and is combined with other unrelated funds to comprise the major component units of the State. CompSource meets the definition of both a major component and that of an enterprise fund. Enterprise funds are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

(b) Principles of Presentation

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Oklahoma Insurance Department or prescribed by Title 85, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). Effective January 1, 2001, the National Association of Insurance Commissioners (NAIC) and the State require that insurance companies domiciled in the State prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures Manual – Version January 1, 2001* (Statements of Statutory Accounting Practices, or SSAPs), subject to any deviations prescribed or permitted by the State of Oklahoma insurance commissioner. There were no differences in practices prescribed or permitted by the insurance commissioner of the State or prescribed by Title 85 from the statements of statutory accounting principles that impacted CompSource's statutory financial statements at December 31, 2010 or 2009.

The preparation of financial statements in conformity with insurance accounting practices prescribed or permitted by the Oklahoma Insurance Department or prescribed by Title 85 requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

(c) Differences between Statutory Accounting Principles and Accounting Principles Generally Accepted in the United States of America

SSAPs differ from GAAP in several respects, which causes differences in reported assets, liabilities, fund equity (statutory capital and surplus), change in fund equity (statutory net income), and cash flows. The principal SSAPs that differ from GAAP include the following: (1) assets are included in the statutory statements of admitted assets, liabilities, and surplus at "admitted asset values," and "nonadmitted assets" are excluded through a charge against surplus; (2) debt securities are carried at amortized cost rather than fair value; (3) change in unrealized gains or losses on equity securities is charged or credited directly to surplus; (4) policy acquisition costs are expensed as incurred, while under GAAP these costs are deferred and recognized over the periods benefited; and (5) the statutory statements of cash flow are presented on the basis prescribed by the NAIC.

(d) Investments

The investment policy adopted by the Board is more restrictive than state statutes requiring CompSource to invest primarily in fixed income securities, including "A" rated debt securities, commercial paper, and money market funds. In addition, no more than 20% of the investment portfolio may be invested in equity securities.

Debt securities and stocks are valued in accordance with the laws of the State or the valuations prescribed by the Committee on Valuation of Securities of the NAIC. Generally, debt securities are stated at amortized cost and equity securities at fair values based upon market quotations. Short-term investments are reported at cost, which approximates fair value.

Unrealized gains and losses on equity securities are accounted for as direct increases or decreases in surplus. Realized gains and losses are determined by the first-in, first-out method. Purchases and sales of investments are recorded as of the trade date. CompSource periodically reviews its investments to determine if a provision for other-than-temporary impairment is necessary. Investments determined to be other-than-temporarily impaired are written down to fair value or the present value of future cash flows for certain loan-backed and structured securities with the write-down recorded as a realized loss.

(e) Allowance for Doubtful Accounts

CompSource provides an allowance for doubtful accounts by charging operations for estimated premiums receivable that will not be collected. The adequacy of the allowance is determined by management based on several factors, including historical loss experience, review of past-due accounts, and business and economic conditions.

(f) Property Occupied by CompSource and Electronic Data Processing (EDP) Equipment

Property occupied by CompSource and EDP equipment is stated at cost less accumulated depreciation. Depreciation for admitted and nonadmitted assets is calculated on the straight-line method over the estimated useful lives of the assets. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

(g) Losses and Loss Adjustment Expenses

Reserves for losses and allocated loss adjustment expenses are provided based on case-basis estimates for losses reported and CompSource's historical loss experience for claims incurred but not reported (IBNR). Reserves for unallocated loss adjustment expenses are estimated based on CompSource's historical ratios of paid unallocated loss adjustment expenses to paid losses and paid allocated loss adjustment expenses. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in results of operations in the period in which such adjustments become known. Although such estimates are CompSource's best estimates of the expected values, the actual results may vary from these values, and such variances could be significant (see note 8).

(h) Excess-of-Loss Coverage

CompSource administers claim payments and provides excess-of-loss coverage to certain governmental entities. The premiums and fees received in connection with these transactions are included in premiums earned and were approximately $9,866,000 and $9,367,000 in 2010 and 2009, respectively. The liability for claims in excess of the respective retention limits for all policy years was approximately $66,054,000 and $62,420,000 at December 31, 2010 and 2009, respectively, and are included in reserves for losses in the statutory statements of admitted assets, liabilities and surplus.

(i) Policyholder Deposit Premiums

Policyholder deposit premiums are collected in advance to reduce credit risk for premiums collected on a monthly or quarterly basis. At the end of the policy period, the deposit is applied to either final audit premium, renewal deposit premium, or is refunded to the policyholder.

(j) Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to the eligible employees up to a maximum of 480 hours. There are no accumulating sick leave benefits that vest for which any liability must be recognized. Accounts payable and other liabilities include a liability for vested or accumulated vacation leave at December 31, 2010 and 2009 of approximately $1,792,000 and $1,704,000, respectively.

(k) Revenue Recognition

Insureds pay premiums on a monthly, quarterly, or annual basis. Earned premiums are recognized as income as follows:

Monthly – One-twelfth of the estimated annual premium income is accrued each month. Actual payroll information for a month is submitted by the insured during the following month, and the difference between the accrual and the premium based on the actual payroll information is recognized at that time.

(Continued)

Quarterly – One-twelfth of the estimated annual premium income is accrued each month. Actual payroll information for a quarter is submitted by the insured during the month following the end of the quarter, and the difference between the accrual and the premium based on the actual payroll information is recognized at that time.

Annual – One-twelfth of the annual premium is recognized each month. Unearned premiums represent the portion of the annual premiums that is applicable to the unexpired term of the policies in force.

CompSource estimates earned but unbilled audit premium and records the amount as an adjustment to earned premium during the policy period. At the end of the policy period, CompSource audits the payroll information provided by the insured, and any adjustments to earned premium are recognized in income.

(l) Workers' Compensation Court Tax

The Workers' Compensation Court tax is equal to 1% of all direct premiums written, and is imposed on all insurance companies that write workers' compensation insurance policies in Oklahoma. This tax is included in other underwriting expenses in the statutory statements of operations and surplus. This tax supports the operations of the Workers' Compensation Court.

(m) Multiple Injury Trust Fund Tax

The Multiple Injury Trust Fund tax is based on a statutory formula used by the Workers' Compensation Court of the State of Oklahoma. The rates are in effect for each July 1 through June 30 and are adjusted annually. Payors of the tax are eligible to receive a rebate equal to two-thirds of the premium tax assessment. The Multiple Injury Trust Fund tax expense, which is recorded in other underwriting expenses in the statutory statements of operations and surplus, reflects the premium tax expense incurred during 2010 and 2009, net of the rebate. Receivables from the Oklahoma Tax Commission for the rebate are recorded when the premium tax liability is incurred.

(n) Market Equalization Assessment

As set forth in 85 O.S., Section 154, CompSource is required to pay a market equalization assessment. The assessment, which is payable annually to the Oklahoma State Treasury to the credit of the General Revenue Fund, is equal to 2.25% of all of CompSource's direct written premiums. The assessment amounted to approximately $5,597,000 and $5,516,000 in 2010 and 2009 respectively, and is included within other underwriting expenses in the statutory statements of operations and surplus.

(o) Administrative Expenses

As set forth in Title 85, CompSource's administrative expenses at no time shall exceed 20% of earned premiums for the year. For the year ended December 31, 2010, CompSource's percentage of administrative expense (general and administrative expense and depreciation expense, which are included in other underwriting expenses) to net earned premiums was 6.8% in accordance with financial statements that are prepared in accordance with GAAP.

(p) Income Taxes

As described in note 1, CompSource was created under and derives its operational authority from Title 85 of the Oklahoma Statutes. As the assured market for workers' compensation insurance, the primary purpose of CompSource is to provide a source for workers' compensation insurance for all Oklahoma employers. CompSource also meets the definition of a component unit of the State as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. Management believes CompSource is a tax-exempt entity pursuant to Internal Revenue Code Section 501(c)(27)(B). Accordingly, the statutory financial statements do not include a provision for federal or state income tax.

(q) Accounting Changes

Effective July 1, 2009, CompSource adopted SSAP No. 43R, *Loan-Backed and Structured Securities*. CompSource evaluated loan-backed securities held as of June 30, 2009, for which other-than-temporary impairments had been recognized. CompSource identified those securities which it did not currently intend to sell and had the intent and ability to retain for a period of time sufficient to recover the amortized cost basis. As a result of this analysis, CompSource recorded a cumulative adjustment of $1,940,090 to surplus with a corresponding adjustment to debt securities.

In May 2010, the Statutory Accounting Principles Working Group adopted securities lending guidance which revised the statutory accounting guidance for securities lending transactions previously included within SSAP No. 91R, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP No. 91R). The revised guidance provides for a modified GAAP approach for defining what collateral should be accounted for as on-balance sheet and off-balance sheet, allows for one-line reporting for certain securities lending collateral and requires additional disclosures in the annual statement to increase transparency for these types of transactions. CompSource adopted the amendments to SSAP No. 91R as of December 31, 2010. Pursuant to the adoption of the amendments to SSAP No. 91R, CompSource recognized the applicable portion of securities lending collateral as an asset on the balance sheet and a liability to return such collateral.

In December 2009, the Statutory Accounting Principles Working Group issued SSAP No. 100, *Fair Value Measurements* (SSAP No. 100), which defines fair value, establishes a framework for measuring fair value in statutory accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. SSAP No. 100 applies under other accounting pronouncements that require or permit fair value measurements. The provisions of SSAP No. 100 are effective for December 31, 2010 annual financial statements, with interim and annual financial statement reporting thereafter. CompSource adopted SSAP No. 100 as of December 31, 2010. The adoption had no impact on the statutory financial statements and all required disclosures are included in the notes to the statutory financial statements.

(r) Reclassifications

Certain reclassifications have been made to previously presented 2009 balances to conform to the current year presentation.

(Continued)

(2) Nonadmitted Assets

Assets in the statutory statements of admitted assets, liabilities, and surplus are stated at admitted asset values, which are the values permitted to be reported in the annual report to the Oklahoma Insurance Department. All other assets are "nonadmitted assets" and are excluded from the statutory statements of admitted assets, liabilities, and surplus by a charge to surplus. Nonadmitted assets (principally furniture, fixtures, application software, and non-EDP equipment) as of December 31, 2010 and 2009 amounted to approximately $5,515,000 and $4,436,000, respectively.

(3) Fair Values of Financial Instruments

Fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the financial instruments. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, credit and interest rate risk, and loss experience. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rate and estimates of future cash flows, could significantly affect these fair value estimates. Fair value estimates, methods, and assumptions at December 31, 2010 and 2009 are described below for CompSource's financial instruments:

Cash and short-term investments, accrued investment income, premiums due and other receivables, receivable from sale of securities, securities lending reinvested collateral assets, and accounts payable and other liabilities. The carrying amounts reported in the statutory statements of admitted assets, liabilities, and surplus approximate their fair values because of the short maturity of these financial instruments.

Investment securities. Fair values for debt securities are based on quoted market prices, where available, which do not vary significantly from the fair values established by the NAIC. If quoted prices are not available from active exchanges for identical instruments, then fair values are estimated using quoted prices from less active markets, quoted prices of securities with similar characteristics, or by pricing models utilizing other significant observable inputs. The carrying amount and fair value for debt securities were $916,757,027 and $986,299,969, respectively, at December 31, 2010, and $894,229,351 and $934,596,898, respectively, at December 31, 2009. Equity securities are carried at fair value based on quoted market prices, which do not vary significantly from the fair values established by the NAIC.

Note receivable from Multiple Injury Trust Fund. The carrying amount of the note receivable reported in the statutory statements of admitted assets, liabilities, and surplus amounted to $22,966,223 and $24,227,651 as of December 31, 2010 and 2009, respectively. The fair values of approximately $23,433,000 and $21,433,000 as of December 31, 2010 and 2009, respectively, are estimated based on the discounted cash flows to be received using an estimated yield-to-maturity of a debt instrument of similar credit quality and maturity.

Assets that are recorded at fair value are categorized into a three-level fair value hierarchy as required by SSAP No. 100 and reflected in the following table. A discussion of each of the three levels is provided below the table.

	Level 1	Level 2	Level 3	Total
Assets recorded at fair value:				
Bonds:				
Loan backed securities	$ —	585,221	—	585,221
Common stock	70,899,260	120,872,823	—	191,772,083
Securities lending reinvested collateral assets	—	117,871,960	—	117,871,960
Total assets at fair value	$ 70,899,260	239,330,004	—	310,229,264

The following are the levels of the hierarchy and a brief description of the type of valuation inputs that are used to establish each level:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets that independent pricing sources have the ability to access. Since the valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant amount or degree of judgment. These assets include actively traded exchange-listed common stocks.

Level 2 – Valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data. These assets include loan-backed securities carried at fair value, units in commingled funds, and a cash collateral pool. The commingled funds are managed by an investment company investing in actively traded exchange-listed common stocks, for which the net asset values of the units represent the fair values of the funds. The securities lending reinvested collateral assets are invested in a cash collateral pool, which is managed by CompSource's master custodian for which the net asset value of the pool represents the fair value of the asset.

Level 3 – Valuations that are derived from techniques in which one or more of the significant inputs are unobservable, including broker quotes which are nonbinding. CompSource has no assets or liabilities measured at fair value in this category.

The Company evaluates the transfers into and out of Level 3 at the end of each fiscal reporting period. During 2010, CompSource had no assets or liabilities measured at fair value in this category.

(4) Investments

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for investment securities by major type were as follows as of December 31:

2010		Amortized cost/cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. government obligations and government-sponsored agencies	$	225,455,119	20,062,947	—	245,518,066
Corporate obligations		471,398,520	37,831,936	(1,431,107)	507,799,349
Loan-backed and structured securities		219,903,388	13,710,561	(631,395)	232,982,554
Investment in debt securities		916,757,027	71,605,444	(2,062,502)	986,299,969
Investment in equity securities		120,095,037	71,816,049	(139,003)	191,772,083
	$	1,036,852,064	143,421,493	(2,201,505)	1,178,072,052

2009		Amortized cost/cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
U.S. government obligations and government-sponsored agencies	$	241,894,841	13,045,557	(500,078)	254,440,320
Corporate obligations		404,866,303	26,446,162	(2,470,109)	428,842,356
Loan-backed and structured securities		247,468,207	8,979,104	(5,133,089)	251,314,222
Investment in debt securities		894,229,351	48,470,823	(8,103,276)	934,596,898
Investment in equity securities		115,371,738	38,353,893	(564,617)	153,161,014
	$	1,009,601,089	86,824,716	(8,667,893)	1,087,757,912

The amortized cost and fair value of investments in debt securities as of December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of such securities may have the right to call or prepay obligations with or without call or prepayment penalties.

		Amortized cost	Fair value
Due in one year or less	$	44,149,637	44,690,913
Due after one year through five years		298,838,611	324,239,266
Due after five years through ten years		219,990,393	234,940,296
Due after ten years		133,874,998	149,446,940
		696,853,639	753,317,415
Loan-backed and structured securities		219,903,388	232,982,554
	$	916,757,027	986,299,969

Proceeds from sales of debt and equity securities were as follows for the years ended December 31:

		Debt securities		
		Proceeds	Gross realized gains	Gross realized losses
2010	$	98,707,637	5,647,912	(2,145,880)
2009		100,795,213	3,575,683	(122,581)

		Equity securities		
		Proceeds	Gross realized gains	Gross realized losses
2010	$	10,339,286	3,224,165	(87,552)
2009		5,089,838	2,352,606	(71,652)

CompSource recognized a realized capital loss of $635,105 and $6,395,043 for the other-than-temporary impairment of debt and equity securities for the years ended December 31, 2010 and 2009, respectively. CompSource recognized a net realized capital gain for the sale of previously impaired debt securities and equity securities of $8,005,668 and $5,870,765 for the years ended December 31, 2010 and 2009, respectively.

Included in the realized capital loss for other-than-temporary impairment for the years ended December 31, 2010 and 2009 are impairment losses of $47,237 and $34,245, respectively, on subprime asset-backed securities. CompSource does not engage in subprime residential mortgage lending. CompSource's exposure to subprime lending is limited to investments in debt securities collateralized by mortgages that have characteristics of subprime lending such as adjustable rate mortgages and alternative documentation mortgages. These investments are in the form of asset-backed securities collateralized by subprime mortgages. At December 31, 2010, the total cost, book adjusted carrying value, and fair values of these investments are approximately $2,480,843, $2,294,784, and $2,256,960, respectively, comprising approximately 0.3% of CompSource's total fixed maturity portfolio. At December 31, 2009, the total cost, book adjusted carrying value, and fair values of these investments are approximately $5,143,000, $5,107,000, and $2,101,000, respectively, comprising approximately 0.6% of CompSource's total fixed maturity portfolio. The average credit rating of all of these securities were A+ and AA as of December 31, 2010 and 2009, respectively, and reflects CompSource's practice of minimizing exposure to low quality (subprime type) credit risk.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010 were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair value	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
U.S. government obligations – agencies	$ —	—	—	—	—	—
Corporate obligations	48,909,822	(1,428,632)	494,400	(2,475)	49,404,222	(1,431,107)
Loan-backed and structured securities	14,899,027	(375,897)	7,020,037	(255,498)	21,919,064	(631,395)
Subtotal – debt securities	63,808,849	(1,804,529)	7,514,437	(257,973)	71,323,286	(2,062,502)
Common stocks	2,117,780	(139,003)	—	—	2,117,780	(139,003)
Subtotal – equity securities	2,117,780	(139,003)	—	—	2,117,780	(139,003)
Total	$ 65,926,629	(1,943,532)	7,514,437	(257,973)	73,441,066	(2,201,505)

(Continued)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009 were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair value	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
U.S. government obligations – agencies	$ 15,262,982	(500,078)	—	—	15,262,982	(500,078)
Corporate obligations	54,566,401	(810,344)	17,803,009	(1,659,765)	72,369,410	(2,470,109)
Loan-backed and structured securities	29,540,551	(370,908)	22,806,410	(4,762,181)	52,346,961	(5,133,089)
Subtotal – debt securities	99,369,934	(1,681,330)	40,609,419	(6,421,946)	139,979,353	(8,103,276)
Common stocks	4,032,918	(546,330)	434,482	(18,287)	4,467,400	(564,617)
Subtotal – equity securities	4,032,918	(546,330)	434,482	(18,287)	4,467,400	(564,617)
Total	$ 103,402,852	(2,227,660)	41,043,901	(6,440,233)	144,446,753	(8,667,893)

Investment securities are regularly reviewed by management for impairment based on criteria that include the extent to which cost exceeds fair value, the duration of the valuation decline, the financial health and specific prospects for the issuer, and CompSource's intent and ability to hold the investment to recovery.

The unrealized loss in obligations of U.S. government obligations – agencies are due to interest rate fluctuations that result in a decline in market values from original purchase price. Because the securities were acquired during a period of low interest rates, unrealized losses may continue and may become more severe in a rising rate environment. CompSource expects the unrealized losses to reverse as the securities shorten in duration and mature, and as CompSource has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

The investments included in corporate obligations are primarily corporate bonds. All corporate bonds are investment grade and have no credit impairments. The unrealized loss is due to an increase in interest rates. The unrealized loss may continue and may become more severe in a continued rising interest rate environment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because CompSource has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

The investments included in loan-backed and structured securities comprise U.S. government sponsored agency mortgage-backed securities, U.S. government sponsored agency-backed collateral mortgage obligations, commercial mortgage-backed securities, private label collateral mortgage obligations, and asset-backed pass through obligations. The unrealized losses on these securities are due to interest rate increases and not declines in credit quality. The cash flows of these securities are determined by the principal and interest payments of the underlying loans, which are passed through to the security holders. Additionally, those securities issued by a U.S. government-sponsored entity include the guarantee of timely payment of principal and interest by those entities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because CompSource has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

The investments in equity securities with unrealized losses are in high-quality companies. Based on analyst projections, the companies are financially stable and continued earnings growth is expected. As a result of these factors, these investments are not considered other-than-temporarily impaired.

Major categories of net investment income for the years ended December 31, 2010 and 2009 are summarized as follows:

		2010	2009
Fixed maturities	$	39,356,039	39,794,936
Equity securities		2,566,351	2,405,491
Real estate		1,013,276	1,017,504
Short-term investments		982,264	2,337,314
Other invested assets		1,657,917	1,727,276
		45,575,847	47,282,521
Investment expenses		(1,789,464)	(1,543,549)
	$	43,786,383	45,738,972

CompSource's investment policy provides for its participation in a securities lending program. The program is administered by CompSource's master custodian. Certain securities of CompSource are loaned to participating brokers, who must provide collateral in the form of cash, U.S. Treasury or government agency securities, or letters of credit issued by approved banks. Under the terms of the agreement, collateralization of the fair value of the loaned securities must be provided in the amount of 102% for loans of securities for which the principal trading market is the United States.

CompSource began an orderly wind down of the securities lending program during 2009.

The market value of securities on loan was approximately $133,133,000 and $180,794,000 at December 31, 2010 and 2009, respectively. Total collateral provided by participating brokers was approximately $136,154,000 and $184,795,000 at December 31, 2010 and 2009, respectively, consisting of both cash and noncash collateral. Cash collateral provided amounted to approximately $121,972,000 and $177,198,000 at December 31, 2010 and 2009, respectively. Noncash collateral provided, consisting of U.S. Government debt, amounted to approximately $14,182,000 and $7,597,000 at December 31, 2010 and 2009, respectively.

Cash collateral provided by brokers participating in the securities lending program is invested in a cash collateral pool, which is managed by CompSource's master custodian. Investments of the cash collateral pool consist of overnight deposits, repurchase agreements, commercial paper, fixed and floating rate asset-backed debt securities, and floating rate notes. CompSource's proportionate share of expected maturities of the investments of the cash collateral pool was as follows at December 31, 2010:

Maturity		Amortized cost	Fair value
Less than or equal to 30 days	$	112,451,555	112,451,555
31 - 60 days		—	—
61 - 90 days		75,843	73,680
91 - 365 days		—	—
Greater than one year		5,567,055	5,346,725
Total cash collateral pool		118,094,453	117,871,960
Liquidating Trust		3,877,884	—
Total	$	121,972,337	117,871,960

The difference between the amortized cost and fair value of CompSource's proportionate share of the investments of the cash collateral pool at December 31, 2010 represents unrealized losses considered to be temporary.

CompSource recorded an unrealized loss of approximately $174,000 and an unrealized gain of approximately $39,000 during 2010 and 2009, respectively, which represent CompSource's proportionate share of the change in market value of one investment of the liquidating trust. This unrealized loss and gain are included in net investment income and represent debt securities issued by a structured investment vehicle. The structured investment vehicle was placed in receivership and was transferred out of the cash collateral pool into a liquidating trust effective October 1, 2008. This investment is considered to be other-than-temporarily impaired.

CompSource has pledged a U.S. Treasury note to the U.S. Department of Labor to secure certain liabilities for workers' compensation claims as required by the Federal Longshore and Harbor Workers' Compensation Act. The book value of the note was $361,094 and $505,172 at December 31, 2010 and 2009, respectively; the fair value of the note was $360,896 and $512,130 at December 31, 2010 and 2009, respectively.

CompSource has pledged a U.S. Treasury note to secure a letter of credit issued on behalf of CompSource for a reinsurance contract utilized during 2010. The book value of the note was $2,499,937 and $2,499,872 at December 31, 2010 and 2009, respectively; the fair value of the note was $2,518,850 and $2,500,875 at December 31, 2010 and 2009, respectively.

(Continued)

(5) Cash

Amounts on deposit with the Office of the State Treasurer (State Treasurer) were $18,482,899 and $32,031,116 as of December 31, 2010 and 2009, respectively. These deposits consist of cash deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to high rated money market mutual funds, obligations of the U.S. government, U.S. government agencies and instrumentalities, and collateralized tri-party repurchase agreements. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investments of *OK INVEST* and shares the risk of loss on the funds in proportion to the respective investment in the funds.

(6) Notes Receivable from the Multiple Injury Trust Fund

During 2010 and 2009, the note receivable from the Multiple Injury Trust Fund (Trust Fund) amounted to $22,966,223 and $24,227,651, respectively. Advances to the Trust Fund were made in prior years as permitted by Title 85 Section 138(B). The agreements were entered into to satisfy delinquent permanent partial disability awards and simple interest due on such awards owed by the Trust Fund. An Addendum to the Multiple Injury Trust Fund Loan Agreement, entered into on December 4, 2009, left a balance due of approximately $25,363,000. The single remaining note bears interest at a rate of 7% annually and is payable over 13.25 years in quarterly installments with the final payment due on March 31, 2022. The loans and lines of credit are secured by Trust Fund revenues, any equity or other interest of the State of Oklahoma, and any amounts appropriated or otherwise available to the Trust Fund. The loan and the lines of credit are also secured by any underlying claims paid by virtue of these agreements including but not limited to any special priority, right to interest, or enforcement mechanism available. Legislation was enacted to establish a Multiple Injury Trust Fund tax based on a statutory formula used by the Workers' Compensation Court of the State of Oklahoma. Effective January 1, 2009 through June 30, 2009, the tax rate was 2.50%; effective July 1, 2009 through June 30, 2010, the tax rate was 2.60%; and effective July 1, 2010 the tax rate was 2.59% of direct written premiums on workers' compensation risks located in this state. This cash flow is estimated to be sufficient to service the interest and principal on the loans and line of credit.

(7) Property Occupied by CompSource and EDP Equipment

Property occupied by CompSource and EDP equipment consists of the following at December 31:

	Estimated useful lives (years)	2010	2009
Land	—	$ 1,179,000	1,179,000
Building and improvements	20 to 40	18,993,922	18,829,627
EDP equipment	3 to 8	7,952,416	7,192,240
		28,125,338	27,200,867
Accumulated depreciation		(12,672,140)	(11,592,126)
		$ 15,453,198	15,608,741

Depreciation expense was $2,314,440 and $1,258,184 in 2010 and 2009, respectively.

(8) Reserve for Losses and Loss Adjustment Expenses

CompSource estimates losses and loss adjustment expenses based on historical experience and payment and reporting patterns. These estimates are based on data available at the time of the estimate and are reviewed by CompSource's independent consulting actuary.

Inherent in the estimates of the ultimate liability for unpaid claims are expected trends in claim severity, claim frequency, and other factors that may vary as claims are settled. The amount and uncertainty in the estimates are affected by such factors as the knowledge of the actual facts and circumstances and amount of historical claims experience relative to the development period that has been affected by the change in premium levels and increase in closing and settlement of claims. The ultimate cost of insurance claims can be positively or adversely affected by costs such as medical expenses and awards by the Workers' Compensation Court.

Activity in the reserve for losses and loss adjustment expenses is summarized as follows (in thousands):

		2010	2009
Balance, beginning of year	$	925,181	894,015
Less reinsurance recoverables		(922)	(946)
Net balance, beginning of year		924,259	893,069
Incurred losses and loss adjustment expenses:			
Current year		259,342	249,047
Prior year		2,758	15,597
Total incurred		262,100	264,644
Paid losses and loss adjustment expenses:			
Current year		36,429	36,969
Prior year		193,459	196,485
Total paid		229,888	233,454
Net balance, end of year		956,471	924,259
Plus reinsurance recoverables		873	922
Balance, end of year	$	957,344	925,181

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses increased by approximately $2,758,000 in 2010 due to unfavorable development of case-basis reserves, which was offset partially by less than anticipated incurred but not reported losses and loss adjustment expenses, and increased by approximately $15,597,000 in 2009 due to unfavorable development of case-basis reserves and less than anticipated incurred but not reported losses and loss adjustment expenses.

(Continued)

At December 31, 2010 and 2009, CompSource recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary. The gross reserves of approximately $957 million and $925 million are the independent actuary's and management's best estimates of reserves at December 31, 2010 and 2009, respectively.

(9) Premium Deficiency Reserves

As of December 31, 2010, the actuarial analysis indicated that a premium deficiency reserve was not required for CompSource. CompSource did consider anticipated investment income as a factor in this analysis.

(10) Reinsurance Transactions

CompSource limits the maximum net loss that can arise from risks by entering into reinsurance agreements to assign risk to other insurers on a catastrophic basis. Premiums paid for this reinsurance were approximately $2,057,000 and $2,021,000 in 2010 and 2009, respectively. No losses in 2010 or 2009 have been ceded under the catastrophic reinsurance agreement.

Included in losses and loss adjustment expenses are reinsurance recoverables with a single reinsurer of approximately $873,000 and $924,000 at December 31, 2010 and 2009, respectively.

Reinsurance contracts do not relieve CompSource from its primary obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to CompSource. Management believes that all reinsurers presently used are rated A or better by A.M. Best, are financially sound, and will be able to meet their contractual obligations.

(11) Operating Leases

In the ordinary course of business, CompSource enters into various operating leases for office and storage space and equipment. Total operating lease expense approximated $206,000 and $225,000 for 2010 and 2009, respectively.

(12) Surplus

Title 85, Section 137 of the Oklahoma Statutes requires the assignment of surplus funds for catastrophic reserves until such time as, in the judgment of the Board, such surplus funds or catastrophic reserves shall be sufficiently large to cover a catastrophic hazard and other unanticipated losses. Surplus assigned for catastrophes totaled $5,000,000 at December 31, 2010 and 2009.

Included in the annual financial statements filed with the Oklahoma Insurance Department is a calculation of CompSource's risk-based capital. Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations. The adequacy of a company's actual capital may then be measured by comparison to its risk-based capital for determination of whether actual capital falls into one of four impairment categories. Risk-based capital standards are used by regulators to commence appropriate regulatory actions relating to insurers that show indications of weak or deteriorating conditions. The risk-based capital approach also provides an additional standard for minimum capital requirements that companies should meet to avoid being placed in conservatorship. Although CompSource is not subject to the risk-based capital requirements of Title 36, the capital levels for 2010 and 2009 do not fall into any one of the four impairment categories as outlined by the risk-based capital calculation.

(13) Pension Plan

(a) Plan Description

CompSource contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the System). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to the System, PO Box 53007, Oklahoma City, Oklahoma 73152-3007 or by calling 1-800-733-9008.

(b) Funding Policy

Employees and CompSource are required to contribute at a rate set by statute. The contribution requirements of employees and CompSource are established and may be amended by the legislature of the State. The contribution rate for CompSource and employees for 2010 and 2009 is as follows:

	Employee rate	Employer rate
July 1, 2010 – December 31, 2010	3.5%	15.5%
July 1, 2009 – June 30, 2010	3.5	15.5
January 1, 2009 – June 30, 2009	3.5	14.5

CompSource's contributions to the Plan for the years ended December 31, 2010 and 2009 were approximately $2,307,000 and $2,274,000, respectively, and equal its required contributions for each year. Employee contributions for the years ended December 31, 2010 and 2009 were approximately $536,000 and $540,000, respectively.

(14) Deferred Compensation Plan and Deferred Savings Incentive Plan

The State offers to its own employees, state agency employees, and other duly constituted authority or instrumentality employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457, and Chapter 45 of Title 74, Oklahoma Statutes. The Oklahoma State Employees Deferred Compensation Plan (the DCP), also known as SoonerSave, is a voluntary plan that allows participants to defer a portion of their salary into the DCP. Participation allows employees to shelter the portion of their salary that is deferred from current federal and state income tax. Taxes on the interest or investment gains on this money, while in the DCP, are also deferred. The deferred compensation is not available to employees until termination, retirement, death, or approved unforeseeable emergency.

Under SoonerSave, the untaxed deferred amounts are invested as directed by the participant among various DCP investment options. Under terms of the Trust, tax deferred amounts may be used only for the exclusive benefit of the DCP participants and their beneficiaries. Further information may be obtained from the DCP's audited financial statements for the year ended June 30, 2010. CompSource believes that it has no liabilities in respect to the State's DCP.

A monthly contribution of $25 is made by CompSource for each employee qualified to participate in a defined contribution plan, the Savings Plan, which was established pursuant to Section 401(a) of the Internal Revenue Code. The Savings Plan is administered by the Oklahoma Public Employees Retirement System.

(15) Reconciliation to GAAP

CompSource files statutory financial statements with the Oklahoma Insurance Department. Accounting principles used to prepare these statutory financial statements differ from financial statements prepared on the basis of GAAP.

The reconciliation between statutory surplus and fund equity at December 31 is as follows:

		2010	2009
Statutory surplus as filed	$	235,804,102	210,431,835
Net unrealized gains on debt securities		69,521,883	39,488,568
Nonadmitted assets		5,514,952	4,435,653
Deferred acquisition costs		1,539,279	1,270,922
Fund equity	$	312,380,216	255,626,978

The reconciliation between statutory net loss and change in fund equity at December 31 is as follows:

		2010	2009
Statutory net loss as filed	$	(6,906,438)	(16,164,444)
Change in net unrealized gains on debt and equity securities		69,821,982	80,407,400
Unrealized gains (losses) on U.S. government inflation protected securities		352,431	(59,007)
Change in net unrealized (losses) gains due to other-than-temporary impairments for statutory purposes		(6,783,094)	94,832
Change in deferred acquisition costs		268,357	648,382
Change in fund equity	$	56,753,238	64,927,163

The Oklahoma Insurance Department may conduct an examination of CompSource in the same manner as a domestic insurance company if the examination does not conflict with any provisions in Title 85 of the Oklahoma Statutes. The Oklahoma Insurance Department may also recommend adjustments to certain accounts based on its judgment about information available at the time of the examination.

(Continued)

(16) Contingencies

At December 31, 2010, CompSource was a defendant in a policyholder suit, filed June 15, 2009, regarding employers' liability coverage. The suit also seeks class action status regarding certain employers who purchased workers' compensation and employers' liability insurance policies from June 1, 2004 to the present. While it is not possible to predict with certainty when this matter will be completely resolved, it is possible that the disposition of the litigation could occur in the near term. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate resolution of this proceeding could have a material effect on CompSource's financial condition, changes in financial condition, and cash flow. At December 31, 2010, the financial statements do not include any expenses or liabilities related to the above action, as a loss has not been deemed probable or estimable. Management is vigorously defending this case.

Also at December 31, 2010, CompSource was a defendant in a policyholder suit, filed October 30, 2009, regarding the refund of premium for a canceled workers' compensation insurance policy. The suit also seeks class action status for certain policies canceled under similar circumstances. While it is not possible to predict with certainty when this matter will be completely resolved, it is possible that the disposition of the litigation could occur in the near term. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate resolution of this proceeding could have a material effect on CompSource's financial condition, changes in financial condition, and cash flow. At December 31, 2010, the financial statements do not include any expenses or liabilities related to the above action, as a loss has not been deemed probable or estimable. Management is vigorously defending this case.

CompSource is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on CompSource's financial condition, changes in financial condition, and cash flow.

(17) Legislative Measures and Subsequent Events

During 2009, the Oklahoma Legislature passed and Governor Henry signed into law House Bill 1963, which states that it is the intent of the Legislature that CompSource be converted into a private insurance company no later than December 31, 2010. House Bill 1963 also created, until December 31, 2011, the Task Force on the Privatization of CompSource Oklahoma to examine the related issues. The Task Force was also authorized to publish and submit to the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Governor its findings and recommendations by December 1, 2009, including recommendations for any resulting legislation. The Final Report from the Task Force included the "Task Force Members' Findings and Recommendations" which provided the recommendations of each Task Force member. Overall, a majority of Task Force members favored mutualization over other privatization options. As of December 31, 2010, no legislation has been enacted by the Oklahoma Legislature regarding privatization.

(Continued)

A number of legislative measures have been introduced before the Oklahoma Legislature, which convened February 7, 2011, regarding the privatization of CompSource. Although no measures are currently pending before the Legislature, such legislation could become active. While such legislation would have no material impact on CompSource's statutory financial statements as of December 31, 2010, the outcome of such legislation cannot presently be determined and could have a material adverse effect on CompSource's financial condition, changes in financial condition, and cash flow.

Schedule 1

COMPSOURCE OKLAHOMA

Summary Schedule of Investments

December 31, 2010

	Gross investment holdings	Percentage	Admitted assets as reported	Percentage
Investment categories:				
Bonds:				
U.S. Treasury securities	$ 179,456,645	13.490%	$ 179,456,645	13.490%
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government sponsored agencies	45,998,472	3.458	45,998,472	3.458
Non-U.S. government (including Canada, excluding mortgage-backed securities)	1,387,246	0.104	1,387,246	0.104
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories, and possessions general obligations	4,038,625	0.304	4,038,625	0.304
Political subdivisions of states, territories and possessions and political subdivisions general obligations	2,450,000	0.184	2,450,000	0.184
Revenue and assessment obligations	11,700,000	0.879	11,700,000	0.879
Loan-backed and structured securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	18,654,034	1.402	18,654,034	1.402
Issued by FNMA and FHLMC	89,928,693	6.760	89,928,693	6.760
All other	215,725	0.016	215,725	0.016
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	45,178,683	3.396	45,178,683	3.396
All other	65,926,251	4.956	65,926,251	4.956
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities	451,822,653	33.963	451,822,653	33.963
Equity securities:				
Publicly traded equity securities (excluding preferred stocks)	70,899,260	5.329	70,899,260	5.329
Other unaffiliated equity securities	120,872,823	9.086	120,872,823	9.086
Real estate investments:				
Property occupied by the company	14,355,422	1.079	14,355,422	1.079
Receivable for securities	711,505	0.053	711,505	0.053
Cash and short-term investments	65,659,997	4.936	65,659,997	4.936
Other invested assets	141,084,428	10.605	141,084,428	10.605
Total invested assets	$ 1,330,340,462	100.000%	$ 1,330,340,462	100.000%

See accompanying independent auditors' report.

COMPSOURCE OKLAHOMA

Schedule of Investment Risk Interrogatories

December 31, 2010

1. State the total admitted assets as reported on page 2 of the annual statement: $1,400,794,940

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company, and policy loans.

Investment category	Amount	Percentage of total admitted assets
State Street S&P 500 Index	$ 78,981,792	5.638%
State Street S&P Equal Weighted Index Fund	41,891,032	2.991
Amgen Inc.	10,117,528	0.722
Abbey National North American LLC	9,999,358	0.714
National Rural Utilities	9,333,116	0.666
Comcast Corp	8,191,602	0.585
JPMorgan Chase & Co	8,120,221	0.580
Oracle Corp	8,101,500	0.578
Emerson Electric Co	8,090,043	0.578
E.I. Du Pont De Nemours	7,969,877	0.569

3. State the amounts and percentages of total admitted assets in bonds, short-term investments, and preferred stocks by NAIC rating.

	Amount	Percentage of total admitted assets
Bonds and short-term investments:		
NAIC-1-highest quality	$ 860,201,942	61.408%
NAIC-2-high quality	101,490,871	7.245
NAIC-3-medium quality	—	—
NAIC-4-low quality	—	—
NAIC-5-low quality	3,286	—
NAIC-6-lowest quality	427	—
	$ 961,696,526	68.653%

(Continued)

Schedule 2

COMPSOURCE OKLAHOMA

Schedule of Investment Risk Interrogatories

December 31, 2010

13. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Investment category		Amount	Percentage of total admitted assets
State Street S&P 500 Index	$	78,981,792	5.638%
State Street S&P Equal Weighted Index Fund		41,891,032	2.991
Atmel Corp		2,646,336	0.189
Las Vegas Sands Corp.		2,586,985	0.185
Cummins Inc.		2,486,226	0.177
Bucyrus International Inc.		2,208,180	0.158
Cameco Corp		2,204,748	0.157
Precision Castparts Corp.		2,074,229	0.148
Goodrich Corp.		1,770,207	0.126
Stillwater Mining Co.		1,705,865	0.122

20. State the amounts and percentages of total admitted assets subject to the following types of agreements:

				At end of each quarter			
		December 31, 2010	Percentage of total admitted assets		March 31, 2010	June 30, 2010	September 30, 2010
Securities lending	$	122,890,639	8.773%	$	173,522,238	131,859,642	115,049,758

All other investment risk interrogatories have been omitted because they are not applicable.

See accompanying independent auditors' report.

COMPSOURCE OKLAHOMA

Schedule of Reinsurance Interrogatories

December 31, 2010

1. Are any risks reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes[ ] No[X]

2. Has the reporting entity reinsured any risk with any other entity and agreed to release such entity from liability in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured?

Yes[ ] No [X]

3. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

   (a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;

   (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

   (c) Aggregate stop loss reinsurance coverage;

   (d) An unconditional or unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

   (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

   (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?

Yes[ ] No[X]

(Continued)

COMPSOURCE OKLAHOMA

Schedule of Reinsurance Interrogatories

December 31, 2010

3. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% if prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

    (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

    (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates?

Yes[ ] No[X]

5. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance,* has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

    (a) Accounted for that contract as reinsurance (either prospective or retroactive) under SSAP and as a deposit under GAAP; or

    (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SSAP?

Yes[ ] No[X]

See accompanying independent auditors’ report.