

STATE OF TEXAS,
Plaintiff

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IN THE DISTRICT COURT OF

v.

Guardian Fidelity Title Company, Ltd.,
Guardian Fidelity Title Company CLR, LLP,
Guardian Fidelity Title Company NWR, LLP,
Guardian Fidelity Title Company KTB, Ltd.,
Guardian Fidelity Title Company SB, Ltd.,
Guardian Fidelity Title Company DFT, Ltd.,
Defendants

TRAVIS COUNTY, TEXAS

419th JUDICIAL DISTRICT

**SPECIAL DEPUTY RECEIVER'S QUARTERLY FINANCIAL REPORT AND
SUMMARY STATEMENT OF EXPENSES
(DECEMBER 1, 2010 THROUGH FEBRUARY 28, 2011)**

TO THE HONORABLE DISTRICT COURT:

CANTILO & BENNETT, L.L.P., solely in its capacity as the Special Deputy Receiver (“SDR”) of Guardian Fidelity Title Company, Ltd., Guardian Fidelity Title Company CLR, LLP, Guardian Fidelity Title Company NWR, LLP, Guardian Fidelity Title Company KTB, Ltd., Guardian Fidelity Title Company SB, Ltd., and Guardian Fidelity Title Company DFT, Ltd. (“Guardian Fidelity”), files this Financial Report and Summary Statement of Expenses of the receivership estate for the period of December 1, 2010 to February 28, 2011. The attached report is filed pursuant to TEX. INS. CODE ANN., § 443.015(2)(g) and § 443.016(a) and the Court's Order Approving the SDR's First Supplemental Application for Approval of Fees and Expenses, entered on July 20, 2009.

The Special Deputy Receiver has served this Quarterly Financial Report to all known parties at interest, as shown in the certificate of service.

Respectfully submitted,

By: /s/ Christopher Fuller
Christopher Fuller

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And

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CERTIFICATE OF SERVICE

I certify that on March 15, 2011, a true and correct copy of this Report was served pursuant to the Order of Reference, the Texas Rules of Civil Procedure, the Court's order on electronic service, and TEX. INS. CODE ANN. §§ 443.007 (d) and 443.303(e) on the following.

/s/ Christopher Fuller
Christopher Fuller

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R-540

**Guardian Fidelity Title Company Ltd et al In Receivership
Statement of Expenses**

**For Period Ending
02/28/11**

| | | Total Dec | Total Jan | Total Feb | Total Quarter |
|-----------------------------------|-----------------------------------|----------------------|----------------------|----------------------|--------------------------|
| SDR | | | | | |
| | | | | | |
| Cantilo and Bennett, LLP | | | | | |
| | SDR | 8,640.00 | 14,250.00 | 13,920.00 | 36,810.00 |
| | SDR | 0.00 | 97.50 | 30.00 | 127.50 |
| | Partner | 0.00 | 120.00 | 45.00 | 165.00 |
| | Receivership Specialist | 144.00 | 162.00 | 792.00 | 1,098.00 |
| | Expenses | 92.97 | 17.77 | 6.37 | 117.11 |
| | Total SDR Billing | 8,876.97 | 14,647.27 | 14,793.37 | 38,317.61 |
| | | | | | |
| SDR Subcontractors - Legal | | | | | |
| | | | | | |
| Jo Ann Howard & Associates, P.C. | | | | | |
| | Senior Legal Specialist | 1,080.00 | 4,220.00 | 3,140.00 | 8,440.00 |
| | Paralegal | 252.00 | 153.00 | 45.00 | 450.00 |
| | Expenses | 6.31 | 18.93 | 377.00 | 402.24 |
| | Total Billing | 1,338.31 | 4,391.93 | 3,562.00 | 9,292.24 |
| | | | | | |
| | Total Legal Subcontractors | 1,338.31 | 4,391.93 | 3,562.00 | 9,292.24 |
| | | | | | |
| SDR Subcontractors - Other | | | | | |
| | | | | | |
| ABACI INC. | | | | | |
| | Project Manager | 0.00 | 102.00 | | 102.00 |
| | Technical Manager | 0.00 | 48.00 | 40.00 | 88.00 |
| | Expenses | 0.00 | | | 0.00 |
| | Total Billing | 0.00 | 150.00 | 40.00 | 190.00 |
| | | | | | |
| EMKAY Associates, Inc. | | | | | |
| | Claims Manager | 289.00 | 714.00 | 374.00 | 1,377.00 |
| | Claims Representative | 1,488.50 | 169.00 | 273.00 | 1,930.50 |
| | Claims Representative | 17.50 | 0.00 | 0.00 | 17.50 |
| | Claims Representative | 65.00 | 0.00 | 0.00 | 65.00 |
| | Claims Representative | 0.00 | 645.00 | 1,657.50 | 2,302.50 |
| | Claims Representative | 0.00 | 252.50 | 0.00 | 252.50 |
| | Claims Representative | 283.50 | 648.00 | 927.00 | 1,858.50 |
| | Administration | 2,742.50 | 2,325.00 | 4,740.00 | 9,807.50 |
| | Administration | 29.25 | 0.00 | 0.00 | 29.25 |
| | Expenses | 0.00 | 0.00 | 0.00 | 0.00 |
| | Total Billing | 4,915.25 | 4,753.50 | 7,971.50 | 17,640.25 |
| | | | | | |
| Petrosewicz & Company, Inc. | | | | | |

| | | | | | | |
|--|---|--|------------------|------------------|------------------|------------------|
| | CPA Principal | | 0.00 | | | 0.00 |
| | Staff Accountant | | 0.00 | | | 0.00 |
| | Expenses | | 0.00 | | | 0.00 |
| | Total Billing | | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | | | | |
| | Portia Haggerty PC | | | | | |
| | CPA Principal | | 315.00 | 892.50 | 525.00 | 1,732.50 |
| | Expenses | | 17.50 | 3.49 | 2.54 | 23.53 |
| | Total Billing | | 332.50 | 895.99 | 527.54 | 1,756.03 |
| | | | | | | |
| | Total Other SDR Subcontractors | | 5,247.75 | 5,799.49 | 8,539.04 | 19,586.28 |
| | | | | | | |
| | Receivership Service Providers | | | | | |
| | | | | | | |
| | Receivership Service Provider Name | | | | | |
| | Moving & Storage | | 352.45 | 704.90 | 354.45 | 1,411.80 |
| | | | 352.45 | 704.90 | 354.45 | 1,411.80 |
| | | | | | | |
| | Restricted Bank Activity | | | | | |
| | Bank Fees - Analysis Charges | | 23.65 | 23.72 | 12.16 | 59.53 |
| | | | | | | |
| | Operating Account | | 7.50 | 0.00 | 19.90 | 27.40 |
| | | | | | | |
| | Texas Treasury | | 13.34 | 12.43 | 12.29 | 38.06 |
| | | | | | | |
| | Total Other | | 396.94 | 741.05 | 398.80 | 1,536.79 |
| | | | | | | |
| | Liquidation Oversight Allocation | | | | | |
| | | | | | | |
| | | | | | | |
| | RLO Allocation | | 5,992.22 | 1,627.67 | 3,509.59 | 11,129.48 |
| | | | | | | |
| | Special Master's Fees | | 0.00 | 208.18 | 0.00 | 208.18 |
| | | | | | | |
| | Total RLO & SM Expense | | 5,992.22 | 1,835.85 | 3,509.59 | 11,337.66 |
| | | | | | | |
| | Total Expenses | | 21,852.19 | 27,415.59 | 30,802.80 | 80,070.58 |

R-540 **Guardian Fidelity Title Company Ltd et al In Receivership**
Statement of Net Assets

For the Period Ending
02/28/11

| Line | | 02/28/11 |
|--------------------------|--|----------|
| Cash | | |
| 1 | Cash | |
| | Cash - Unrestricted | 32,746 |
| | APF Funds | 66,324 |
| Investments | | |
| 2 | Short-Term Investments | |
| 3 | Bonds, Preferred Stocks & Common Stocks | |
| 4 | Investments in Subsidiaries, Controlled or Affiliated Entities | |
| 5 | Mortgage Loans | |
| 6 | Real Estate | |
| 7 | Policy Loans | |
| 8 | Other Invested Assets | |
| Reinsurance | | |
| 9.1 | Reinsurance Recoverables on Paid Losses & LAE | |
| 9.1A | Allowance for Reinsurance on Paid Losses & LAE | |
| 9.2 | Reinsurance Recoverables on Unpaid Losses & LAE | |
| 9.2A | Allowance for Reinsurance on Unpaid Losses & LAE | |
| 9.3 | Reinsurance Recoverables on UEP & Contingent Commissions | |
| Receivables | | |
| 10 | Salvage & Subrogation Recoveries | |
| 11 | Premiums Due & Accrued from Agents & Policyholders | |
| 12 | Receivable from Parents, Subsidiaries & Affiliates | |
| 13 | Accrued Investment Income | |
| 14 | Receivable from Guaranty Associations - Early Access Payments | |
| Other Assets | | |
| 15.1 | FF&E | |
| 15.2 | Prepaid Expenses | |
| 16 | Other Assets | |
| Restricted Assets | | |
| 17.1 | Restricted - Statutory Deposits | |
| 17.2 | Restricted - Funds held by or deposited with Reinsured Companies | |
| 17.3 | Restricted - Separate Accounts & Protected Cell Accounts | |
| 17.4 | Restricted - Other | 297,167 |
| 18 | Total Unrestricted Assets | 99,070 |
| 19 | Total Restricted Assets | 297,167 |
| 19A | Net Assets not Categorized | |
| 20 | Total Assets | 396,237 |

R-540 **Guardian Fidelity Title Company Ltd et al In Receivership**
Statement of Net Assets

For the Period Ending
02/28/11

NOTES

Ref No.

Escrow bank account balances restricted for future escrow claim

| | |
|--------------------|------------------|
| 1st Community Bank | 51,619.89 |
| Amegy Bank | (197.60) |
| Prosperity Bank | 24,445.01 |
| Regions Bank | 0.00 |
| Wells Fargo Bank | 8,319.50 |
| Treasury Escrow | 134,804.35 |
| Frost Bank | <u>78,188.31</u> |
| | 297,179.46 |

R-540 Guardian Fidelity Title Company Ltd et al In Receivership
Changes in Net Assets

For Period Ending
02/28/11

| Line | | Qtr Ending 02/28/11 | Change |
|--------------------------|--|------------------------|-----------|
| Cash | | | |
| 1 | Cash | | 0 |
| | Cash - Unrestricted | 32,746 | 74,828 |
| | APF Funds | 66,324 | (137,161) |
| Investments | | | |
| 2 | Short-Term Investments | | 0 |
| 3 | Bonds, Preferred Stocks & Common Stocks | | 0 |
| 4 | Investments in Subsidiaries, Controlled or Affiliated Entities | | 0 |
| 5 | Mortgage Loans | | 0 |
| 6 | Real Estate | | 0 |
| 7 | Policy Loans | | 0 |
| 8 | Other Invested Assets | | 0 |
| Reinsurance | | | |
| 9.1 | Reinsurance Recoverables on Paid Losses & LAE | | 0 |
| 9.1A | Allowance for Reinsurance on Paid Losses & LAE | | 0 |
| 9.2 | Reinsurance Recoverables on Unpaid Losses & LAE | | 0 |
| 9.2A | Allowance for Reinsurance on Unpaid Losses & LAE | | 0 |
| 9.3 | Reinsurance Recoverables on UEP & Contingent Commissions | | 0 |
| Receivables | | | |
| 10 | Salvage & Subrogation Recoveries | | 0 |
| 11 | Premiums Due & Accrued from Agents & Policyholders | | 0 |
| 12 | Receivable from Parents, Subsidiaries & Affiliates | | 0 |
| 13 | Accrued Investment Income | | 0 |
| 14 | Receivable from Guaranty Associations - Early Access Payments | | 0 |
| Other Assets | | | |
| 15.1 | FF&E | | 0 |
| 15.2 | Prepaid Expenses | | 0 |
| 16 | Other Assets | | 0 |
| Restricted Assets | | | |
| 17.1 | Restricted - Statutory Deposits | | 0 |
| 17.2 | Restricted - Funds held by or deposited with Reinsured Companies | | 0 |
| 17.3 | Restricted - Separate Accounts & Protected Cell Accounts | | 0 |
| 17.4 | Restricted - Other | 297,167 | (114,703) |
| 18 | Total Unrestricted Assets | 99,070 | (62,333) |
| 19 | Total Restricted Assets | 297,167 | (114,703) |
| 19A | Net Assets not Categorized | | 0 |
| 20 | Total Assets | 396,237 | (177,036) |

17.4 Escrow claims processed

R-540 Guardian Fidelity Title Company Ltd et al In Receivership
Statement of Net Liabilities

For Period Ending
02/28/11

| Line | | Class | 02/28/11 |
|------------------------|---|-------|--------------------|
| 1 | Secured Claims | 1 | 297,456 |
| | APF Loan | 1 | 426,000 |
| 2 | Special Deposit Claims | 1 | |
| Administrative | | | |
| 3 | Administrative Claims - State/Receiver | | |
| | Special Deputy Receiver, Subcontractors Fees & Expenses | 1 | 26,894 |
| | Liquidation Oversight & Special Master's Fees | 1 | 11,338 |
| | Other Unsecured Loans | 1 | |
| 4 | Administrative Claims - Guaranty Assns | 1 | |
| | Claims Paid | | |
| | Reserves | | |
| 5 | LAE - Guaranty Assns | 1 | |
| | Claims Paid | | |
| | Reserves | | |
| Loss Claims | | | |
| 6 | Loss Claims - Guaranty Assns | 2 | |
| | Loss Claims Paid | | |
| | Reserves | | |
| 7 | Loss Claims - Other | 2 | |
| | Loss Claims Paid | | |
| | Reserves | | |
| 8 | LAE - Other | 2 | |
| 9 | Unearned & Advance Premium Claims (Non Assessable Policies) - GA | 2 | |
| 10 | Unearned & Advance Premium Claims (Non Assessable Policies) - Other | 2 | |
| 18 | Unearned Premium Claims (Assessable Policies) - GA | 2 | |
| Other Creditors | | | |
| 11 | Federal Government Claims | 3 | 71,460 |
| 12 | Employee Claims | 4 | 106,906 |
| 13 | General Unsecured Creditor Claims (Other than Reinsurance Related) | 5 | 2,711,991 |
| 14 | Ceded Reinsurance Related Unsecured Claims | 5 | |
| 14.1 | Assumed Reinsurance Related Unsecured Claims | 5 | |
| 15 | State & Local Government Claims | | |
| | State & Local Governments/Attorneys | 6 | 40,688 |
| | State & Local Governments - Penalties | 7 | |
| 16 | Late Filed Claims - Unexcused | 8 | |
| 17 | Surplus Notes | 9 | |
| 19 | Unearned Premium Claims (Assessable Policies) - Other | 9 | |
| 20 | Shareholder Claims | 11 | |
| 21 | Other Liabilities | | |
| | Interest | 10 | |
| | Other | | |
| 22 | Total Liabilities | | 3,692,733 |
| 23 | Total Equity/(Deficit) Excess (Deficiency) of Assets over Liabilities | | (3,296,497) |
| | Total Liabilities & Equity | | 396,237 |

NOTES

All amounts recorded based on adjudicated claims unless otherwise specified

| | | |
|----------|--|-----------|
| Ref. No. | | |
| 13 | Bank overdrafts, term and line of credit loans and underwriting fees due | 1,512,432 |
| | Amegy Bank | 371,232 |
| | Prosperity Bank | 541,481 |
| | Regions Bank | 286,845 |
| | Southern Title Ins Co | 2,711,991 |

R-540

**Guardian Fidelity Title Company Ltd et al In Receivership
Changes in Net Liabilities**

**For Period Ending
02/28/11**

| Line | | Qtr Ending 11/30/10 | Qtr Ending 02/28/11 | Change |
|------------------------|---|------------------------|------------------------|------------------|
| 1 | Secured Claims | 408,833 | 297,456 | (111,377) |
| | APF Loan | 426,000 | 426,000 | 0 |
| 2 | Special Deposit Claims | | | 0 |
| Administrative | | | | |
| 3 | Administrative Claims - State/Receiver | | | 0 |
| | Special Deputy Receiver, Subcontractors Fees & Expenses | 23,929 | 26,894 | 2,965 |
| | Liquidation Oversight & Special Master's Fees | 0 | 11,338 | 11,338 |
| | Other Unsecured Loans | | | 0 |
| 4 | Administrative Claims - Guaranty Assns | | | 0 |
| | Claims Paid | | | 0 |
| | Reserves | | | 0 |
| 5 | LAE - Guaranty Assns | | | 0 |
| | Claims Paid | | | 0 |
| | Reserves | | | 0 |
| Loss Claims | | | | |
| 6 | Loss Claims - Guaranty Assns | | | 0 |
| | Loss Claims Paid | | | 0 |
| | Reserves | | | 0 |
| 7 | Loss Claims - Other | | | 0 |
| | Loss Claims Paid | | | 0 |
| | Reserves | | | 0 |
| 8 | LAE - Other | | | 0 |
| 9 | Unearned & Advance Premium Claims (Non Assessable Policies) - GA | | | 0 |
| 10 | Unearned & Advance Premium Claims (Non Assessable Policies) - Other | | | 0 |
| 18 | Unearned Premium Claims (Assessable Policies) - GA | | | 0 |
| Other Creditors | | | | |
| 11 | Federal Government Claims | 71,460 | 71,460 | 0 |
| 12 | Employee Claims | 106,906 | 106,906 | 0 |
| 13 | General Unsecured Creditor Claims (Other than Reinsurance Related) | 2,711,991 | 2,711,991 | 0 |
| 14 | Ceded Reinsurance Related Unsecured Claims | | | 0 |
| 14.1 | Assumed Reinsurance Related Unsecured Claims | | | 0 |
| 15 | State & Local Government Claims | 40,688 | 40,688 | 0 |
| | State & Local Governments/Attorneys | | | 0 |
| | State & Local Governments - Penalties | | | 0 |
| 16 | Late Filed Claims - Unexcused | | | 0 |
| 17 | Surplus Notes | | | 0 |
| 19 | Unearned Premium Claims (Assessable Policies) - Other | | | 0 |
| 20 | Shareholder Claims | | | 0 |
| 21 | Other Liabilities | | | 0 |
| | Interest | | | 0 |
| | Other | | | 0 |
| 22 | Total Liabilities | 3,789,807 | 3,692,733 | (97,074) |
| 23 | Total Equity/(Deficit) Excess (Deficiency) of Assets over Liabilities | (3,216,535) | (3,296,497) | (79,962) |
| | Total Liabilities & Equity | 573,272 | 396,237 | (177,036) |

R-540 Guardian Fidelity Title Company Ltd et al In Receivership
Sources & Uses of Cash

For Period Ending
02/28/11

| Line | | Qtr Ending Feb-11 |
|-----------------------------|---|----------------------|
| Income | | |
| 1 | Premium Receipts | 0 |
| 2 | Settlements | 0 |
| 3 | Policy Loan Receipts | 0 |
| 4 | Proceeds from Sale of Real or Personal Property | 0 |
| 5 | Reinsurance Recoveries | 0 |
| 6 | Salvage & Subrogation Recoveries | 0 |
| 7 | Agents' Balances Received | 0 |
| 8 | Collection of Affiliate Receivables | 0 |
| 9 | Recovery of Taxes Previously Paid | 0 |
| 10 | Other Receipts | 3,348 |
| 11 | Total Operational Receipts | 3,348 |
| 12 | Interest & Dividend Receipts | 0 |
| 13 | Net Cash Provided by Investment Activities | 0 |
| 14 | Total Cash Receipts from Investment Activities | 0 |
| 15 | Total Cash Receipts | 3,348 |
| Operational Expenses | | |
| 16 | Deputy Receiver & Consulting Fees & Expenses | 49,452 |
| 17 | Employee Salaries, P/R Taxes & Employee Benefits | 0 |
| 18 | Rent, Office & Other Facility Expenses | 0 |
| 19 | Legal Fees & Expenses | 12,692 |
| 20 | Accounting & Auditing Fees & Expenses | 2,073 |
| 21 | SGA - Administration Expenses other than LAE | 0 |
| 22 | Ancillary Administration Expenses | 1,411 |
| 23 | Other Disbursements | 53 |
| 24 | Total Operational Disbursements | 65,681 |
| Investment Expenses | | |
| 25 | Investment Expenses | 0 |
| 26 | Purchase of Invested Assets | 0 |
| 27 | Total Disbursements for Investment Activities | 0 |
| Claims Paid | | |
| 28.1 | Losses/Benefit Payments - SGA | 0 |
| 28.2 | Losses/Benefit Payments - Non SGA | 0 |
| 28.3 | Losses/Benefit & LAE Payments - Special Deposits | 0 |
| 29.1 | LAE Payments - SGA | 0 |
| 29.2 | LAE Payments - non SGA | 0 |
| 30 | Early Access Payments | 0 |
| 31 | Reinsurance Payments | 0 |
| 32 | Total Cash Distributions | 0 |

R-540 Guardian Fidelity Title Company Ltd et al In Receivership
Sources & Uses of Cash

For Period Ending
02/28/11

| Line | | Qtr Ending Feb-11 |
|------|--|----------------------|
| | | |
| 33 | Total Cash Disbursements & Distributions | 65,681 |
| | | |
| 34 | Net Increase(Decrease) in Cash | (62,333) |
| | | |
| 35 | Cash at Beginning of Period | 161,403 |
| 36 | Cash at End of Period | 99,070 |