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Series:	Speech File Backup Files
Subseries:	Chron File, 1989-1993

OA/ID Number:	13793
Folder ID Number:	13793-016

Folder Title:
Liberty Mutual--Dover, NH 1/15/92 [OA 7566] [3]

Stack:	Row:	Section:	Shelf:	Position:
G	26	22	2	4

TRANSFER SHEET
BUSH PRESIDENTIAL MATERIALS PROJECT

COLLECTION Bush Presidential Records
Office of Speechwriting

ACC.NO: 93-01

The following material was withdrawn from this segment of the collection and trasferred to the XXXX AUDIOVISUAL COLLECTION
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DESCRIPTION:

One VHS videocassettee entitled "The Mill 6/91 7:48"

SERIES	BOX NO.
Speech File - Backup	6
FILE FOLDER TITLE: Liberty Mutual Dover, NH 1/15/92 [OA 7566] [3]	
TRANSFERRED BY: Sam McClure	DATE OF TRANSFER: 7/5/96
RECEIVED BY: Mary Finch	DATE RECEIVED

...mmunity ... ege.
Brian McNeely, who resigned to ... ketball team...

NATIO

NHL UPDATE

SENIOR STARS: Pittsburgh C **Bryan Trottier** and Los Angeles D **Larry Robinson** were added to the All-Star rosters by NHL President **John Ziegler**. A special category was created last year to recognize career contributions by distinguished players. Robinson, in his 20th season, is a 10-time All-Star; Trottier, in his 17th season, is an eight-time selection. Minnesota C **Bobby Smith** and former Quebec RW **Guy Lafleur** were last year's picks.

HERE AND THERE: **Paul Holmgren**, fired Dec. 4 after 3½ years as the Philadelphia Flyers' coach, has accepted a scouting position with the team. He will scout amateurs in Ontario and Quebec and minor league players. Holmgren, 36, was replaced by **Bill Dineen**. ... Five players remain on the Toronto roster from opening day last season: D **Todd Gill**, RW **Dan Marois**, C **Dave Hannan**, RW **Kevin Maguire** and LW **Wendel Clark**. ... Atlanta Braves pitcher **Tom Glavine**, last year's Cy Young Award winner, will skate with his hometown Bruins during Friday's practice at Boston Garden. Glavine was the Los Angeles Kings' fourth-round pick in 1984.

INJURY UPDATE: Winnipeg C **Ed Olczyk** will miss 6-8 weeks with a separated elbow and injured shoulder, resulting from what looked like a routine fall in Wednesday's victory against Edmonton. He leads the Jets with 21 goals. ... Pittsburgh C **Mario Lemieux** (back spasms) was questionable for Friday night's game at Calgary. .... Philadelphia D **Garry Galley** suffered an injury in the rib area and left Thursday's game in the first period.

THURSDAY'S GAMES

Devils hold Hull in check, win 4-3

EAST RUTHERFORD, N.J. — The New Jersey Devils halted Brett Hull's 10-game goal-scoring streak en route to a 4-3 win against the St. Louis Blues.

St. Louis	***0***	***1***	***2***	***—3***
New Jersey	***2***	***1***	***1***	***—4***

FIRST PERIOD — **Scoring:** 1, New Jersey, Kasatonov 7 (Stastny, Fetisov), 10:47. 2, New Jersey, Richer 17 (Todd, Vilgrain), 11:23. **Penalties:** Rich Sutter, StL (slashing), :38; Chorske, NJ (holding), 4:37; Stevens, NJ (high-sticking), 8:01; Mongeau, StL (holding), 14:18; Lowry, StL (slashing), 16:34; Stastny, NJ (hooking), 19:51.
SECOND PERIOD — **Scoring:** 3, St. Louis, Shanahan 18 (power play) (Hull, Norwood), 1:16. 4, New Jersey, Lemieux 26 (power play) (Kasatonov, Driver), 14:39. **Penalties:** Butcher, StL (interference), 5:07; Stevens, NJ (slashing), 10:23; Baron, StL (holding), 14:17; Chase, StL (unsportsmanlike conduct), 14:17; McKay, NJ (unsportsmanlike conduct), 14:17; Weinrich, NJ (tripping), 15:56.
THIRD PERIOD — **Scoring:** 5, St. Louis, Shanahan 19 (Hull), 8:45. 6, New Jersey, Vilgrain 11 (Todd, Richer), 12:22. 7, St. Louis, Ron Sutter 13 (shorthanded) (Zombo), 15:30. **Penalties:** Daneyko, NJ (cross-checking), 3:05; New Jersey bench, served by Todd (too many men), 6:44; Norwood, StL (elbowing), 14:50; Baron, StL (slashing), 16:11; D.Brown, NJ (holding), 18:47; Shanahan, StL (roughing), 20:00; Daneyko, NJ (roughing, match penalty), 20:00.
Shots on goal:

St. Louis	9	9	15	—33
New Jersey	13	9	9	—31

Power-play opportunities: St. Louis 1-of-8; New Jersey 1-of-7. **Goalies:** St. Louis, Hebert (31 shots, 27 saves; record: 2-2-0). New Jersey, Billington (33, 30; record: 10-1-1). A: 11,293. **Referee:** Devorski. **Linesmen:** McCourt, Pare.

Flyers **5**
Kings **2**

PHILADELPHIA — Kevin Dineen scored two goals as the Philadelphia Flyers held off the Los Angeles Kings 5-2 to snap a five-game winless streak.

Los Angeles	***0***	***2***	***0***	***—2***
Philadelphia	***3***	***0***	***2***	***—5***

FIRST PERIOD — **Scoring:** 1, Philadelphia, Ricci 10 (Tocchet), 5:24. 2, Philadelphia, Lomakin 11 (Samuelsson), 14:09. 3, Philadelphia, Dineen 12 (Brind'Amour, Pederson), 14:49. **Penalties:** Kordic, Phi (tripping), 6:41; Miller, LA (fighting major), 10:10; Brown, Phi (fighting major), 10:10; Kurri, LA (roughing), 11:13; Carkner, Phi (slashing), 17:28; Hextall, Phi, served by Lomakin (delay of the game), 17:51.
SECOND PERIOD — **Scoring:** 4, Los Angeles, Gretzky 18 (power play) (Kurri), 11:19. 5, Los Angeles, Blake 3, 16:40. **Penalties:** Robitaille, LA (slashing), 2:08; Huffman, Phi (holding), 10:25; Ahola, LA (hooking), 11:29; Boivin, Phi (charging), 18:20.
THIRD PERIOD — **Scoring:** 6, Philadelphia, Dineen 13 (power play) (Brind'Amour, Pederson), 14:41. 7, Philadelphia, Eklund 6 (empty net) (Tocchet, Ricci), 19:17. **Penalties:** Chychrun, LA (roughing), 9:19; Kordic, Phi (roughing), 9:19; Benning, LA (roughing), 13:22; Tocchet, Phi (roughing), 13:22; Ahola, LA (hooking), 14:05.
Shots on goal:

Los Angeles	13	13	4	—30
Philadelphia	10	6	8	—24

Power-play opportunities: Los Angeles 1-of-5; Philadelphia 1-of-4. **Goalies:** Los Angeles, Berthiaume (23 shots, 19 saves; record: 7-10-1). Philadelphia, Hextall (30, 28; record: 5-7-3). A: 17,380. **Referee:** Gregson. **Linesmen:** Broseker, Vines.

Islanders **2**
Whalers **1**

UNIONDALE, N.Y. — Adam Creighton and David Volek scored and Steve Weeks made 17 third-period saves as the New York Islanders beat the Hartford Whalers 2-1.

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5:00.
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18:16.
SECOND PE...
Volek 5 (Kn...
McKenzie, Ha...
NYI (fighting m...
ing), :9:46; H...
McLlwain, NYI (f...
THIRD PERIOD —
son 9 (Holik), 6:25.
(high-sticking), 3:03;
10:21; Kurvers, NYI (...
Shots on goal:

Hartford				
N.Y. Islanders				

Power-play opportunitie...
Islanders 1-of-4. **Goalies:**
(27 shots, 25 saves; reco...
ers, Weeks (30, 29; reco...
Referee: Fraser. **Linesmen:**
rers.

Red Wings . . .
North Stars . .

DETROIT — Paul Y...
Jimmy Carson and B...
bert each scored two g...
the Detroit Red Wings ...
the Minnesota North Stars.

Minnesota	***1***	***1***	***2***	***—***
Detroit	***2***	***3***	***4***	***—***

FIRST PERIOD — **Scoring:** 1, Detroit, Prot... 13 (Sheppard, Racine), 8:29. 2, Minneso... Modano 13 (Ellis), 13:42. 3, Detroit, Miller (Yzerman, Gallant), 15:26. **Penalties:** Kerr, D. (interference), 5:27; Gallant, Det (elbowing, u... sportsmanlike conduct), 18:16.
SECOND PERIOD — **Scoring:** 4, Detroit, Yse... baert 22 (Fedorov), 1:13. 5, Detroit, Carson 1... (power play) (Probert, Ysebaert), 11:00. 6, De... troit, Ysebaert 23 (Burr, Fedorov), 12:56. 7 Minnesota, Gagner 16 (power play) (Bellows, Glynn), 17:36. **Penalties:** Propp, Min (interference), :30; Ramage, Min (fighting major), 5:02; Kerr, Det (fighting major), 5:02; Craig, Min (butt-ending major, game misconduct), 6:25; Konstantinov, Det (holding), 15:46.
THIRD PERIOD — **Scoring:** 8, Minnesota, (power play) Modano 14, 2:47. 9, Detroit, Probert 14 (power play) (Yzerman, Ysebaert), 4:22. 10, Detroit, Lidstrom 7 (Yzerman), 5:10. 11, Detroit, Carson 18 (Probert, Chiasson), 13:01. 12, Minnesota, Propp 11 (Gagner, Ludwig), 17:19. 13,

USA TODAY 1/10/92

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LEVEL 1 - 1 OF 7 STORIES

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September, 1991

SECTION: OPENINGS; Vol. 12, No. 9, Pg. 10

LENGTH: 24 words

HEADLINE: Vision

SOURCE: 3990. "A Banker's Perspective on CRA," James P. Murphy, Fleet/Norstar Financial Group, delivered at Community Banking Issues Meeting, Albany, New York, June 12, 1990 - (11 pages).

Keywords: FINANCIAL SERVICES INDUSTRY; COMMUNITY REINVESTMENT; GOVERNMENT; GRETSKY, WAYNE; REGULATION; SOCIAL ISSUES; VISION

BODY:

"We're going to have to emulate hockey star Wayne Gretsky, who said, 'I skate where the puck is going to be, not where it has been.'"

LEVEL 1 - 2 OF 7 STORIES

Drug & Cosmetic Industry Copyright (c) 1991 Information Access Company; Edgell Communications 1991

April, 1991

LENGTH: 743 words

HEADLINE: Market research, 1990s style; Robert J. Posten DCI People

BYLINE: Hunter, Catherine Ellis

... something once said by hockey great Wayne Gretzky in response to a question about why he is successful: "I skate to where the puck is going, not to where it's been." The message in that, according to Posten is that marketers all too often rely on market analyses that looks backward ...

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Copyright (c) 1992 U.S.News & World Report

January 13, 1992

SECTION: U.S. NEWS; Vol. 112, No. 1; Pg. 22

LENGTH: 1845 words

HEADLINE: Why is this man smiling?

SERIES: Campaign '92

BYLINE: By Michael Barone; Dorian Friedman; Gary Cohen

HIGHLIGHT:

The good times that for years were the backdrop for politics in New Hampshire have gone now. And that sharply changes presidential politics

BODY:

New Hampshire, the state that could lock in each party's presidential nominee, has always been a place apart. In the 18th century, it was a kind of outlaw colony, where Gov. Benning Wentworth sold to private buyers the giant logs intended for masts on the king's ships and peddled grants of land claimed by other colonies. For most of the second half of the 20th century, New Hampshire has been the nation's chief tax haven, with no state income or sales tax and with everything from liquor stores to office parks siphoning money and people from high-tax neighbor Massachusetts. Its prosperity was the envy of the nation in 1988, when most New Hampshirites were as smug about their success as Benning Wentworth looks in his portrait in Concord's State House.

But much has soured in the state that helped launch Ronald Reagan's tax-cut crusade in 1980 and revived George Bush's campaign in 1988. And the issue hanging over this year's pivotal contests is whether the economic devastation has changed voter sentiments in major ways: Have the hard times convinced the antitax, antiliberal Democrats who gave victories to Jimmy Carter and Gary Hart that more government activism is needed for today's problems? Have conservative Republicans become so disillusioned with Bush's welshing on his no-new-taxes pledge and the state's plunging economy that they're ready to vote for the ''America First" campaign of Pat Buchanan?

The tentative answer is that New Hampshire has not yet had as sweeping a revolution as the one that drove the British-backing Wentworths to Nova Scotia 200 years ago. But the shock of moving abruptly from fast growth to deep recession has changed the political landscape in ways that are harmful to Bush and hopeful for Democrats promoting some government intervention to right the economy. In November 1988, when Bush won 63 percent of New Hampshire's votes, state unemployment was only 2.3 percent, one of the lowest rates in the nation; by November 1991, it was 7 percent, slightly above the national average. Since 1988, New Hampshire has lost 48,000 jobs, including more than half of all construction jobs; bankruptcies are up 324 percent, and welfare caseloads and food-stamp numbers have increased faster than in any other state. This is not a recession, says the Republican State Senate president, it's a ''depression."

Stressed out. By some standards, New Hampshire is not in such bad shape. Its unemployment rate is still lower than Michigan's rate in any of the past 12

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years. ''But the unemployment number doesn't describe the stress the state is going through," argues local economic consultant Russell Thibeault. There has been constant bad news: Five banks, holding one quarter of state banking assets, were taken over by the Federal Deposit Insurance Corp. and merged into two; the electric utility went bankrupt, and ''there's hardly a person who doesn't have a relative or close friend who's been affected." High-tech industries have slumped as defense spending dropped and demand for Digital and Wang minicomputers declined.

Most important, real-estate values have declined more than at any time since the Depression of the 1930s and are held down now by a three-year inventory of properties on the market. ''Property taxes have gone up 100 percent in 10 years, while property [value] has declined," says Ned Helms, a Democratic candidate for governor. ''It is not the liquid asset it used to be." Or, in the words of Vice President Dan Quayle: ''In New Hampshire, people who moved to the state and bought homes for $ 180,000 now find the value is $ 110,000. That's a shock to anyone."

Republican Gov. Judd Gregg argues that local housing used to be ''grossly overpriced," deterring new workers from moving in and helping choke off New Hampshire's boom. But many homeowners borrowed -- and bankers lent -- against those high paper values that have now disappeared. By national standards, New Hampshire's recession may not be as severe as that suffered by many industrial states a decade ago. But New Hampshire's has been a wealth recession marked by a decline in the value of most voters' major asset, so that ''people feel abandoned," says Susan Prolman, state director for Democratic presidential candidate Paul Tsongas. ''Only 200 shopping days left till the recession is over," reads a billboard in downtown Manchester. Across the street, the office of Granite State Credit Adjusters is empty, up for rent.

Taking the pledge. Has the recession converted low-tax New Hampshire to welfare-state socialism? Not yet, but the discussion is heating up. For years, Manchester Union Leader Publishers William and Nackey Loeb have demanded that politicians ''take the pledge" not to raise taxes, and for 20 years only those who have pledged have been elected governor. But Democratic State Rep. Deborah Arnesen is convinced that ''tax is now a good word, not a bad word." She'd back a sales or income tax, arguing that better government services would protect jobs and improve education. She and Ned Helms point out that Governor Gregg balanced his budget only after getting a favorable reading of Medicaid rules that pumped $ 200 million in unexpected federal aid into the state. New Hampshire also receives more, albeit smaller, aid bonuses regularly from the Bush administration -- for which the Union Leader twits the president.

Still, most observers agree with Concord political writer Charles Brereton that ''the state is not ready for a broad-based tax." The recession, consultant Thibeault says, ''has not really changed the conservative attitude. The sentiment is to cut services, especially social services." The experts doubt whether a recent University of New Hampshire poll that showed most voters willing to back a broad-based tax that reduced property levies can be translated into political action. The example of Massachusetts still dominates New Hampshire thinking. ''Most New Hampshire Democrats used to live in Massachusetts -- and they left because they hated it," notes Tsongas press secretary Peggy Connolly. And Gregg dismisses tax increases as ''an absurd idea, only attractive to people in ivory towers like Harvard."

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Most of the Democratic candidates at least partially agree. All but Tom Harkin, who wants a big public-works program, are avoiding tax-and-spend solutions as if New Hampshire were still as antitax as in 1984, when it gave tax-raiser Walter Mondale his worst primary showing. Tsongas trumpets his backing of a capital-gains cut, while Bill Clinton talks of a middle-class tax cut and Bob Kerrey argues that his national health-care plan would save money. But Democrats are also calling for a more activist government that will reform education and health-care delivery and enhance environmental incentives. ''New Hampshire Democrats used to be extremely tax-sensitive," says Clinton media adviser Frank Greer. ''Now they want an activist government on many fronts."

Bush will probably respond differently. He begins, as he did in Iowa in 1988, on the most unfavorable ground possible: in a state with a contracting economy and a falling population. Challenger Patrick Buchanan's ''America First" theme may not resonate in a state whose economy has been based heavily on exports and where most voters have memories of an immigrant past; nor is his isolationism likely to appeal to voters who were hawkish in the 1940s, 1960s and 1980s. But his charge that Bush has betrayed his no-new-taxes promise will surely strike a chord. Republican voters remember that Bush won the last primary -- and saved his campaign -- by opposing taxes and that he said, '' Thank you, New Hampshire" on election night, 1988.

''Stop whining." One Bush campaign response became obvious when Barbara Bush went to Concord to file her husband's nomination papers: Congress, she declared, should ''stop moaning and whining and do something about" the economy. Similarly, Vice President Quayle has been charging that Bush agreed to the 1990 budget summit agreement's tax increases, which enraged New Hampshire, only because the Democrats insisted. In other words: Blame the Democratic Congress -- and maybe even admit that the budget summit was a mistake.

In surprising ways, national issues have become local concerns. The hot topic these days is whom the federal Resolution Trust Corp. will hire to liquidate the real-estate portfolios of the state banks it took over last fall. This issue is a reminder that even in New Hampshire, government has always regulated some businesses -- and that the decisions of public officials have consequences in ordinary people's lives. For years, New Hampshirites thought they could escape that truth and enjoy endless economic growth with minimal taxes and government. Now, they're being forced to think again.

The long boom goes bust

When candidate Bush visited in 1988 (left), the East Coast Lumber Co. in East Hempstead, N.H., had 200 workers in three lumberyards. Today, only one yard is open, 22 workers remain and much of the firm's equipment is for sale. Owner Peter Lewis is unhappy: ''When the economy comes back, it will be in spite of the government, not because of it." John Mahoney, the worker who appears with Bush in the picture, has left for a better job and says he still backs Bush: ''I wish he could do more about the economy, but I guess his hands are tied."
A quick look at how the basics of the New Hampshire economy have changed since the last election:

	1988	1991	Percentage change
Unemployment rate	2.3 pct.	7.0 pct.	triple
Total employment	536,900	488,300	-9 pct.
Construction	36,800	17,000	-54 pct.

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Manufacturing	117,800	100,200	-15 pct.
Trade	138,700	119,800	-14 pct.
Average weekly wage	$ 405.16	$ 452.69	12 pct.
Bankruptcies	835	3,543	324 pct.
Families on welfare	5,594	14,917	167 pct.
Food stamp cases	9,345	20,715	122 pct.
Housing starts	11,692	2,767	-76 pct.
Existing-home sales	16,100	10,200	-37 pct.
Average selling price	$ 134,889	$ 111,362	-17 pct.

Note: Figures are for November of each year, except housing starts and sales, which are for the year. (Housing sales are annualized estimates.) Trade refers to wholesale and retail. Bankruptcy figures are personal and business through Nov. 30, 1991. Families on welfare represent AFDC and related cases only.

GRAPHIC: Picture, No caption (Gerald Herbert -- AP); Picture, No caption (Rick Friedman -- Black Star for USN&WR); Chart, The long boom goes bust

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November 11, 1991

SECTION: THOUGHTS ON THE BUSINESS LIFE; Pg. 422

LENGTH: 693 words

BODY:
If you don't know, it's not always necessary to admit it.

To measure the man, measure his heart.

Economists' unanimity that bad business is ahead is the most reassuring news possible. It's very unlikely that this will be the one time they're right.

Generous gestures yield the most when that isn't their purpose.

Hoarding one's hurts hurts only the hoarder.
-- MALCOLM FORBES

To lose one's health renders science null, art inglorious, strength unavailing, wealth useless, and eloquence powerless.
-- HEROPHILUS

Health is the vital principle of bliss.
-- JAMES THOMSON

What have I gained by health? Intolerable dullness. What by early hours and moderate meals? A total blank.
-- CHARLES LAMB

The happiest part of a man's life is that which he passes lying awake in bed in the morning.
-- SAMUEL JOHNSON

Money giving is a very good criterion, in a way, of a person's mental health. Generous people are rarely mentally ill people.
-- DR. KARL MENNINGER

A Text . . .

Behold also the ships which though they be so great, and are driven by fierce winds, yet they are turned about with a very small helm, withersoever the governor listeth.
-- JAMES 3:4

He is remarkably well, considering that he has been remarkably well for so many years.
-- LOGAN PEARSALL SMITH

Preserving health by too severe a rule is a wearisome malady.
-- LA ROCHEFOUCAULD

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If you would live in health, be old early.
-- SPANISH PROVERB

My good health is due to a soup made of white doves. It is simply wonderful as a tonic.
-- MADAME CHIANG KAI-SHEK

Health is better than wealth.
-- ENGLISH PROVERB

Health is worth more than learning.
-- THOMAS JEFFERSON

It's no longer a question of staying healthy. It's a question of finding a sickness you like.
-- JACKIE MASON

Health and appetite impart the sweetness to sugar, bread and meat.
-- RALPH WALDO EMERSON

Fitness: If it came in a bottle, everybody would have a good body.
-- CHER

The trouble about always trying to preserve the health of the body is that it is so difficult to do so without destroying the health of the mind.
-- G. K. CHESTERTON

If you look like your passport photo, you're too ill to travel.
-- WILL KOMMEN

He who has health has hope, and he who has hope has everything.
-- ARAB PROVERB

Measure your health by your sympathy with morning and Spring.
-- HENRY DAVID THOREAU

A man in good health is always full of advise to the sick.
-- MENANDER

Use your health, even to the point of wearing it out. That is what it is for. Spend all you have before you die; and do not outlive yourself.
-- GEORGE BERNARD SHAW

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JANUARY 24, 1990, WEDNESDAY

SECTION: FROM THE WHITE HOUSE

LENGTH: 557 words

HEADLINE: CB
TOASTS BY
PRESIDENT GEORGE BUSH
AND
COLONEL ALI ABDALLAH SALIH
PRESIDENT OF THE YEMEN ARAB REPUBLIC
THE WHITE HOUSE
WASHINGTON, DC

KEYWORD:
TOASTS-01/24/90 - BUSH,SALIH

BODY:
PRESIDENT BUSH: Mr. President, Mr. President, Barbara and I are delighted to welcome you to the White House. And as I told you earlier today, we have many fond memories of that fascinating visit to Yemen almost four years ago.
All of us here tonight recognize President Salih as a man of extraordinary accomplishment, a man who served his nation as a soldier and as a statesman, a man who's led his country at a time of great economic progress and is responsible for Yemen's growing role in Middle Eastern affairs.
Mr. President, as I hope you know by now, I value your views. I believe our discussions and your talks both today and tomorrow with so many key members of our administration in the Congress will encourage understanding between our nations and help us advance the many interests that our nations share.
It's been an opportunity to assure you of America's commitment to security in the Middle East and to the pursuit of a just and lasting peace in the region.
In the next few days, you'll be traveling across America, New York, San Francisco, and on to Dallas, in my home state. And I hope that at every step along the way, you encounter the warm welcome that Barbara and I enjoyed wherever we walked, in the streets, in the markets of Sana'a.
It has been a great pleasure, sir, to welcome you, to be your hosts on this historic visit, a visit that signifies the growing ties between our nations and a growing friendship between the people of Yemen and America.
And so, tonight I -- I ask all our guests to join me in wishing President Salih health and happiness. In the words of the old Arabian saying, "He who has health, has hope. And he who has hope, has everything."
Once again, you are most welcome here in the White House, sir.
(Applause.)
PRESIDENT SALIH: (Through interpreter) -- dear friend, President George Bush, the First Lady, Mrs. Bush, distinguished guests.
Allow me first, Mr. President, to congratulate you on the first anniversary of your first term in office. I also wish to express my great pleasure to visit your country, hoping to establish closer linkage between the very ancient in our country and the most modern in yours.
Mr. and Mrs. Bush, we are friends. In October 1962, Time Magazine wrote about a country almost unknown to the outside world called Yemen. It said that, "In

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this country, which is just rushing towards the 13th century, a revolution took place against a despotic ruler."

Since then, human ingenuity and mankind's ability to learn and adapt have made the impossibility an actual reality because less than 25 years later, that is in 1986, the people of that "unknown" country received the Vice President of the most modern and perhaps most famous country in the world.

Mr. President, it was then a wonderful occasion when you and the First Lady joined us in inaugurating our first refinery using Yemeni crude oil at the ancient town of Ma'rib which once was the cradle of one of the most advanced civilizations of the world.

That visit was, in my view, a good omen because it came at the threshold of your campaign for the President of the United States of America. Therefore, I am extremely happy to greet you again, and through you, extend my greetings to the friendly people of the United States.

Thank you, Mr. President. (Applause.)

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THE PRESIDENT HAS SEEN
1.14.92

THE WHITE HOUSE

WASHINGTON

January 14, 1992 92 JAN 14 P2:25

MEMORANDUM FOR THE PRESIDENT

THROUGH: DAVID DEMAREST
TONY SNOW

FROM: CURT SMITH

SUBJECT: EXETER TOWN HALL

On Wednesday, January 15th, at 10:30 a.m., you will deliver remarks, (approximately 9 minutes/cards) to a group of 350 New Hampshirites (including a large representation of Republicans) in Exeter's Town Hall. Governor Gregg introduces you; also acknowledged is County Commissioner Maureen Barrows, Senator Smith, and Congressman Zeliff.

Your speech acknowledges the political realities of campaign season, and suggests skepticism towards campaign promises of economic cure-alls. You also unveil a set of standards by which economic proposals, including those to be released in the State of the Union, may be judged.

(Smith/Grossman)
January 14, 1992
Draft Two EXETER

PRESIDENTIAL REMARKS: EXETER TOWN HALL
EXETER, NEW HAMPSHIRE
WEDNESDAY, JANUARY 15, 1991

Thank you, Governor, for that kind introduction. Senator Bob Smith. Congressman Bill Zeliff. County Commissioner Maureen Barrows. I know there's been some concern about my illness at the Japanese State Dinner, and some questions about the cause of my sickness. \ I know Barbara joked about how my tennis game was to blame -- but I want to set the record straight. \\ I told Barbara that I didn't want to eat any broccoli for lunch. \\ Any broccoli farmers here?

Well, you all know that I don't like broccoli. And I know that you all don't like baloney. Almost everyone in New Hampshire has met a future president at one time or another, and they can see right through the smoke screens of pipe dream promises. I know we're swinging into a campaign cycle. And already I see contenders scrambling all over each other to promise bigger, better, and bolder than the next guy. That's perfectly acceptable -- that's democracy. But it is not acceptable to exploit economic hardship for political profit ((some of these political ambulance chasers give new meaning to the phrase, "no pain, no gain.")) And it is not acceptable to sacrifice good, prudent policy in the battle for a better bumpersticker.

Of course, this state never had much of a market for snake oil salesmen. Daniel Webster once said, "There is nothing so powerful as truth..." New Hampshirites know there's a difference between soundbites and sound policy; and they don't cater much to sweet talking over bitter truths. \\

I've had to look at a few bitter truths myself. There are many parts in this country where the economy is lagging and Americans are hurting. I've been talking to people all over the country and making some tough decisions. Everyone knows that we need policies that spark growth. Some seem to have stumbled upon this truth only recently, ((some others have stumbled upon it, picked themselves up, and pretended it never happened)).

Ever since coming to the White House, first as Vice President, then as President, I've fought long and hard for lower taxes, less spending, fewer regulations and reduced capital gains taxes. I'm afraid that the Democratic Congress has been more interested in defeating my growth initiatives than getting the economy back on its feet. Well, their victory is your disaster.

Now, you're going to hear lots of proposals for growth in the next six weeks -- some prudent and pragmatic, some irresponsible and irrelevant. Too often, election time generates so much baloney, that Americans are left asking, "Where's the beef?" So I've devised a few simple tests I'd suggest in figuring out whether growth proposals are beef or bull:

First: Does it make economic sense? In a healthy economy, investors invest in business; entrepreneurs take risks; workers

produce; consumers buy. It doesn't take an economics degree to figure this out. A prescription for economic health does not deter investment. It does not punish risk. It does not regulate business out of business. And it does not tax away a hard earned income. But it does control gov't spending

Second: Does it make us more competitive? Does it prepare us for the markets of tomorrow? Does it prepare our students for the challenges of the next century? Think about it -- yesterday the smokestack; today, the microchip; tomorrow -- who knows? Wayne Gretzky used to say, "..skate where the puck is going to be, not where it has been." As global trade continues to grow by leaps and bounds, we need to make sure American exports stay ahead of the curve. Our merchandise exports support 7.2 million American jobs -- a **42% rise** in five years. It's simple -- a more competitive America means more American exports. More American exports mean more American jobs.

Third: Does it address your basic concerns: Does it protect what you want protected, and promote what you want promoted? For many American families, a home is more than their castle, it's their capital. And while government mismanagement chipped away at home values, Americans watched their main assets grow smaller and smaller. Other families, confronted with tragic accidents or chronic illnesses, watch as unbridled health care costs drain away the lifeblood of lifetime savings. Taxpayers have a right to ask whether economic proposals are going to help them preserve

the value of the things they have worked so hard to secure -- their homes, their incomes, their pensions, their futures.

Fourth: Does it get Washington's house in order? What does it do to the federal budget -- does it minimize it, or does it politicize it? Does it cap spending and does it give the American people their money's worth? Anyone who's ever managed household finances can tell you that the deeper you crawl into debt, the harder it is to climb out. Maybe some people up on Capitol Hill can get away with bouncing checks -- American competitiveness cannot.

Apply these tests each plan you hear this year -- and see whether they back it up or shoot it down. Too many of these notions still operate on the old paradigm of tax it, spend it, and promise it. Well, I don't think many people are going to buy it. ((Mother Nature's the only one around here who can give New Hampshire a snow job)).

I didn't come up here with miracles or magic tricks. I'm not going to promise to outlaw icy roads or black fly season. I won't play to any fear of foreigners, to hidden hatreds, or to class conflict. That's not me -- never has been, never will be.

But I will continue to fight Capitol Hill for fewer taxes and lower spending. I will continue to fight abroad, like I did in Asia, for more free trade and more fair trade -- leveling the playing field for the power of "Made in America." I will fight against protectionism -- policies that would have our industry stagnate in the stale air of government shelters rather than

5 words

brave the bracing winds of international competition. I will fight against isolationism -- I will protecting American interests and preserving American principles. I will fight against those who preach a politics of division, who want to turn the world into a land of us versus them, rather than as a place of unlimited opportunity. And I will continue to fight at home -- for better schools, for a cleaner environment, for safer streets, and for a brighter future. \\

So listen to what my competition says -- then hear me out. I'm counting on the people of New Hampshire -- and I'm confident that when you sort out the beef from the bull, you'll know who's got the best plan to get this economy moving again.

You know, the Republican party was founded about 100 yards away from here. It set its sights on becoming the party of freedom, of union, and of the future. The GOP's founders declared war on the very kind of Know Nothing Nativism that seems to be rising up in some parts of our country today. Well, I intend to remain true to the the principles, optimism and determination that made this party and this nation great.

With New Hampshire's help, we will rise to heights our forefathers would have found unimaginable. And we will rise on the basis of our hard work, our belief in freedom, and our faith in ourselves. Thank you. God bless New Hampshire, and God bless the United States of America.

# # #

No mention of our strength!

Dover, Chamber of Commerce
(603) 742-2218

6th largest Service Sector employer
2800 employees
Lost & split
2 manufacturers employers larger
~~Tied~~
Tied for 5th.?
Overall sixth or 7th.

Tied for ~~6th.~~ Overall
Ms. Jamie Batson
Executive Dir. of Greater Dover
C of C

Governor's office, Concord

(603) 271-2121

Insurance Commissioner
(603) 271-2261

Labor Dept. ~~Commissioner's office~~
(603) 271-3176

Employment Security - Statistics
(603) 228-4051 228-4000, Commissioner

NH Business Review
Dec '92
Based on Annual Survey
8th. 91 employment at 2,800

BRUCE DEMAY

Whit Lancaster
X 45660

#6 2850 → BOB GOODMAN
[#7 2800 TOP 100 PRIVATE
#7 2800] SECTOR EMPLOYERS
IN NH
NH BUSINESS REV
DEC 13, 1991
P. 26

TOP 100

1	DIGITAL	7500
2	LOCKHEED	5550
3	DART / HITCHCOCK	5000
4	HANNAFORD	4100
5	SCANS	3450
6	DE MOLAS	2850
7	BANK OF IRELAND	2800
8	LM	2800
9	ELLIOT HEALTH	2559

DOUG CHIA - SPEECH WRITING OFFICE

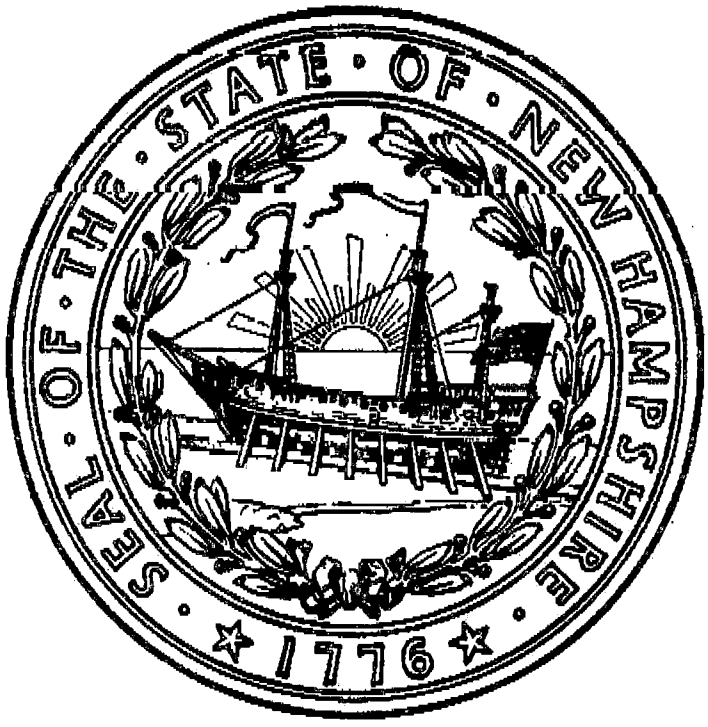
New Hampshire's Top 100 Private Sector Employers

	Parent Company	NH Employ. '91	NH Employ. '90
1.	Digital Equipment Corporation	7500	8000
2.	Lockheed Corporation	5550	7000
3.	Dartmouth-Hitchcock Medical Center	5000	6079
4.	Hannaford Brothers Co.	4100	2300
5.	Shaw's Supermarkets Inc.	3450	3750
6.	DeMoulas/Market Basket	2850	3400
7.	Bank of Ireland	2800	1655
8.	Liberty Mutual Group	2800	2500
9.	Elliot Health System (Health Northeast)	2550	1400
10.	General Electric Company	2500	2679
11.	Textron Inc.	2300	2254
12.	Dartmouth College	2216	2699
13.	Sears, Roebuck & Company	1971	1967
14.	NYNEX Corporation	1953	2567
15.	Timken Company, The	1900	1825
16.	GTE Corporation	1893	1901
17.	James River Corporation of Virginia	1875	2300
18.	Public Service of New Hampshire	1865	2804
19.	Ames Department Stores, Inc.	1400	1800
20.	Precisionary-NOK (U.S. Headquarters)	1400	1475
21.	Hospital Corporation of America	1400	1155
22.	McKesson Management Services, Inc.	1397	1269
23.	Fidelity Health Alliance	1388	1405
24.	Covenant Health Services	1366	1000
25.	Sequa Corporation	1278	1579
26.	Nashua Corporation	1250	1500
27.	New Hampshire College	1220	1000 plus
28.	Capital Region Health Care Corp.	1200	1200
29.	Supermarkets Gen. Corp. (Purity Supreme, Inc.)	1200+	1550
30.	United Parcel Service	1200	980
31.	Sturm, Ruger & Company, Inc.	1132	1150
32.	HADCO	1100	1100
33.	Minebea Co., Ltd.	1025	1093
34.	Cabletron Systems, Inc.	1000	600
35.	Kmart Corporation	1000+	1063
36.	Nashua Memorial Hospital	1000	1081
37.	Teradyne	970	1100
38.	Hitchiner Manufacturing Co. Inc.	930	1000
39.	ITT Corporation	895	777
40.	Blue Cross & Blue Shield of New Hampshire	862	890
41.	Harvard Industries	827	960
42.	Cheshire Health Foundation, The	813	789
43.	Exeter Health Resources	800	750
44.	Loon Mountain Recreation Corp.	800	800
45.	Raytheon Company	800	651
46.	Chubb Corporation, The	771	771
47.	Fleet/Norstar Financial Group	750	1032
48.	Heidelberger Druckmaschinen AG	750	830
49.	J.C. Penney's	750	789
50.	Tyco Laboratories Inc.	750	750

	Parent Company	NH Employ. '91	NH Employ. '90
51.	Mariam Corporation	738	675
52.	Wentworth/Douglass Hospital	680	680
53.	Watts Industries, Inc.	680	680
54.	Lakes Region General Hospital	636	749
55.	American Insurance Group	600	750
56.	Anheuser-Busch Companies, Inc.	600	575
57.	Hewlett Packard Company	600	650
58.	May Department Stores Company, The	600	280
59.	Velcro Industries N.V. (U.S. Headquarters)	600	600
60.	Hillhaven Corporation, The	595	595
61.	Clipper Affiliates, Inc.	590	549
62.	Sprague Technologies Inc.	585	800
63.	Bank of New Hampshire Corporation	557	600
64.	Lechmere Inc.	550	600
65.	Moore Corporation Limited	550	650
66.	Nationale Nederlanden N.V. (No. Amer. P & C Group)	550	524
67.	Smith Industries PLC	550	525
68.	M/A-COM, Inc.	545	640
69.	Bass plc (Subsidiary/Holiday Inns)	535	530
70.	Frisbie Memorial Hospital	531	N/A
71.	K.W. Thompson Tool Company, Inc.	525	475
72.	Crotched Mountain Foundation	490	450 plus
73.	Ingersoll Rand Company	490	496
74.	Framatone	480	485
75.	Campeau Corporation (Corp. Headquarters)	473	730
76.	Hawker-Siddeley Group, plc	470	548
77.	Brookstone Company	455	394
78.	Ralley Corporation	453	383
79.	C.R. Bard Inc.	450	360
80.	MacLeod Enterprises Inc. d/b/a Yoken's	450	200-approx.
81.	Beede Electrical Instruments Co. Inc.	440	389
82.	Kingsbury Corp.	430	565
83.	Annaire Mobilitee Dolls Inc.	400	450
84.	Associated Grocers of New England, Inc.	400	310
85.	Balsams Corp.	400	450
86.	Merchants Rent-A-Car, Inc. (Singer Family Co.)	400	245
87.	Montgomery Ward & Co., Inc.	400	400
88.	Stop & Shop Companies, Inc. d/b/a Bradlee's Dept. Stores	400	450
89.	Flatley Company, The	395	560
90.	Hutson's Supermarkets	375	295
91.	New England Business Service, Inc. d/b/a NEBS	370	313
92.	Home Holding, Inc. Sub. of Trygg-Hansa SPP Group	360	364
93.	Mt. Attitash Lift Corp.	360	450
94.	Saint-Gobain (CertainTeed-U.S. Subsidiary)	354	300
95.	AAVID Engineering, Inc.	350	397
96.	Janco, Inc.	350	350
97.	L.W. Packard & Company, Inc.	250	350
98.	New London Hospital Association, Inc.	350	250
99.	Union Leader Corporation	350	360
100.	National Sea Products Ltd.	344	350

Ranked by number of employees as of 1991. Source: NHBR Survey

FAX COVER SHEET



NEW HAMPSHIRE
EMPLOYMENT SECURITY

Mailing Address
32 South Main Street
Concord NH 03301-4857

Location Address
10 West Street
Concord NH 03301-4857

FAX # (603)228-4172

Sender Phone #(603) 224-3311 or (603) 228- 4126

To: DOUG CHIA
(Name)

From: BRUCE DeMAY
(Name)

WHITE HOUSE SPEECH WRITING OFFICE
(Office)

ELMI
(Section)

(202) 456-6218
(FAX#)

COVER SHEET + [1] **NUMBER OF PAGES**

SUBJECT OF FAX: top 100 private sector employers - 1991 from NH Business Review "Book of Lists"

Jennifer:

Here's the latest, just released one month ago:

Country	Amount spent in 1990 per capita
U.S.	$2,566
Japan	1,113
Germany	1,287
(Canada	1,795
France)	1,379

We're also getting the primary source material for this.

Kim Yale

(Smith/Grossman)
January 12, 1992
Draft Four
HAMP

PRESIDENTIAL REMARKS: LIBERTY MUTUAL
DOVER, NEW HAMPSHIRE
WEDNESDAY, JANUARY 15, 1992

Gary Countryman, the men and women of Liberty Mutual. It is always good to be here. I have come to New Hampshire to tell friends what <u>really</u> happened at the State Dinner in Japan. / Barbara convinced me to try the broccoli. //

((Let me begin by denying a vicious rumor. I have not traveled to New Hampshire to personally renew my subscription to the "Union Leader.")) I <u>am</u> here to talk about the jobs and economic growth that is my highest priority. //

On Election Night four years ago, I spoke from the heart these four words: "Thank you, New Hampshire." // New Hampshire made me President. // There is no state in America whose people I <u>love</u> / whose needs I <u>know</u> / whose hurt I <u>feel</u> more deeply. //

I know times are tough up here. I also know that in a world forever smaller, foreign and domestic policy have never been more entwined. // We will not build prosperity by building a <u>fence around America</u>. Instead, we need the initiatives overseas <u>today</u> which mean American jobs <u>tomorrow</u>. //

I went to Asia to help secure those jobs by telling foreign leaders: We don't want just <u>free</u> trade. We want <u>fair</u> trade. // Americans don't ask for a home-field advantage. We <u>do</u> insist on a level playing field where our workers can compete. // Your

"The Customers' Advocate— Because We Understand The Costs Involved."
Current: Slogan
OK - JC
No longer Used Not Active
Mutual Insurance

emblem says it all: "America believes in liberty." // I mean the liberty from trade barriers that can open markets / increase exports / and achieve a business renaissance. //

John Cusolito, Manager of External Relations (617) 574 5512

We didn't fight all these years to bring down the walls of Communism in Eastern Europe only to now build up the walls of isolationism around America. / Protectionism doesn't work // didn't when it caused the Great Depression // won't work better now. // Like it or not, we live in a global economy: When it comes to trade, we will "live free, or die." //

We don't need the cheap ploy of protectionism. We need a real plan for economic growth -- not a quick-fix, but long-term solutions. // Proposals are now being floated by the candidates. Some rest on fact -- others, fiction. / Here are standards by which to judge these proposals -- including the program I will unveil two weeks from now in the State of the Union. //

First, a real growth package should make sense in the real world -- ensuring the freedom to create, build, invest, and dream // I want a nation of entrepreneurs who are encouraged to take risks -- not forced to take refuge. // Second, a real growth package should make America more competitive -- increasing our exports and creating new jobs. //

Third, this package must not increase the deficit. We need to cut spending -- not opportunity. / Finally, it must preserve basic assets. I speak of the value of the home -- and the need to help all Americans -- especially lower- and middle-class --

POTUS has never attended
Golf Tournament - D.C.
Didn't Rain either

raise a family and educate our kids. That, and only that, will restore faith that tomorrow will be better than today. //

That is especially true in health care. We must make it accessible. We must also make it affordable. // ((I just want to clear up a misconception. I didn't collapse at the State Dinner in Japan because they gave me a bill.)) // Today, skyrocketing health care bills are hurting the lives of millions of Americans. // A proverb says, "He who has health has hope, and he who has hope has everything." // In State of the Union, I will unveil a health care plan to give hope to Americans who despair of rising costs. //

For several years, Liberty Mutual has shared its expertise to help us form our health care package. Even before, I felt a kinship. // I remember campaigning here in 1987 at your mill then under construction. / I have admired Liberty Mutual as a point of light -- donating a rescue vehicle to the Dover Fire Department / helping high school kids through the Project Invest program / creating jobs as New Hampshire's ninth-largest employer. // There's also our longest link -- the Liberty Mutual Legends of Golf Tournament in Austin. ((I was down there several weeks ago, and it rained every day. I felt right at home. / The way I play golf, I spend most of my time in the water, anyway.))

I want to thank people like Bob Laszewski, Liberty's Executive Vice-President, for enriching those ties. // Bob has worked with Secretary Sullivan of HHS -- and with Senator Rockefeller and the Pepper Commission. He knows how the U.S. now

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# # # #

Anyone Else?

Chairman of the Board, Chief Executive Officer + President of LM

Judd Gregg, Gov. NH

2 Execs countryman + Laszewski

(Smith/Grossman)
January 12, 1992
Draft Four
HAMP

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Bob Goodman (603)-749-2600 x3100 Administrative Manager Dover, NH LM

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Current: "The Customer's Advocate— Because We Understand The Costs Involved." Slogan

No longer used Not Active

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# # # #

City/State: Dover NH Liberty Mutual

Event: _____

Date: _____

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CONTACT SHEET

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Presidential Advance Fax Number		202/456-2820
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Hugh Gregg	Bush/Quayle NH	603/647-3000
Bob Simon	WH Speechwriting	202-456-7750
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Bob Steele	WHCA	202/395-4040
Richard Williams	WHCA	202/ 757-5196
Dave McCarthy	NH STATE Police	271-3636
Jim Fitton	USSS/Concord	603 228-3428
LARRY SPERO	USSS/PPD	202-395-4117
PAUL KING	WHS	617-382-7537
Bob Goodwin	Liberty Mutual/Dover	603-749-2600 X31000
Brian Montgomery	White House Advance for Press	202/456-7565
Cory Tilley	Bush-Quayle NH	603-647-3000
Kelley GANNON	WH Advance	202-456-7565
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DALE JENKINS	WH/ADVANCE	202-456-7565 NH 603-431-2300
John Cusolito	LM/External Relations (Boston)	(617) 574-5512

at Hill 1/17.

ANNUAL REPORT 1989

LIBERTY MUTUAL

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On the Cover

Many of the state workers compensation systems are burdened by excessive litigation, out-of-control medical costs and administrative red tape. Reform is needed to restore the systems to their original purpose — helping the injured worker.

HAVE WE LOST SIGHT OF THE REAL REASON FOR WORKERS COMPENSATION?

"I believe most of us want the same thing . . . a private system of workers compensation insurance that places heavy emphasis on injury prevention and injury mitigation, including physical and vocational rehabilitation; a system that provides for the basic needs of injured workers by promptly delivering adequate medical and income benefits; a system that delivers those benefits in the most efficient and dispute-free ways possible; and a system that provides cost stability within the framework of common-sense notions about inevitable rates of inflation . . . since inordinate cost escalation is the root cause that threatens the system and inadequate rates are merely the result, it follows that reform is our best and only hope. We need a strategy and a structure to achieve it across a broad array of states, each with its own culture, its own system, and its own problems."

Gary L. Countryman
President & Chief Executive Officer
Liberty Mutual

From an Address to the 1989 Workers Compensation Congress, Philadelphia, Pennsylvania

WORKERS COMPENSATION WAS DESIGNED TO ELIMINATE DISPUTE, NOT PROVIDE A FORUM FOR IT.

When the system was established over 75 years ago, injured workers were guaranteed immediate benefits, a remedy the courts could not promise — then or now. This pioneering no-fault system eliminated an adversarial, unpredictable approach, while it gave workers prompt medical and income benefits and assured employers of predictable costs in funding the system.

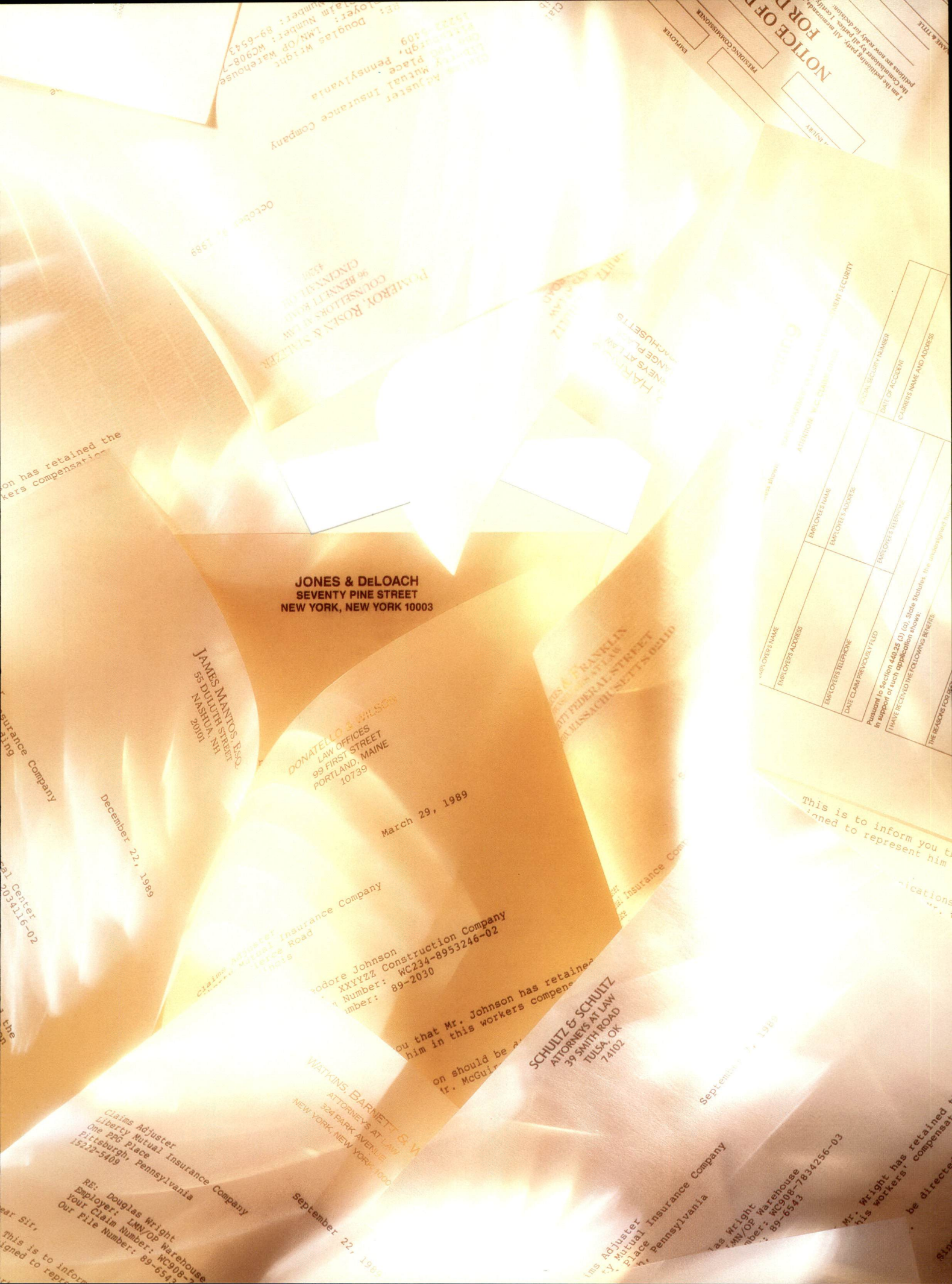
We need to strengthen our commitment to that promise. Today, unnecessary and inappropriate litigation is cluttering the workers compensation system, making it very

difficult to meet the objectives of a no-fault system.

Workers compensation should be a team effort, with employer, insurer, injured employee and physician working together to speed recovery and return to work. Introducing adversarial elements into workers compensation only upsets the system's careful balance of interests. Moreover, much can be done to help minimize the necessity for representation in what should be a dispute-free system.

We believe it is essential that injured workers understand how the system works and how to exercise their rights within it. Access to such information should be easy — with educational brochures and state-sponsored toll-free numbers for injured workers to call with questions. If we can help people understand how to get the benefits that workers compensation was designed to deliver, it should help keep the system the dispute-free mechanism it was intended to be.

Rather than turn to the courtroom, when legitimate disputes arise, they should be addressed informally within the workers compensation system — allowing for quicker, more effective dispute resolution, and faster delivery of benefits.


JONES & DeLOACH
SEVENTY PINE STREET
NEW YORK, NEW YORK 10003
JAMES MANTOS, ESQ.
55 DULUTH STREET
NASHUA, NH
20101
DONATELLO & WILSON
LAW OFFICES
99 FIRST STREET
PORTLAND, MAINE
10739
March 29, 1989
December 22, 1989
SCHULTZ & SCHULTZ
ATTORNEYS AT LAW
39 SMITH ROAD
TULSA, OK
74102
WATKINS, BARNETT & W
ATTORNEYS AT LAW
324 PARK AVENUE
NEW YORK, NEW YORK
Claims Adjuster
Liberty Mutual Insurance Company
One PPG Place
Pittsburgh, Pennsylvania
15222-5409
RE: Douglas Wright
Employer: LMN/OP Warehouse
Your Claim Number: WC908-7834256-03
Our File Number: 89-6543
September 22, 1989
Claims Adjuster Insurance Company
Liberty Mutual Insurance Company
Pittsburgh, Pennsylvania
Douglas Wright
Employer: LMN/OP Warehouse
Your Claim Number: WC908-7834256-03
Our File Number: 89-6543
Mr. Wright has retained
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XXYYZZ Construction Company
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SOCIAL SECURITY NUMBER
DATE OF ACCIDENT
CARRIER'S NAME AND ADDRESS
THE REASONS FOR

WITH ALL THE BUREAUCRATIC RED TAPE, IS IT ANY WONDER THERE ARE STATES OF CHAOS IN OUR WORKERS COMPENSATION SYSTEM?

When state workers compensation administrative systems get bogged down, the injured worker is the first to suffer. Some states are models of efficiency, delivering appropriate benefits promptly. However, where state systems are bound by poorly designed laws and regulations, or their administration is underfunded and understaffed, red tape takes over and the worker loses.

Restoring the efficiency of strong state administrative systems must be a priority, or else red tape will overwhelm the system's capacity to deliver.

The goal of a well-designed workers compensation system is the no-fault, no-hassle delivery of benefits — after all, getting those benefits to the injured worker is the real reason that workers compensation was created.

State laws underlying the administrative system must support this goal, and should create no barriers to prompt payment. Uniform interpretation of these laws within jurisdictions will help restore predictability and reduce disputes.

Benefit levels must be reasonable, providing support for injured workers and their families as long as necessary, without discouraging return to work. And, an active, effective workers compensation administrative process is needed to carry out the intent of sound laws.

As much as possible, that administrative process should reside outside the political process, committed only to the principles of fairness and efficiency. Backed by proper staffing, education and funding, this commitment represents perhaps our greatest hope for the restoration of the workers compensation system.

MEDICAL CARE COSTS ARE OUT OF CONTROL IN VIRTUALLY EVERY ARENA AND WORKERS COMPENSATION IS NO EXCEPTION.

Providing injured workers with high-quality care is one of the principal reasons that workers compensation exists. The right kind of medical care also gets workers back on the job quickly and helps them achieve the greatest degree of recovery possible.

But medical care costs have increased dramatically — and there is no apparent end in sight to these increases. We must strengthen the system's ability to contain medical care costs, before inflation reaches a point of no return.

Realistically, to continue delivering quality medical care, we must reevaluate the way in which that care is delivered. Given today's costs, only a workers compensation system which operates efficiently and cost-effectively will be able to provide for the next generation of workers.

To help streamline the system, "doctor shopping" and unnecessary testing must be eliminated. The advantages of managed care must be explored, with alternatives like HMOs and PPOs given serious consideration. And, sensible fee schedules and effective utilization reviews will go a long way toward restoring the efficiency of the system.

We believe that managed care should begin from the moment of injury, with effective rehabilitation initiated early in the recovery process. This approach has proven effective in containing costs and keeping the system healthy, while it gives injured workers the greatest chance for recovery. This way, the worker gets care which is appropriate for the injury, and all aspects of medical care support the goal of returning the worker to productive employment whenever possible.

HAVE WE LOST SIGHT OF THE REAL REASON FOR WORKERS COMPENSATION?

At the outset, workers compensation operated with a clear purpose. It was an extraordinary system that not only dealt with the effects of work-related illness or injury — it also sought to prevent the very occurrence of such accidents.

When administered effectively, our workers compensation system builds in incentives for workplace safety and rehabilitation. It provides for the basic needs of injured workers in a prompt, dispute-free manner. And, workers compensation provides cost-stability for employers funding society's answer to on-the-job illness or injury. These are unique attributes of a system that we must strengthen for the future.

At the heart of workers compensation is our intent to protect the dignity of injured workers and their families — through income replacement and good medical care which promotes quick recovery. However, given today's threatening cost trends, we must strengthen the underpinnings of the system to respond to the future needs of workers and their employers.

We owe it to the next generation to have a strong workers compensation system, so that every injured worker in America can depend on prompt benefit payment, high quality medical care and help in getting back to work as quickly as possible.

The Liberty Mutual Insurance Group operates under clear, proven policies which have been systematically developed to meet several fundamental objectives. We strive to provide a wide range of products to satisfy our customers' total insurance needs as well as their closely related financial service needs. We support these product offerings with high-quality service, combining professionalism, prompt attention and convenience for our policyholders. Also, we work to maintain a reliable pricing structure that is both competitive and affordable.

At Liberty Mutual, we have worked directly and cooperatively with our policyholders since the Company was established in Massachusetts in 1912. Our approach to the business of insurance has enabled us to become one of the largest multi-line writers in the property/casualty field. As policyholder needs have changed through the years, we have responded by developing new products and services, guided always by the highest standards.

Our subsidiary, Liberty Life Assurance Company of Boston, was founded in 1964 and currently ranks in the top 9% of life insurance companies, with in-force insurance exceeding $9 billion. Today, we offer diversified financial services through Liberty Financial Companies, Inc., which includes our subsidiaries, Stein Roe & Farnham, Inc., Keystone Provident Life Insurance Company and The PAMCO Group, Inc. Liberty Northwest Insurance Corporation, now a leader in the Oregon business insurance field, was established in 1983 as an independent stock company wholly owned by the parent companies. Started originally with 15 employees, Liberty Mutual today employs more than 21,000 people in more than 300 offices throughout the United States and Canada. The Liberty Mutual Insurance Group now includes more than 30 companies.

Highlights of Combined Operations Liberty Mutual Insurance Companies

	1989	1988	% Increase
Admitted assets	**$17,108,156,291**	$15,748,796,079	8.6%
Liabilities	**$14,666,853,781**	$13,424,775,167	9.3%
Surplus and Special Reserves	**$ 2,441,302,510**	$ 2,324,020,912	5.0%
Net premium written	**$ 6,445,194,582**	$ 6,778,224,234	− 4.9%
Net premium earned	**$ 6,680,667,606**	$ 7,301,603,752	− 8.5%
Total number of accidents and claims reported	**2,180,298**	2,425,637	−10.1%
Losses and loss adjustment expenses incurred	**$ 6,584,028,384**	$ 6,909,817,867	− 4.7%
Federal income and state premium taxes incurred	**$ 304,223,764**	$ 319,961,415	− 4.9%
Dividends declared to policyholders	**$ 183,508,887**	$ 357,112,135	−48.6%
Income from invested assets, net	**$ 1,078,870,872**	$ 965,929,402	11.7%
Net income	**$ 116,812,071**	$ 86,853,841	34.5%

For the last several years we have been expressing our concern about the political environment your company faces and the risks it creates. We have responded in several ways — one is to try and change the environment in an effort to make it less hostile for us and those like you we serve. Indeed, this Annual Report's special focus on the urgent need for Workers Compensation reform illustrates such an effort. I recommend that you take the time to read it if you haven't already. It shows how much the stakeholders in Workers Compensation share in common, how much our systems of Workers Compensation are threatened, and how important it is that we all work together to restore their efficiency and effectiveness.

We have responded to political risks strategically as well. Diversification of our sources of income beyond our core property and casualty insurance businesses is one of our most important strategic objectives. We believe that one of the best ways to maintain our leadership position in our core businesses is to create a leadership position in several other related businesses.

The foundation of a first-class Group Insurance operation has been established and our challenge now is to grow the business and expand its product set beyond life and managed medical care. This we will do at a pace that will assure the quality of service you expect of us.

Our financial service businesses also continue to grow. Assets under management now surpass $21 billion. Keystone Provident had another good year and remains among the leading providers of investment-oriented life insurance. Stein Roe and Farnham successfully transitioned to a new management team and structure and had an outstanding year of performance in both its equity and fixed income investment activities.

So we are pleased with the progress of our newer businesses and are confident that they will add significantly to our earnings stability and financial strength as we deal with the politics of property and casualty insurance. Without doubt, an enhanced capacity to stay the course during these times of political hostility will help us maintain our core business commitments to you, our policyholders.

The most important way we are dealing with the political risks we face is to strengthen the financial position and operations of our core property and casualty insurance businesses. Our financial position improved somewhat during 1989. On a premium base of $6.7 billion, our after-tax income was $117 million, up from $87 million a year ago. Surplus increased by $117

million and at year-end totaled $2,441,303,000. Significantly, from a financial strength perspective, our premium/surplus ratio improved from 2.92 a year ago to 2.64 at year end.

Although we did achieve improved earnings, our after-dividend combined ratio increased from 112.5% to 114.6%. As we told you last year, our number-one challenge is to improve our underwriting performance. Because of the underwriting actions we took, we saw a clear break in our underwriting performance that signals improvement — a break that occurred early enough to be clearly evident, but too late to prevent a rise in our combined ratio. For this reason, we look forward to a substantial improvement in our underwriting results in 1990.

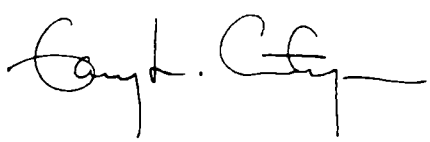
The performance of our two property and casualty business units was mixed. Our Personal Market saw a decline in pre-tax earnings from $113 million to $72.8 million. The primary reasons relate to an unusual number of catastrophes in 1989, Hugo being the most prominent, and the extraordinarily unsettled political climate caused by the aftermath of Proposition 103. Presently, we have no interest in growth in this market and will maintain that posture until the future course of private passenger automobile insurance begins to clarify itself. In the meantime, we will make every effort to maintain our commitment to policyholders and continue our fight for effective no-fault reform, tough anti-theft legislation, and automobile safety.

In contrast to our Personal Market, our Business Market experienced a substantial turnaround ending the year with pre-tax earnings of $61.5 million as compared to a loss of $26.6 million a year ago.

Although the politics of Workers Compensation remain problematical, we believe we are dealing effectively with those risks in our Business Market through state-by-state marketing programs tailored to local political realities. We have also increased our use of service-only programs and have introduced a new large deductible product. Both are especially effective in controlling policyholder costs in those states with large Workers Compensation involuntary market populations. For these reasons and for the reason that our tough underwriting posture over the last year and a half is now having its intended effect, we believe our Business Markets will continue to experience substantial earnings improvement in the year ahead.

And so as we look to the decade of the 1990's, there are risks that are going to be difficult for your company to manage. Nevertheless, with good strategies, with our continued financial strength, and with your help in changing the political environment in which we must operate, we look to the future with confidence.

Again, I want to thank our Board of Directors and Advisory Board members for their counsel and support over the past year. I also wish to thank our employees for their continued commitment to provide you with the best insurance service available. And finally, I wish to thank all of you for your loyalty and trust in all of us. We are proud to serve you.



Gary L. Countryman
President and Chief Executive Officer

INVESTMENTS

The common stock market — led by larger "cap" companies — rewarded investors in 1989 with exceptional returns. Prices of equities rose over 27%, as measured by the Standard & Poor's 500 Composite Stock Index. The debt markets, for the most part, also provided solid real returns significantly exceeding the underlying rate of inflation.

One sector of the market that did not perform well in 1989 was composed of lower quality debt issues, or so-called "junk bonds." Investors in these securities suffered substantial losses in value. The Liberty Mutual Group's investment policy of emphasizing higher quality securities, fundamental research, and a relative value selection process resulted in our portfolios avoiding the problems associated with this part of the market.

We continue to review and improve our investment strategies in order to meet the challenges of an ever-changing and dynamic investment environment. In 1989, we introduced into our portfolios a variety of new types of securities, increased our capabilities to take advantage of opportunities we believe exist in non-traditional investment products, and we have put in place the framework for a significant increase in quantitative research methodologies.

Additionally, there were two other strategic changes that are particularly noteworthy. First, we made a fundamental shift in how we manage common stocks. We have begun the process of converting our equity holdings from an active investment style to a passive investment strategy. We believe this new approach better suits the company's current strategic direction.

Investment Income (in thousands of dollars)

	Interest Dividends & Rents	% to Earned Premium	Realized Capital Gains	% to Earned Premium	Net Investment Income	% to Earned Premium
1989	$1,032,879	15.46%	$ 45,992	0.69%	$1,078,871	16.15%
1988	931,078	12.75	34,851	0.48	965,929	13.23
1987	795,478	11.64	117,223	1.72	912,701	13.36
1986	690,352	13.43	306,143	5.95	996,495	19.38
1985	603,769	15.65	116,954	3.03	720,723	18.69

Second, we have put in place a completely revised cash management program. Not only are we using a wider range of short-term securities, but we have also established a short-term borrowing facility to be used when there is an economic advantage in meeting our liquidity requirements. The primary purpose of this new program is to increase the return from our cash management activities and, at the same time, maintain the same flexibility we have always had in accommodating our insurance businesses' cash needs.

The invested assets of the Liberty Mutual Group property and casualty companies now total over $13.4 billion. The income from these assets (excluding capital gains) increased by 10.9% in 1989 and exceeded $1.0 billion for the first time in our companies' history. As can be noted in the accompanying table, the ratio of investment income to premium increased significantly in 1989, partly due to the increase in investment income, but more the result of a lower level of earned premium. New cash available for investment in 1989 was over $900 million — lower than the $1.2 billion in 1988, but more than the amount forecasted early in the year.

Capital gains realized during 1989 were a modest $46.0 million and were generated mostly from common stock sales associated with our change in management styles. There were fewer opportunities to generate capital gains from bond swapping activity because of the flat-to-slightly-inverted yield curve that prevailed throughout the year.

Invested Assets at December 31, 1989 (in thousands of dollars)

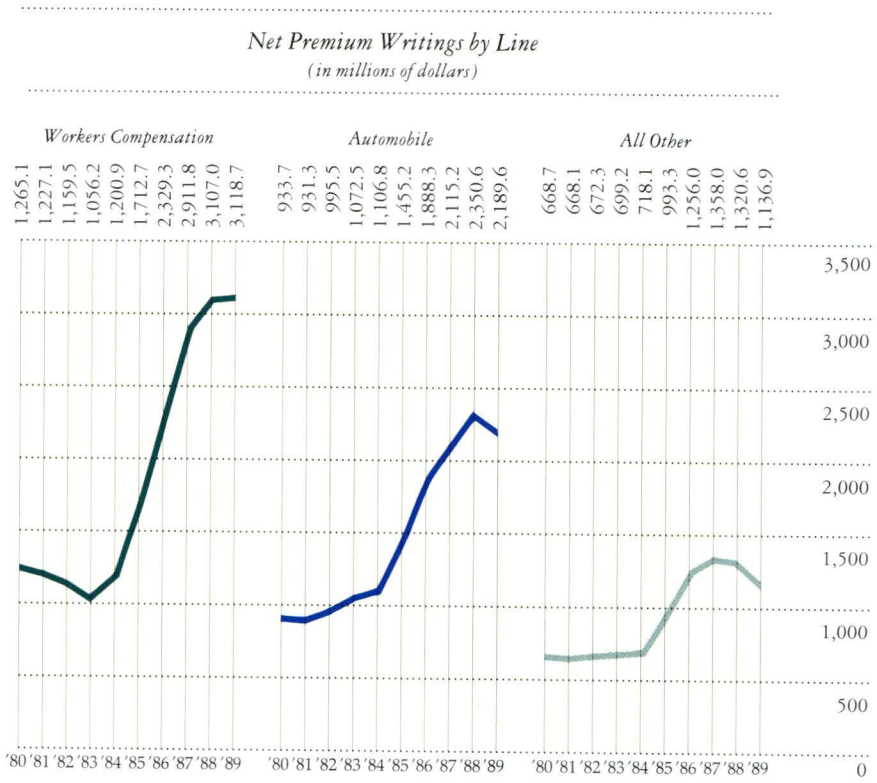
U.S. Treasury Securities	$ 2,730,155	20.4%
U.S. Government Guaranteed: G.N.M.A. Mortgage Backed Securities and Other Govt. Agencies	3,686,797	27.6
State and Municipal Bonds	4,229,526	31.6
Corporate and Other Bonds	1,211,419	9.1
Preferred Stocks	12,152	0.1
Common Stocks	596,290	4.4
Investments in Unconsolidated Subsidiaries	328,012	2.4
Short-term Investments	450,387	3.4
Real Estate	80,160	0.6
Other Investments	50,753	0.4
	$13,375,651	100.0%

PERSONAL MARKET

Personal Auto

Net written premium for private passenger auto totaled $1.4 billion, a 4.4% decrease over 1988. Liability loss trends continue to move upward at a faster pace than rates, increasing the net loss ratio in 1989 to 86.0% as compared to 82.1% in 1988. To maintain market share, rate increases during 1989 were moderate, and despite an extremely competitive market environment, our retention rate at year-end was favorable at 90.2%.

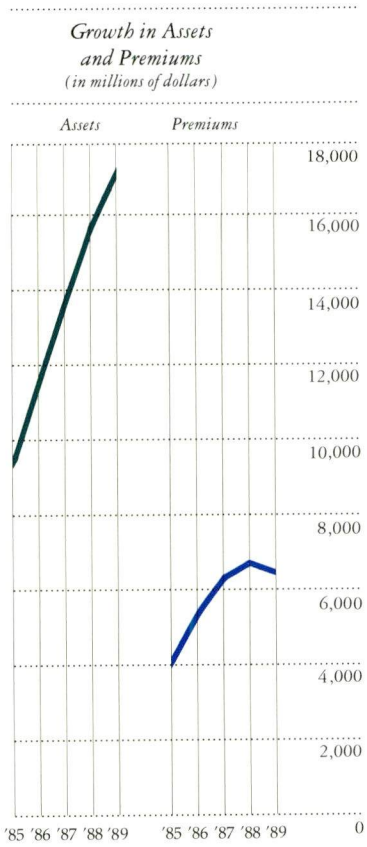
California remains an area of concern for Liberty Mutual and other insurers. In 1988, citizens of that state approved Proposition 103, which among other things, required insurers to reduce their auto rates to 20% below the 1987 rate level. In spite of its promised effects, Proposition 103 has not solved the problem of increasingly high auto rates in California. Proposition 103 did not address the root cause of high rates — California's ever-increasing number of bodily injury claims. As a result, the rate rollback cannot be justified and cannot be implemented. Liberty Mutual understands the frustration felt by California residents, and we continue to believe that until changes are made to the present tort system, meaningful cost reduction is unlikely to occur.



Liberty Mutual is encouraged that two states (New Jersey and Pennsylvania) have adopted optional No-Fault laws to address the escalating cost of bodily injury claims. However, the recent enactment of a law in New Jersey that will assess the insurance industry $1.4 billion to fund the deficit of the New Jersey Residual Market is extremely troublesome. In addition, as part of the Pennsylvania choice bill, the state mandated a 10% rate roll-back for those who stay with the current tort system. Neither the assessment nor the rate roll-back have valid legal grounds. Your company will continue to resist any assessments or roll-backs that do not produce long term savings for our customers.

In our home state of Massachusetts, 1989 was a year of transition for the state's auto insurance system. The Auto Reform Law became effective January 1st and apparently, desired results are already being achieved. We have seen a decrease in bodily injury claims due to a change in the tort threshold. For auto collision and comprehensive claims, policyholders can now receive direct payment from their own insurers, streamlining the process of vehicle repair and claim resolution.

The Mass Merchandising program, which allows us to market our products to groups of customers, continued to grow during the year. These policies represent almost 5% of our total automobile book of business and 15% of our new accounts. The opportunity to purchase Liberty Mutual's quality insurance products through Mass Merchandising is now available to employees and members of more than 900 companies and organizations.



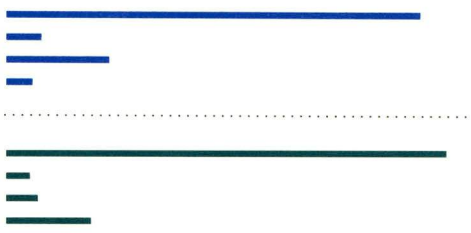
Our Small Offices Program continues to be successful at increasing our visibility in suburban towns, while giving local policyholders a convenient way to shop for Liberty Mutual products. In 1989, we opened 30 new small offices, bringing the total number of small suburban offices now in operation to 140.

Personal Property

Homeowners net written premium totaled $246.5 million, a 3.2% increase over 1988. A majority of this growth can be attributed to coverage increases of about 4.8%, generated through our Inflation Protection Program. Liberty Mutual implemented moderate rate increases in 23 states and rate decreases in seven others. Due to a rate decrease of over 10% in New York, we witnessed an overall rate level reduction of 0.9% in 1989. These adjustments allowed us to maintain a competitive edge and to retain desirable business as retention stabilized at 92.3% down slightly from 92.5% in 1988.

Assets, Liabilities and Surplus (*in millions of dollars*)

Assets:	
Notes and Bonds	12,328
Common and Preferred Stocks	968
Premiums in Course of Collection	3,119
Real Estate and Other Assets	693
Liabilities:	
Loss and Loss Expense Reserves	13,130
Unearned Premiums	658
Accrued Taxes and Other Liabilities	879
Surplus and Special Reserves	2,441



A major hurricane, the California earthquake and several other storms had adverse effects on our Personal Property results. The loss ratio from Homeowners increased from 65.7% last year to 78.4% in 1989. Hurricane Hugo, the most notable storm, resulted in approximately $11.5 million of loss or 4.7 loss ratio points. Total catastrophe and storm-related losses reached a record high of $32 million, which is over 13 loss ratio points. In each of the past two years, less than three loss ratio points were due to catastrophes.

New business sales of $27 million in 1989 decreased in comparision to the 1988 level of $32 million. This can be partially attributed to controlled growth and more stringent underwriting in this area.

Obviously, Mother Nature had a negative impact on our book of Homeowners business in 1989, and we expect to achieve more desirable results in the year ahead.

Net Premiums Written by Line — 1989

Line	*% of Total*	*1989*	*1988*	*% Change*
Workers Comp.	48.39%	3,118,741,414	3,107,041,871	0.38%
Automobile	33.97%	2,189,643,644	2,350,593,101	−6.85%
General Liability	8.78%	565,643,483	679,396,004	−16.74%
Property	8.37%	539,456,187	601,266,705	−10.28%
Miscellaneous	0.49%	31,709,854	39,926,553	−20.58%
Total	100.00%	6,445,194,582	6,778,224,234	−4.91%

BUSINESS MARKETS

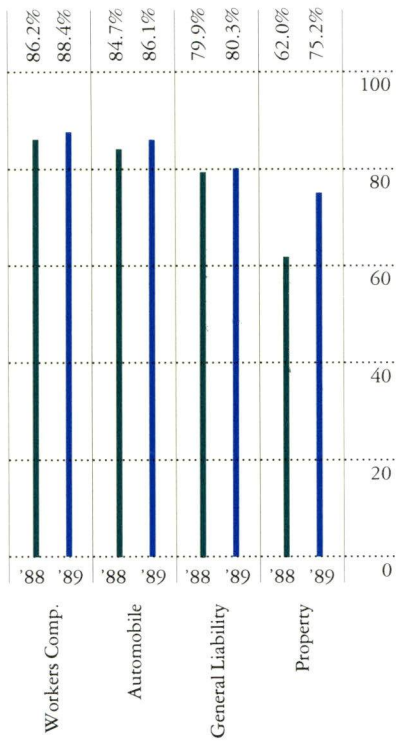
Workers Compensation

Net written premium for workers compensation in 1989 was $3.1 billion, an increase of only 0.4% as compared to 1988. This modest increase is attributable to a decrease in real exposure offset by an increase in manual rates of approximately 7.5%. The workers compensation net loss ratio for 1989 was 88.4%, an increase of 2.2 points from 1988. We have processed sizable rate increases in recent years, and have tightened our underwriting criteria. Despite these actions, the rising cost of providing workers compensation coverage continues to dramatically affect our results, as it does the results of the entire industry.

Along with others in the industry, Liberty Mutual continues to feel the adverse effects of the workers compensation residual market results. To alleviate its negative financial impact, Liberty Mutual is working with the National Council on Compensation Insurance. We are developing programs that require assigned risks to pay premiums commensurate with their projected costs, thereby reducing the burden of funding these assigned risks for our voluntary market customers.

To ensure the health of all 50 state workers compensation systems, Liberty Mutual is encouraging grassroots reform efforts at the local level. We hope this coalition-building strategy will restore the overall workers compensation system to one that delivers fair, equitable benefits to injured workers in a timely, cost-effective way.

Loss Ratio (Net)

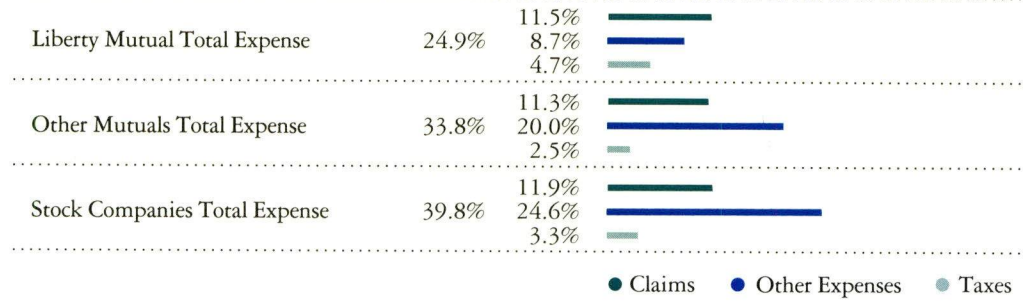


To meet the needs of businesses choosing to self-insure, we launched a new product in 1989 — the Helmsman Service Plan. Now available in all jurisdictions that permit self-insurance, the Helmsman Service Plan provides a comprehensive package of high-quality claims, loss prevention and risk management services, as well as excess coverage, for businesses that assume risk for their workers compensation exposures. For customers who opt to retain a portion of risk, yet still insure against large losses, we also filed our Workers Compensation Large Deductible Plan with insurance departments across the country.

The Liberty International Insurance Agency continues to provide our customers with access to various specialty markets, excess markets and foreign insurance markets. In 1989, the Agency began a program of moving brokers into field offices, allowing for more efficient response to customer needs.

The Liberty Mutual Medical Service Center in Boston has introduced a new program to meet the needs of patients with chronic low-back pain, who have been unable to work following an industrial injury. The Liberty Mutual Back Education and Rehabilitation Program (LIMBER) is a multi-disciplinary, aggressive reconditioning program designed to return injured workers to normal lifestyles.

Expense Control



Countrywide Incurred Expenses as Percentage of Premiums (Best's Aggregates and Averages — 1988 Calendar Year).
Taxes and Commissions are based on Written Premiums. Other expenses are based on Earned Premiums. Does not include Federal Income Tax.

Commercial Auto

Earned premium in 1989 amounted to $815 million, a decrease of $70 million from 1988. These results are due to a combination of circumstances, including the return of softer market conditions and the inability to secure adequate rate levels in some jurisdictions.

Nonetheless, the reduction in losses was relatively greater than the reduction in premium, and accordingly we witnessed loss ratio improvement in this line from 88.9% in 1988 to 86.2% in 1989.

We will continue to follow prudent underwriting practices in this area. Since the Insurance Services Office will no longer file fully loaded manual rates on our behalf, we are re-evaluating our pricing methodology for Other-Than-Compensation lines to produce an accurately rated product.

To help policyholders evaluate the effectiveness of safety programs of their for-hire trucking fleets, in 1989 we developed an automated Fleet Evaluator Program. Similar evaluation programs for private fleets and passenger car fleets are also under development and will be available to customers in the near future.

Expense Distribution — 1989

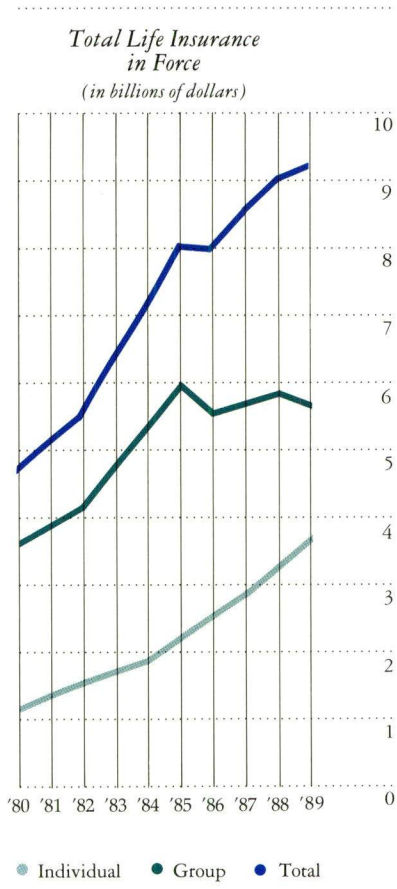
Salary and Employee Benefits	35.4%
Allocated Claims Expense	27.1%
Premium and Other Taxes	16.4%
Real Estate, Rents, Equipment	9.5%
Advertising, Printing, Postage, Telephone	5.7%
Travel	2.6%
Bureaus and Miscellaneous Expenses	3.3%
Total	100.0%

Commercial Property

Our volume of commercial property insurance, particularly our large book of multiple peril policies, decreased substantially as compared to 1988. Net premium written in this line fell by a total of 19.8%. Our recent history of expanding volume was slowed largely by an increasingly competitive marketplace.

Our ability to handle Large Property loss was tested in 1989 as the country suffered substantial losses from natural disasters. Nonetheless throughout the year, our performance in handling complex property risks proved superior. One policyholder, Highland Superstores, Inc., voiced much satisfaction with our handling of their $38 million property loss.

At the same time, we were able to minimize the impact of these disasters on our bottom line through effective risk reinsurance strategies. We will continue to expand the Large Property program, as it has proven highly successful for our customers and for us.

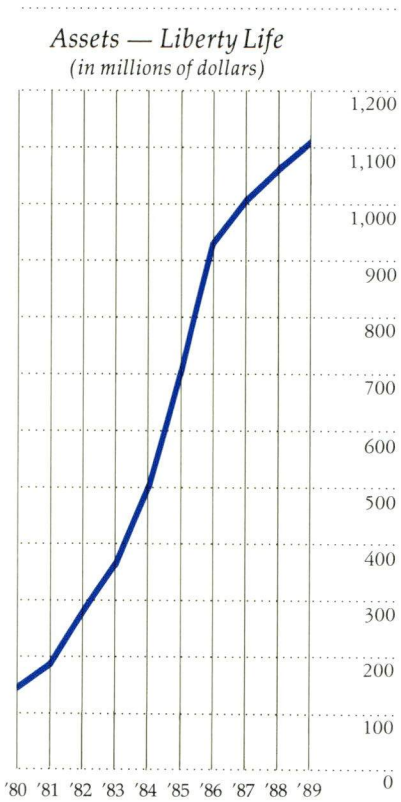


General Liability

Earned premium for General Liability totaled $641 million in 1989, a decrease of $236 million in comparison to 1988. Incurred lossed were $514 million, representing a decrease of $187 million from 1988.

The reduction in losses, however, was relatively less than the reduction in premium, accounting for an increase in loss ratio from 79.9% to 80.2% in 1989. The rise in loss ratio can be partially attributed to the fact that long-tail asbestos and pollution claims continue to emerge, without corresponding premium offsets.

In response to a growing need for pollution control, researchers at our Hopkinton facility are developing an audit protocol to help policyholders evaluate their safety programs — with greater emphasis on the avoidance and control of chemical spills. In addition, we are conducting a series of seminars aimed at helping customers improve their dust control programs. We expect a favorable customer response to these, as well as to the many other loss prevention programs we initiated in 1989.

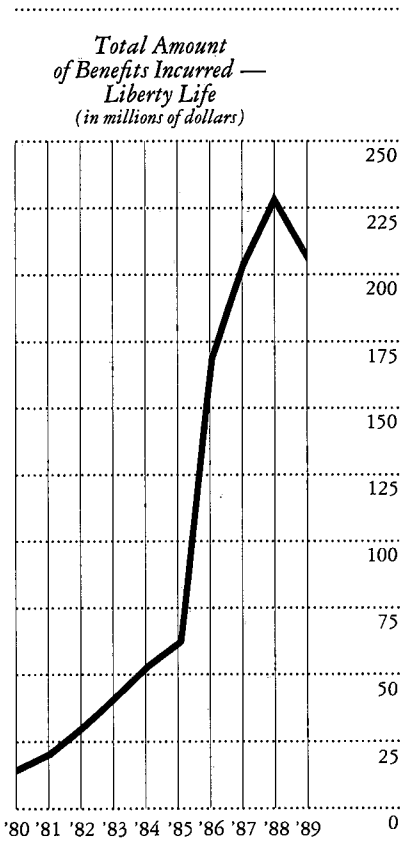


LIFE COMPANY MARKET

This past year marked the 25th anniversary of Liberty Life Assurance Company of Boston. It will be remembered as one of the best, most progressive years in the Life Company's history in terms of Individual Life sales. The Group area also produced an impressive turn-around in 1989, ending the year with a $26.8 million improvement in pre-tax operating results, as compared with 1988.

The Life Company's net income for 1989 was $8.3 million. Our income before federal income taxes and net realized capital gains was $12.4 million, a significant improvement over 1988's loss of $18.3 million. Our capital and surplus increased by $14.1 million during 1989. In addition to the $8.3 million from net income, a $5.8 million net increase also occurred as a result of changes in the valuation of our annuity and long-term disability reserves.

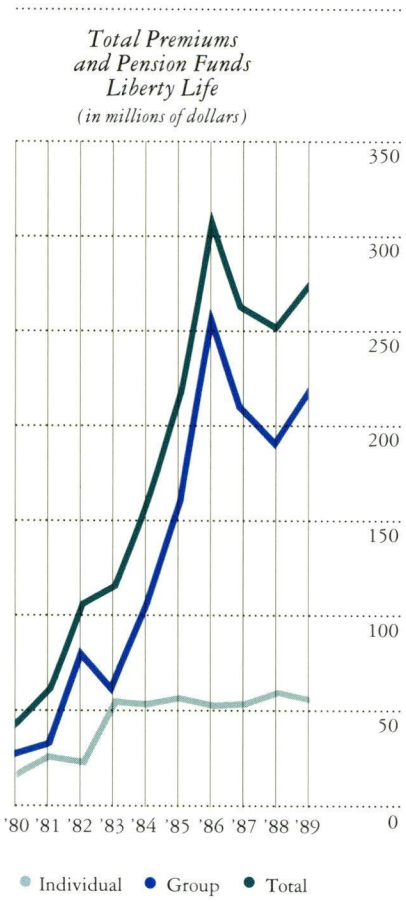
In the Individual area, we issued 19,520 individual life policies, with an impressive total of $6.8 million in annualized premium. Of the total policies issued in 1989, over 14,470 were permanent (cash value) policies. We now insure over 140,644 lives through individual and joint life policies and retirement annuities. We also insure thousands of additional lives through family and children riders, joint life riders and additional insured agreements.



The Liberty Security Account was formally offered as a new settlement option in September of 1989. This new option allows time to evaluate the most appropriate investment of policy proceeds, while the funds work for beneficiaries in an interest-bearing checking account which can be drawn on as needed.

Liberty Life's highly competitive portfolio of products was enhanced in 1989 with the addition of a Joint Mortgage Protection Plan. This new product offers customers the advantage of protecting two lives with one policy. Under the terms of the plan, should a partner die, Liberty Mutual will provide the financial support necessary for the surviving partner to continue to make vital mortgage payments.

Growing national concern with health care cost inflation led to the development of an Administered Risk Management (ARM) product for Group customers. One of ARM's major components is a program called LibertyReview. Under this plan, a staff of nurses and physicians work to review the necessity of health care, confirm and evaluate treatment, discuss alternative care, compare charges and negotiate fees.



While the program is new, cost-savings have already been realized. For example, in 1989 inpatient hospital admissions were reduced 6% through the identification of medically unnecessary care. The reduction in admissions accounted for 10% of total LibertyReview savings. Hospital and physician fee negotiations contributed 15% to overall LibertyReview savings. Reductions in length of stay, as a result of concurrent review, provided the greatest impact, comprising 75% of total savings.

To better meet our Group customers needs in 1989, we initiated a participative management program called "Team 91." The Team's work has already led to a restructuring of our billing, accounting and workflow procedures, resulting in better customer service. In terms of claims handling, the Team helped to implement a self-audit quality control program that improves the accuracy and timeliness of claims processing.

In 1990, we are planning to introduce a new 401K plan, called the "Liberty Response," targeted initially to groups of 50 to 100. The plan will offer these Group customers three investment choices: Guaranteed Investment Contract (GIC), Standard and Poors 500 Equity Account, and no load mutual funds offered by our Chicago based investment adviser, Stein Roe & Farnham.

The Boards of Directors

Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company:

We have audited the accompanying combined statutory balance sheets of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company (Liberty Mutual Insurance Companies) as of December 31, 1989 and 1988, and the related combined statutory statements of income, surplus and special reserves, and cash flow for the years then ended. These combined financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 in note 1, Liberty Mutual Insurance Companies prepare their financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. The variances between such practices and generally accepted accounting principles are described in note 1. The effects of such variances on the accompanying combined statutory financial statements have not been determined. Accordingly, we are unable to and do not express an opinion on whether the accompanying financial statements present fairly the financial position, results of operations and cash flow of Liberty Mutual Insurance Companies in conformity with generally accepted accounting principles.

In our opinion, the combined statutory financial statements referred to above present fairly, in all material respects, the financial position of Liberty Mutual Insurance Companies as of December 31, 1989 and 1988, and the results of their operations and their cash flow for the years then ended, on the basis of accounting described in note 1.

As discussed in note 2 to the combined statutory financial statements, Liberty Mutual Insurance Companies changed their method of accounting for retrospectively rated premiums in 1988.

KPMG Peat Marwick

Boston, Massachusetts
February 28, 1990

Combined Statutory Balance Sheets *Liberty Mutual Insurance Companies*

As of December 31st (in thousands of dollars)	1989	1988
Admitted Assets		
Investments:		
United States Government (and agencies) securities	$ 6,416,952	$ 5,413,568
State, municipal and other bonds	5,440,945	5,197,175
Common and preferred stocks	608,442	452,246
Investments in unconsolidated subsidiaries	328,012	386,206
Short-term investments	450,387	695,873
Real estate	80,160	76,903
Other investments	50,753	37,544
Total investments	13,375,651	12,259,515
Cash and bank deposits	20,054	30,069
Premiums receivable	3,119,422	2,998,603
Interest, dividends and rents accrued	230,238	202,558
Other admitted assets	362,791	258,051
Total admitted assets	$17,108,156	$15,748,796

See accompanying notes to combined statutory financial statements on pages 34 and 35.

	1989	1988
Liabilities		
Losses unpaid	$11,280,823	$10,238,897
Loss adjustment expenses unpaid	1,848,783	1,636,440
Unearned premiums	658,458	758,931
Other expenses accrued and accounts payable	625,186	520,038
Federal income and state premium taxes accrued	123,787	103,157
Dividends declared to policyholders	57,539	111,014
Provision for Federal tax on unrealized capital gains	72,277	56,298
Total liabilities	14,666,853	13,424,775
Surplus and Special Reserves		
Provision for dividends accrued but not declared	173,771	169,987
Guaranty funds	2,500	2,500
Contributed capital	149,662	149,662
Unassigned surplus	2,115,370	2,001,872
Total surplus and special reserves	2,441,303	2,324,021
Total liabilities and surplus and special reserves	$17,108,156	$15,748,796

See accompanying notes to combined statutory financial statements on pages 34 and 35.

Combined Statutory Statements of Income *Liberty Mutual Insurance Companies*

For the years ended December 31st (in thousands of dollars)	1989	1988
Premiums earned	$6,680,668	$7,301,604
Losses	5,733,141	6,068,443
Loss adjustment expenses	850,887	841,374
General expenses	605,206	628,782
Taxes, excluding income taxes	286,690	320,435
Total underwriting expenses	7,475,924	7,859,034
Underwriting loss before dividends	(795,256)	(557,430)
Dividends declared to policyholders	183,509	357,112
Underwriting loss	(978,765)	(914,542)
Investment income, net	1,078,871	965,929
Other income	34,240	34,994
Income before income taxes	134,346	86,381
Federal and foreign income tax expense (benefit)	17,534	(473)
Net income	$ 116,812	$ 86,854

Combined Statutory Statements of Surplus and Special Reserves *Liberty Mutual Insurance Companies*

For the years ended December 31st (in thousands of dollars)		1989	1988
Total surplus and special reserves, beginning of year		$2,324,021	$2,185,560
Add (deduct):	Net income	116,812	86,854
	Contributed capital	—	149,662
	Goodwill in excess of statutory limitation	—	(59,138)
	Change in unrealized capital gains and losses, less provision for Federal income taxes	12,900	(29,620)
	Other surplus changes, net	(12,430)	(9,297)
Total surplus and special reserves, end of year		$2,441,303	$2,324,021

See accompanying notes to combined statutory financial statements on pages 34 and 35.

Combined Statutory Statements of Cash Flow *Liberty Mutual Insurance Companies*

For the years ended December 31st (in thousands of dollars)	1989	1988
Cash provided:		
From operations:		
Premiums collected, net of reinsurance	$6,446,343	$6,625,235
Net investment income	999,404	892,130
Other income (expense)	22,069	(8,683)
Cash provided by operations	7,467,816	7,508,682
Loss and loss adjustment expenses	5,321,194	5,053,143
Underwriting expenses	901,809	894,337
Dividends to policyholders	236,985	269,944
Federal income taxes paid	4,436	16,824
Cash used by operations	6,464,424	6,234,248
Net cash provided from operations	1,003,392	1,274,434
From investments sold or matured:		
Bonds	688,672	838,270
Common and preferred stocks	198,454	332,970
Investments in unconsolidated subsidiaries	35,833	683
Other investments	1,746	7,671
Cash provided from investments	924,705	1,179,594
Contributed capital	—	149,662
Other, net	20,590	106,031
Total cash provided	$1,948,687	$2,709,721
Cash applied:		
Cost of investments purchased:		
Bonds	1,922,900	2,174,892
Common and preferred stocks	257,627	55,067
Investments in unconsolidated subsidiaries	5,468	394,880
Other investments	18,193	19,337
Cash used to purchase investments	2,204,188	2,644,176
Increase (decrease) in cash and short-term investments	(255,501)	65,545
Total cash applied	$1,948,687	$2,709,721

See accompanying notes to combined statutory financial statements on pages 34 and 35.

December 31, 1989 and 1988

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying combined financial statements of Liberty Mutual Insurance Company (Liberty Mutual) and Liberty Mutual Fire Insurance Company (Liberty Fire) (the "Companies") include, on a consolidated basis, the accounts of Liberty Northwest Insurance Corporation, Liberty Insurance Corporation, The First Liberty Insurance Corporation, and LM Insurance Corporation. Liberty Insurance Corporation is a wholly owned subsidiary of Liberty Mutual Property-Casualty Holding Corporation, which, in turn, is wholly owned by the Companies.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts, which vary in some respects from generally accepted accounting principles. Principal variations include: (1) certain assets designated as "non-admitted assets" are charged off against income or surplus; (2) premium income is taken into earnings on a pro-rata basis over the periods covered by the policies, whereas related acquisition costs are charged to income when incurred; (3) adjustments reflecting the equity in earnings of unconsolidated subsidiaries are recorded in surplus as net unrealized capital gains or losses; (4) pension expense and related disclosures are in accordance with ERISA requirements; (5) certain statutory reserves are provided; and (6) deferred income tax effects of tax return timing differences are not fully provided. The effects of such variances on the accompanying combined financial statements have not been determined.

(b) Investment Securities

Investment securities are carried in accordance with valuations promulgated by the National Association of Insurance Commissioners. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount; common and preferred stocks are carried at market value; investments in stocks of unconsolidated subsidiaries are carried on the equity basis; short-term investments are carried at cost; and real estate is carried at depreciated cost. Realized gains and losses on sales of investments are recognized in net income using the specific identification method. Changes in unrealized appreciation or depreciation on stocks and certain bonds are recorded in surplus, net of provision for Federal income taxes.

At December 31, 1989 and 1988, investments carried at $1,805,398,000 and $1,528,958,000, respectively, were on deposit with regulatory authorities as required by law.

(c) Recognition of Premium Revenues

Premiums are recognized as income on a pro-rata basis over the term of the policies. Unearned premiums represent the unexpired portion of premium contracts written. Premium adjustments resulting from premium audits of reporting-type policies and retrospective rating of experience rated policies are estimated and accrued for in computing earned premiums. The related expenses associated with billing and collecting these premium adjustments are estimated and accrued for in computing net income. Estimated premiums due resulting from premium audits are reflected as a reduction to premiums unearned. Estimated premiums due on retrospectively rated policies are included in premiums receivable.

(d) Unpaid Insurance Losses

The Companies provide reserves for unpaid insurance losses based primarily upon: (1) case estimates for losses reported directly by policyholders; (2) estimates for unreported losses based upon past experience; (3) estimates for reinsurance assumed from other insurers; and (4) deduction of amounts for reinsurance placed with other insurers. These estimates are continually under review and, as changes to the liabilities become necessary, such adjustments are reflected in income currently.

The Companies do not discount any of their unpaid insurance loss and loss adjustment expenses other than tabular discounting on the long-term annuity portion of workers' compensation claims as permitted by insurance regulations in certain states. The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and is generally at the discount rate of 3.5%.

(e) Unpaid Loss Adjustment Expenses

The Companies provide reserves for unpaid loss adjustment expenses by estimating future expenses to be incurred in settlement of claims provided for in the reserves for unpaid insurance losses.

(f) Reclassifications

Certain reclassifications to the 1988 combined statutory financial statements were made to conform to the 1989 presentation.

(2) Change in Method of Accounting for Retrospectively Rated Premiums

Premium adjustments resulting from retrospective rating of experience rated policies have been estimated and accrued for in computing premiums earned. Prior to 1988, retrospective premium adjustments were reported as earned in the period in which the retrospective rating was performed and the resulting premium adjustment was billed or credited to the insured.

The new method of recognizing retrospective premiums when earned, instead of when billed, was adopted to more closely match premium income with related policy losses and expenses incurred. The change was applied prospectively in

1988; prior years financial statements were not adjusted or restated. The pretax effect of the change on 1988, the year of adoption, was to increase the Companies' premiums earned and premiums receivable by $264,000,000.
The Companies have applied for a change in accounting method for Federal income tax purposes which, if accepted, would allow recognition of $264,000,000 as taxable income ratably over the six-year period ending December 31, 1994.

(3) Goodwill and Other Intangible Assets

The excess of purchase cost over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over periods of up to 10 years. Total unamortized goodwill and other intangible assets included as a component of the Companies' investments in unconsolidated subsidiaries was $166,113,000 and $198,788,000 at December 31, 1989 and 1988, respectively. Goodwill amortization charged to surplus as a component of the change in unrealized capital gains and losses was approximately $32,675,000 and $18,931,000 in 1989 and 1988, respectively. At December 31, 1988, an additional $59,138,000 of unamortized goodwill in excess of the statutory limitation was charged to surplus.

(4) Contributed Capital

Contributed capital of $149,662,500 is the result of the issuance of Eurodollar notes in October 1988 by a wholly owned subsidiary of the Companies (see note 7).

(5) Pension Plan

The Companies have a noncontributory defined benefit pension plan covering employees who have attained age 21 and have completed one year of service. No pension cost was charged to operations during the years ended December 31, 1989 and 1988 as the plan was subject to the full funding limitations under the Internal Revenue Code.
As of January 1, 1989 and 1988, the actuarial present value of accumulated vested and nonvested benefits, based on a valuation interest rate of 7.5%, approximated $301,527,000 and $271,179,000, respectively, and the net assets, at fair market value, available for plan benefits approximated $519,811,000 and $468,613,000, respectively.

(6) Federal and Foreign Income Taxes

Liberty Mutual files a consolidated Federal income tax return with its eligible subsidiary companies. Prior to 1989, Liberty Mutual received payment from its subsidiaries for their income tax liabilities calculated on a separate company basis and reimbursed its subsidiaries for their net operating losses or tax credits at the time these losses or credits were utilized in the consolidated tax return. Effective in 1989, the intercompany Federal income tax allocation agreement was modified such that operating losses and tax credits generated by subsidiaries and used to reduce the consolidated tax liability will be reimbursed only as utilized by the subsidiaries on a separate return basis. Intercompany tax balances are settled annually. Liberty Fire files a separate Federal income tax return.
Federal income taxes incurred for financial statement purposes are provided based upon the manner in which income and deductions are reported for tax purposes. Provision is made, where applicable, for Canadian taxes on Canadian branch operations. Taxes incurred by Liberty Fire in 1989 reflects a liability under the Alternative Minimum Tax Provisions of the Tax Reform Act of 1986. The Companies incurred no Federal income taxes in 1988.
Liberty Fire had net operating loss carryforwards of $7,400,000 and $31,300,000 at December 31, 1989 and 1988, respectively, which expire in 2003. Liberty Mutual's net operating loss carryforward at December 31, 1988 of $137,572,000 was fully utilized in 1989.

(7) Guarantees of Subsidiary Borrowings

Liberty Mutual and Liberty Fire have guaranteed $150,000,000 of 8.5% Eurodollar notes due in 1996 and $150,000,000 of 9.125% Eurodollar notes due in 1993, issued by a wholly owned subsidiary.
In addition, Liberty Mutual has guaranteed other subsidiary and related party unsecured lines of credit and mortgage notes totalling $83,250,000, of which $82,075,000 was outstanding at December 31, 1989.

(in millions of dollars)

(unaudited)	1989	1988	1987	1986
Assets	**$17,108**	15,749	13,730	11,643
Liabilities	**$14,667**	13,425	11,545	9,646
Surplus and Special Reserves	**$ 2,441**	2,324	2,185	1,997
Net Premiums Written	**$ 6,445**	6,778	6,385	5,474
Net Premiums Earned	**$ 6,681**	7,302	6,832	5,142
Losses and Loss Expenses Incurred	**$ 6,584**	6,910	6,455	4,872
Loss Ratio (Incl. loss adjustment expenses)	**98.6%**	94.6%	94.5%	94.8%
Federal Income and State Premium Taxes Incurred	**$ 304**	320	293	231
Income from Invested Assets	**$ 1,079**	966	913	996
Dividends Declared to Policyholders	**$ 184**	357	212	206
Net Income	**$ 117**	87	203	306
Total Accidents and Claims Reported (Plus 000)	**2,180**	2,426	2,432	2,303
Number of Employees at December 31	**21,658**	22,066	21,799	20,692

1985	1984	1983	1982	1981	1980
9,499	8,215	7,765	7,317	6,805	6,241
7,835	6,685	6,312	6,039	5,623	5,073
1,664	1,530	1,453	1,278	1,182	1,168
4,161	3,026	2,828	2,827	2,826	2,867
3,857	2,978	2,820	2,760	2,778	2,826
3,674	2,803	2,534	2,619	2,584	2,393
95.3%	94.1%	89.9%	94.9%	93.0%	84.7%
176	124	113	78	14	97
721	597	547	519	405	365
173	145	186	202	206	264
101	93	168	30	34	130
2,139	1,756	1,614	1,721	1,814	1,847
19,198	18,173	17,772	18,162	18,870	18,876

Liberty Mutual Insurance Company

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Bentley College,
Waltham, MA

GERALD E. ANDERSON
President
Commonwealth Energy System,
Cambridge, MA

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Former President
L. J. Hooker Retail Group,
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Pittsburgh, PA

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Dennison Manufacturing Company,
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Vice Chairman
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Newburyport, MA

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Chief Financial Officer
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Don Mills (Toronto)

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Irving (Dallas)

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Liberty Life Assurance Company of Boston

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The Board of Directors
Liberty Life Assurance Company of Boston:

We have audited the accompanying statutory balance sheets of Liberty Life Assurance Company of Boston as of December 31, 1989 and 1988, and the related statutory statements of income, surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 in note 1, Liberty Life Assurance Company of Boston prepares its financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. The variances between such practices and generally accepted accounting principles are described in note 1. The effects of such variances on the accompanying statutory financial statements have not been determined. Accordingly, we are unable to and do not express an opinion on whether the accompanying financial statements present fairly the financial position, results of operations and cash flow of Liberty Life Assurance Company of Boston in conformity with generally accepted accounting principles.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of Liberty Life Assurance Company of Boston as of December 31, 1989 and 1988, and the results of its operations and cash flow for the years then ended, on the basis of accounting described in note 1.

KPMG Peat Marwick

Boston, Massachusetts
February 28, 1990

Statutory Balance Sheets *Liberty Life Assurance Company of Boston*

As of December 31st	1989	1988
Admitted Assets		
Investments (note 1c):		
Bonds	$ 852,455,703	$ 830,685,724
Common stocks	6,748,717	—
Short-term investments	25,126,442	23,799,965
Other invested assets	7,392,486	6,190,611
Total investments	891,723,348	860,676,300
Cash	3,017,641	3,438,031
Premiums deferred and uncollected	15,594,333	16,061,525
Policy loans	20,649,021	18,330,659
Interest and dividends accrued	14,143,688	14,009,426
Federal income taxes (note 2)	—	305,206
Other assets	5,294,841	3,576,692
Separate Accounts assets (note 4)	210,272,003	151,671,020
Total admitted assets	$1,160,694,875	$1,068,068,859
Liabilities and Capital and Surplus		
Policy and contract reserves (note 6)	$ 753,417,146	$ 718,377,083
Policy and contract claims	40,419,876	55,320,792
Experience rating refund reserve	7,000,000	8,900,000
Policyholder dividend reserve	10,132,542	9,925,946
Liability for premium and other deposit funds	63,642,109	63,569,425
Federal income taxes (note 2)	5,467,378	—
Mandatory securities valuation reserve	3,333,976	3,476,783
Due to Liberty Mutual Companies	1,386,011	6,680,970
Other liabilities	17,377,694	16,054,773
Separate Accounts liabilities (note 4)	210,272,003	151,671,020
Total liabilities	1,112,448,735	1,033,976,792
Common stock — $312.50 and $150 par value per share in 1989 and 1988. Authorized, issued and outstanding 8,000 shares (note 5)	2,500,000	1,200,000
Surplus:		
Paid-in surplus (note 5)	2,500,000	3,800,000
Group contingency reserve	11,681,942	11,565,444
Unassigned surplus	31,564,198	17,526,623
Total surplus	45,746,140	32,892,067
Total liabilities and capital and surplus	$1,160,694,875	$1,068,068,859

See accompanying notes to statutory financial statements on page 45.

Statutory Statements of Income *Liberty Life Assurance Company of Boston*

For the years ended December 31st	1989	1988
Revenues:		
Premiums and annuity considerations	$276,916,069	$252,757,266
Net investment income	85,846,759	81,396,256
Other considerations	2,402,453	2,843,667
Total revenues	365,165,281	336,997,189
Deductions:		
Benefits:		
Death	20,183,164	18,449,048
Disability and accident and health	137,744,296	159,330,143
Other	67,469,796	61,298,585
Total benefits	225,397,256	239,077,776
Reserve increases (decreases):		
Policy and contract	40,855,953	42,535,926
Liability for premium and other deposit funds	72,684	7,287,139
Experience rating refund	(1,900,000)	(2,300,000)
Total net reserve increases	39,028,637	47,523,065
Insurance expenses and taxes	48,849,841	55,841,949
Transfers to Separate Accounts	29,828,592	3,315,653
Total deductions	343,104,326	345,758,443
Income (loss) before dividends to policyholders, Federal income taxes (benefit) and net realized capital gains on investments	22,060,955	(8,761,254)
Dividends to policyholders	9,668,082	9,547,148
Income (loss) before Federal income taxes (benefit) and net realized capital gains on investments	12,392,873	(18,308,402)
Federal income taxes (benefit) (note 2)	5,103,350	(4,683,111)
Income (loss) before net realized capital gains on investments	7,289,523	(13,625,291)
Net realized capital gains on investments	1,041,393	1,703,649
Net income (loss)	$ 8,330,916	$(11,921,642)

See accompanying notes to statutory financial statements on page 45.

Statutory Statements of Surplus *Liberty Life Assurance Company of Boston*

For the years ended December 31st	1989	1988
Surplus at beginning of year	$32,892,067	$46,289,269
Increases (decreases) in surplus:		
Net income (loss)	8,330,916	(11,921,642)
Transfer to common stock due to increase in par value (note 5)	(1,300,000)	—
Change in unrealized gain on investments	601,547	—
Change in reserves due to change in valuation basis (note 6)	5,815,890	—
Change in mandatory securities valuation reserve	142,807	(1,039,606)
Change in non-admitted assets	(737,087)	(335,954)
Dividends to stockholders	—	(100,000)
Net increase (decrease)	12,854,073	(13,397,202)
Surplus at end of year	$45,746,140	$32,892,067

See accompanying notes to statutory financial statements on page 45.

Statutory Statements of Cash Flow *Liberty Life Assurance Company of Boston*

For the years ended December 31st	1989	1988
Cash provided:		
From operations:		
Premiums and annuity considerations	$273,135,796	$252,875,241
Net investment income	77,630,954	75,261,943
Other considerations	2,292,323	2,774,898
Cash provided by operations	353,059,073	330,912,082
Life and accident and health benefits	173,824,368	172,331,980
Other benefits	69,610,239	63,420,720
Insurance expenses and taxes	49,795,358	53,584,770
Transfers to Separate Accounts	29,828,592	3,315,653
Dividends to policyholders	9,461,486	8,416,695
Cash used by operations	332,520,043	301,069,818
Net cash provided from operations	20,539,030	29,842,264
From investments sold or matured:		
Bonds, net of capital gains tax	60,391,265	51,212,499
Common stocks	23,441,034	—
Other invested assets	504,836	859,788
Cash provided from investments	84,337,135	52,072,287
Total cash provided	104,876,165	81,914,551
Cash used:		
Cost of investments acquired:		
Bonds	72,403,334	82,568,034
Common stocks	30,157,873	—
Other invested assets	1,074,249	3,049,873
Cash used to purchase investments	103,635,456	85,617,907
Increase in policy loans	2,318,362	1,721,182
Dividends to stockholders	—	200,000
Other, net	(1,983,740)	(5,350,810)
Total cash used	103,970,078	82,188,279
Increase (decrease) in cash and short-term investments	906,087	(273,728)
Cash and short-term investments at beginning of year	27,237,996	27,511,724
Cash and short-term investments at end of year	$ 28,144,083	$ 27,237,996

See accompanying notes to statutory financial statements on page 45.

December 31, 1989 and 1988

(1) Summary of Significant Accounting Policies

(a) The Company

The Company is directly owned 90% by Liberty Mutual Insurance Company and 10% by Liberty Mutual Fire Insurance Company ("Liberty Mutual").

(b) Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts which vary in some respects from generally accepted accounting principles. Principal variations include: (1) premiums are taken into earnings over the premium paying period of the policies, whereas related acquisition costs are charged to income when incurred; (2) policy reserves are computed using net level and commissioners' reserve valuation methods and are based on statutory mortality (primarily 1958 and 1980 CSO for life insurance and 1971 and 1983 IAM and GAM for annuities) and interest (primarily 2½% and 4% for life insurance and 9¼%, 9½%, 9¾%, 11% and 11¼% for annuities) requirements without consideration of withdrawals, which are generally higher than reserves based on reasonably conservative estimates of mortality, interest and withdrawals; (3) deferred Federal income tax effects of tax return timing differences are not provided; (4) a liability for undistributed earnings allocable to participating policyholders has not been recorded; (5) the mandatory securities valuation reserve is reported as a liability rather than as an appropriation of surplus and (6) certain assets designated as "non-admitted assets", principally certain receivables, have been charged to surplus. The effects of these differences on the statutory financial statements have not been determined.

(c) Investments

Investment securities are carried in accordance with valuations promulgated by the National Association of Insurance Commissioners, i.e., bonds are carried at cost adjusted where appropriate for amortization of premium or discount; common stocks, consisting of investments in certain mutual funds, are carried at market value. Other invested assets, specifically investments in limited partnerships, are carried on the equity method. At December 31, 1989, bonds carried at $2,397,877 were on deposit with regulatory authorities as required by law.

(2) Federal Income Taxes

The Company is included in a consolidated Federal income tax return with Liberty Mutual and its other eligible subsidiaries. Under the terms of an intercompany taxation treaty, income taxes are determined as if the Company filed its own tax return. Tax settlements are paid to or received from Liberty Mutual.

As a result of the provisions of the Deficit Reduction Act of 1984, the Company has deferred income approximating $4 million, included in its unassigned surplus, which may become taxable in the future upon the occurrence of certain conditions that management considers to be remote; therefore, no Federal income taxes for this deferred income have been provided for in the financial statements.

(3) Transactions with Affiliates

There is a Service Agreement between the Company and Liberty Mutual under which the latter provides personnel, office space, equipment, computer processing and other services. The Company reimburses Liberty Mutual for these services at cost, and for any other special services supplied at the request of the Company.

(4) Separate Accounts Business

Separate Accounts assets and liabilities represent designated funds held and invested by the Company for the benefit of group pension contracts. Separate Accounts assets are carried at market value. Investment income and changes in asset values do not affect the operating results of the Company. Separate Accounts business is maintained independently from the general accounts of the Company.

(5) Capital Requirements

During 1989, the par value of the Company's common stock was increased from $150 to $312.50 per share in order to achieve the minimum statutory capital requirement for the State of Maine. The effect of this change was to increase common stock and reduce paid-in surplus by $1,300,000.

(6) Change in Valuation Basis

During 1989, the Company changed the reserve basis of valuation for certain of its annuities and for group long-term disability claims. The net effect of the changes in basis of valuation was a decrease in policy and contract reserves of $5,815,890.

(7) Reclassification

Certain reclassifications to the 1988 financial statements were made to conform to the 1989 presentation.

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Brattleboro, VT
Bridgeport, CT
Brookfield, CT
Burlington, VT
Centerville, MA
Chelmsford, MA
Chestnut Hill, MA
Clinton, CT
Concord, NH
Dover, NH
Enfield, CT
Exeter, NH
Fitchburg, MA
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Hingham, MA
Kennebunkport, ME
Kingston, MA
Lewiston, ME
Lexington, MA
Littleton, MA
Londonderry, NH
Manchester, NH
Middletown, CT
Narragansett, RI
Natick, MA
New Bedford, MA
North Andover, MA
North Easton, MA
Norwich, CT
Peabody, MA
Pittsfield, MA
Portland, ME
Portsmouth, NH
Providence, RI
Salem, NH
Southington, CT
Stamford, CT
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Wallingford, CT
Waterbury, CT
Weston, MA
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Hicksville, NY
Lake Success, NY
Lynbrook, NY
Melville, NY
Merrick, NY
Middle Island, NY
Miller Place, NY
Mitchel Field, NY
Mt. Kisco, NY
New City, NY
New York, NY
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Contracting Risks
Northport, NY
Oakdale, NY
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Patchogue, NY
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Blue Bell, PA
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Exton, PA
Fairfax, VA
Franklin Lakes, NJ
Frederick, MD
Herndon, VA
Hershey, PA
Hunt Valley, MD
Lancaster, PA
Marlton, NJ
Mechanicsburg, PA
Medford, NJ
Newark, DE
Newark, NJ
at Roseland
Paoli, PA
Parsippany, NJ
Plainsboro, NJ
Rockville, MD
Roseland, NJ
Saddle Brook, NJ
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Sinking Spring, PA
Somerset, NJ
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Bartlett, TN
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Chesapeake, VA
Cleveland, TN
Columbia, SC
Columbus, GA
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Greensboro, NC
Hendersonville, TN
High Point, NC
Hixson, TN
Jackson, MS
Jacksonville, FL
Knoxville, TN
Lakeland, FL
Lake Worth, FL
Lawrenceville, GA
Lexington, KY
Louisville, KY
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Jamestown, NY
Manlius, NY
Mars, PA
Mayfield Village, OH
New Castle, PA
New Hartford, NY
Niagara Falls, NY
Pittsburgh, PA
Plum Boro, PA
Poland, OH
Poughkeepsie, NY
Robinson Township, PA
Rochester, NY
Scotia, NY
Stow, OH
Syracuse, NY
Toledo, OH
Upper Arlington, OH
Westchester, OH
Westerville, OH
White Oak, OH

Middle West Division
Headquarters:
Itasca, IL
Aurora, IL
Blue Springs, MO
Chicago, IL
Crystal Lake, IL
Davenport, IA
Des Moines, IA
Des Plaines, IL
Detroit, MI
at Birmingham
Duluth, MN
Dyer, IN
Eagan, MN
Eden Prairie, MN
Ellisville, MO
Evansville, IN
Flint, MI
Fort Wayne, IN
Geneva, IL
Grand Rapids, MI
Green Bay, WI
Greenwood, IN
Holland, MI
Indianapolis, IN
Itasca, IL
Kalamazoo, MI
Lisle, IL
Maple Grove, MN
Milwaukee, WI
Minneapolis, MN
Mishawaka, IN
Novi, MI
O'Fallon, MO
Oakville, MO
Omaha, NE
Orland Park, IL
Overland Park, KS
Peoria, IL
Pewaukee, WI
Rockford, IL
Rockford Villlage, MI
St. Ann, MO
St. Louis, MO
St. Paul, MN
Smithfield, MO
Springfield, IL
Springfield, MO
Taylorville, IL
Troy, MI

Southwest Division
Headquarters:
Irving, TX
Albuquerque, NM
Austin, TX
Baton Rouge, LA
Boulder, CO
Carrollton, TX
Colorado Springs, CO
Corsicana, TX
Covington, LA
Edmond, OK
El Paso, TX
Englewood, CO
Fort Worth, TX
Houston, TX
Hurst, TX
Irving, TX
Little Rock, AR
Littleton, CO
Metairie, LA
Midland, TX
Oklahoma City, OK
Plano, TX
Round Rock, TX
San Antonio, TX
Shreveport, LA
Slidell, LA
Spring, TX
Stafford, TX
Tulsa, OK
Tyler, TX
Westminster, CO
Wichita, KS

Pacific Division
Headquarters:
Pleasanton, CA
Antioch, CA
Arcadia, CA
Bountiful, UT
El Toro, CA
Escondido, CA
Fresno, CA
Honolulu, HI
Las Vegas, NV
Long Beach, CA
Los Angeles, CA
Mesa, AZ
Newhall, CA
Novato, CA
Phoenix, AZ
Pleasanton, CA
Reno, NV
Riverside, CA
Roseville, CA
Sacramento, CA
Salt Lake City, UT
San Bruno, CA
San Clemente, CA
San Diego, CA
San Jose, CA
San Ramon, CA
Sandy, UT
Santa Ana, CA
Scottsdale, AZ
Simi Valley, CA
Tucson, AZ
Upland, CA
Walnut Creek, CA
Woodland Hills, CA

Canadian Division
Head Office:
Don Mills, Ontario
Bowmanville, Ontario
Brampton, Ontario
Brantford, Ontario
Brossard, Quebec
Burlington, Ontario
Hamilton Area
Calgary, Alberta
Chateauguay, Quebec
Don Mills, Ontario
Toronto Area
Edmonton, Alberta
Guelph, Ontario
Kirkland, Quebec
Laval, Quebec
Mississauga, Ontario
Montreal, Quebec
Peterborough, Ontario
Repentigny, Quebec
Richmond Hill, Ontario
Oakville, Ontario
St. Jerome, Quebec
Scarborough, Ontario
Whitby, Ontario

Liberty Northwest Insurance Corporation
Portland, OR
Baker, OR
Beaverton, OR
Bellevue, WA
Bend, OR
Boise, ID
Bothell, WA
Clackamas, OR
Eugene, OR
Federal Way, WA
Gresham, OR
Issaquah, WA
Medford, OR
Missoula, MT
Portland, OR
Roseburg, OR
Salem, OR
Tigard, OR
Vancouver, WA

Liberty Mutual Insurance Company

Liberty Mutual Fire Insurance Company

Liberty Life Assurance Company of Boston
Home Office: Boston

Annual Meetings:

Liberty Mutual Insurance Company holds its annual meeting on the third Wednesday of April at 10 o'clock in the morning. Liberty Mutual Fire Insurance Company holds its annual meeting on the third Wednesday of April at 11 o'clock in the morning. Each meeting is held at the Home Office in Boston.

The policyholders of each company are members of the company issuing the policy and are entitled to vote either in person or by proxy at any meeting of that company. You may obtain a proxy form by writing to the Secretary of the company at 175 Berkeley Street, Boston, MA 02117.

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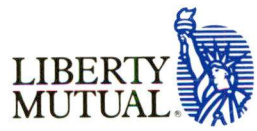

Liberty Mutual Insurance Group
175 Berkeley Street, Boston, MA 02117
Equal Opportunity Employer