

Terra Insurance Company
Comparative Balance Sheets
As of March 31, 2007-2009
Dollars in Thousands
Unaudited

	2009	2008	2007
ASSETS			
Cash and invested assets	\$ 24,912	\$ 25,758	\$ 27,157
Other assets	<u>8,186</u>	<u>7,984</u>	<u>7,846</u>
Total assets	<u>\$ 33,098</u>	<u>\$ 33,742</u>	<u>\$ 35,003</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Loss reserves	\$ 7,314	\$ 8,280	\$ 7,654
Other liabilities	<u>8,515</u>	<u>6,341</u>	<u>6,905</u>
Total liabilities	15,829	14,621	14,559
Shareholders' equity	<u>17,269</u>	<u>19,121</u>	<u>20,444</u>
Total liabilities and shareholders' equity	<u>\$ 33,098</u>	<u>\$ 33,742</u>	<u>\$ 35,003</u>
Book Value Per Share	<u>\$ 247.41</u>	<u>\$ 240.41</u>	<u>\$ 231.43</u>

Terra Insurance Company
Comparative Statements of Operations
For the Three Months Ended March 31, 2007-2009
Dollars in Thousands
Unaudited

	2009	2008	2007
Net premiums written	\$ 1,513	\$ 1,292	\$ 1,091
Losses and underwriting expenses	<u>1,209</u>	<u>1,117</u>	<u>942</u>
Net underwriting income	304	175	149
Net investment income	<u>150</u>	<u>196</u>	<u>212</u>
Net income before income taxes	454	371	361
Income taxes	<u>112</u>	<u>65</u>	<u>78</u>
Net income	<u>\$ 342</u>	<u>\$ 306</u>	<u>\$ 283</u>
Net Income Per Share	<u>\$ 4.90</u>	<u>\$ 3.85</u>	<u>\$ 3.21</u>

Terra Insurance Company
Comparative Statements of Cash Flows
For the Three Months Ended March 31, 2007-2009
Dollars in Thousands
Unaudited

	2009	2008	2007
SOURCES OF CASH			
Net premiums written	\$ 1,156	\$ 978	\$ 1,016
Investment income received	<u>167</u>	<u>186</u>	<u>224</u>
Total sources of cash	<u>1,323</u>	<u>1,164</u>	<u>1,240</u>
USES OF CASH			
Losses, underwriting expenses and income taxes paid	767	2,016	1,105
Other uses (sources)	<u>(627)</u>	<u>1,514</u>	<u>(56)</u>
Total uses of cash	<u>140</u>	<u>3,530</u>	<u>1,049</u>
Net positive (negative) cash flow	1,183	(2,366)	191
Beginning balance of cash and invested assets	<u>23,729</u>	<u>28,124</u>	<u>26,966</u>
Ending Balance of Cash and Invested Assets	<u>\$ 24,912</u>	<u>\$ 25,758</u>	<u>\$ 27,157</u>

Please keep in mind that the interim earnings reports of an insurance company are subject to uncertainty. Interim financial results cannot be automatically extrapolated to the year as a whole. This is primarily due to the fact that a substantial operating cost of an insurance company is its provision for loss and LAE (loss adjustment expense), which is based on estimates generated by Terra's claim department combined with analysis of historical claim statistics by our finance department and independent actuaries.

Quarterly earnings are not necessarily indicative of the Company's financial position at the end of the year. Annual earnings may be greater than, less than, or proportional to quarterly earnings. Our most recent actuarial review indicates that our provision for loss and LAE is conservative and sound.

Dear Shareholder:

We are pleased to report that the Company's book value per share rose to an all-time high of \$247.41 at March 31, 2009. This represents an increase of \$7.00 per share compared to book value of \$240.41 at March 31, 2008, and a quarterly increase of \$4.71 per share compared to year-end book value of \$242.70 at December 31, 2008. For the three months ended March 31, 2009, net income was \$342,000 (\$4.90 earnings per share) compared to net income of \$306,000 (\$3.85 earnings per share) for the quarter ended March 31, 2008. The quarter ended March 31, 2009 completes exactly twenty-one years since Terra began operations as a risk retention group on April 1, 1988 and, during that time, the value of the Company's common stock has steadily increased from \$10.00 per share to its current value of \$247.41 per share.

The increase in net income during the first quarter of 2009 as compared to the same period in 2008 was primarily due to decreases in reinsurance costs and underwriting expenses in 2009. Reinsurance rates were reduced between 5%-10% in the various categories of insurance at the January 1, 2009 reinsurance contract renewal. The Company has made a concerted effort to reduce operating expenses as well. Operating costs were down by over 7% in 2008 and by an additional 4% in 2009.

During the twenty-one years of Terra's operations as a risk retention group, the factors that have made the Company successful are those that have made us distinctive. Terra, more than any of its competitors, past or present, has emphasized the overriding importance of sound risk management, loss prevention and business practices in contributing to the overall financial success of its member firms. Further, the Company has always understood, as part of its corporate culture, that its own financial success is enhanced by, and in fact derived from, the combined success of its member firms. Although the financial and operational success of Terra and its member firms have always been intertwined, in good times and bad, this interdependence seems especially important when the overall economy is struggling as it has been recently. In relation to its peers, the strength and stability of Terra is evident. Most of the Company's primary competitors have seen their stock values decrease materially in the last year, with some losing more than 90% of their value. Conversely, the value of Terra's common stock has increased over the same period.

The Company's success is a byproduct of staying connected to our policyholders on a continual basis. We understand that the areas of our insureds' practices are constantly evolving and expanding. We are aware that we must expand, enhance and modify our insurance products, services and coverage to meet the dynamic, ever-changing needs and objectives of our members. We have learned the importance of providing meaningful incentives to support innovative education and training programs if we want our member firms to stay on the cutting edge of their profession. During 2008 and 2007, the Company paid \$345,000 and \$508,000, respectively, to its member firms for ASFE peer reviews and other professional education reimbursements.

Terra has shown that it is nimble enough to respond quickly to our insureds' needs and disciplined enough to insist on prudence, stability and conservatism in implementing its financial objectives. At the same time, we are well aware that the U.S. and global economies, including industries related to construction and development, are experiencing serious financial difficulties. For Terra, these concerns are magnified by the fact that, historically, the incidence of claim frequency and severity tends to increase following periods of financial strain. But we feel strongly that the Company is well-positioned to use this period as an opportunity to showcase its reputation of financial strength and stability. We view 2009 with the same enthusiasm and optimism that defined the first twenty-one years of the Company's operations. We analyze and understand the issues that are critically important to the business practices of our members while continuing to be proactive and cognizant of the fact that the future success of Terra is directly related to the success of "the sum of its parts". Once again, thank you for your continued support of the Terra program.

David L.J. Coduto
President and CEO

Hal S. Arditti
Treasurer and CFO



TERRA INSURANCE COMPANY
A RISK RETENTION GROUP

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FINANCIAL STATEMENTS
JANUARY 1 - MARCH 31, 2009