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IN THE CHANCERY COURT OF THE STATE OF TENNESSEE
TWENTIETH JUDICIAL DISTRICT, DAVIDSON COUNTY

STATE OF TENNESSEE, ex rel., PAULA A. FLOWERS, Commissioner of Commerce and Insurance for the State of Tennessee,	)	No. 03-3731-IV
Petitioner,	)	
v.	)	
EXCHANGE INSURANCE COMPANY, a Tennessee domiciled insurance company,	)	
Respondent.	)	

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ORDER APPROVING PLAN OF REHABILITATION

On August 3, 2005, before the Honorable Chancellor Richard H. Dinkins, appeared the Commissioner of Commerce and Insurance for the State of Tennessee, Paula A. Flowers, as Rehabilitator of Exchange Insurance Company, a Tennessee-domiciled insurance company ("EIC"), by and through counsel, and also appeared the Special Deputy Rehabilitator Kathy Fussell, (collectively, "the Rehabilitator"), seeking approval for the Rehabilitator's proposed Plan of Rehabilitation of EIC (hereinafter "Plan"), Exhibit A to the Rehabilitator's Motion to Approve Plan, filed on May 27, 2005. Also present was Josephine Polansky, a representative of National Lloyds Insurance Company ("NLIC"), the company seeking to assume EIC insurance obligations as stated in the terms of the Plan. This hearing on the Motion to Approve Plan was held pursuant to this Court's Scheduling Order of June 8, 2005 to determine under Tenn. Code Ann. § 56-9-303(e) whether the Plan should be approved by this Court and implemented by the Rehabilitator.

After consideration of the record on file, the arguments of counsel and the conduct of the hearing, and no objections to the Plan having been filed or made at the hearing, the Court hereby FINDS as follows:

1. On May 27, 2005, the Rehabilitator filed a Plan of Rehabilitation, Exhibit A to the Motion for Approval of the Plan, designed to shift all EIC's remaining policy obligations to another insurer and to end EIC's operation and authority as a Tennessee insurer. The Plan was filed pursuant to Tenn. Code Ann. § 56-9-303(e), which states in relevant part:

> If the rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger or other transformation of the insurer is appropriate, the rehabilitator shall prepare a plan to effect such changes. Upon application of the rehabilitator for approval of the plan, and after such notice and hearings as the court may prescribe, the court may either approve or disapprove the plan proposed, or may modify it and approve it as modified. Any plan approved under this section shall be, in the judgment of the court, fair and equitable to all parties concerned. If the plan is approved, the rehabilitator shall carry out the plan.

2. EIC's financial position has improved during the rehabilitation. EIC has positive surplus with adequate assets to pay for the Assumption Agreement in the Plan. The policyholders' interests and insurance coverage by EIC are protected by the plan to substitute National Lloyds Insurance Company (NLIC) as the insurer or surety for EIC. Finishing the wind-down of EIC's insurance business that started in 2003, the Plan will transform EIC by causing its insurance policies to be assumed by NLIC, another qualified company, under the Assumption Agreement attached to the Plan, and discontinuing EIC's authority to conduct an insurance business. The Plan makes adequate arrangements for payment and administration of EIC's outstanding contractual obligations to policyholders, surety obligees and insurance-related creditors by shifting these obligations to NLIC, and leaves EIC with assets calculated to be

sufficient to wind-down its corporate existence. The Plan substitutes NLIC, which has already been reinsuring part of EIC's policies and managing its run-off business through an affiliate, as the insurer in place of EIC. The Assumption Agreement will continue services and payment arising from the past and currently in-force insurance business of EIC. EIC will make a commercially reasonable payment to NLIC out of its cash assets, the exact amount of which will be based on the actuarial projection and claims reserves estimates for the business being assumed by NLIC as of the assumption date. The Assumption Agreement, and the effective date stated, is conditioned on this Court's approval of the Plan.

3. After accomplishing the Assumption Agreement, the Plan reasonably provides for the Rehabilitator to surrender EIC's Certificate of Authority to conduct an insurance business to the Tennessee Department of Commerce and Insurance, because EIC does not have the operational capacity to continue in business as an insurer. The Plan contemplates that steps for wind-down of the EIC corporation will occur after the Rehabilitator certifies that the Plan has been accomplished.

4. The Plan meets the "fair and equitable" legal standard for approval, because (1) the creditors of the insurer will receive through the Plan at least the same amount that they would receive under a plan of liquidation, and (2) the Plan does not unfairly or illegally discriminate among the creditors or treat lower priority claims better than higher priority claims. *Neblett v. Carpenter*, 305 U.S. 297, 304, 59 S.Ct. 170, 83 L.Ed 182 (1938), *Foster v. Mutual Fire, Marine and Inland Ins. Co.*, 531 Pa. 598, 614 A.2d 1086 (1992), *eg. Neff v. Cherokee Ins. Co.*, 704 S.W.2d 1, (Tenn. 1986). "[T]he public interest generally favors rehabilitation" in order to benefit

policyholders and the public's interest in insurance coverage. *State ex rel. Pope v. Xantus HealthPlan of Tennessee, Inc.*, 2000 Westlaw 630858 at 11 (Tenn.Ct.App.).

5. As has been certified to the Court, in the Certificate of Notice Given in Accordance with Order Prescribing Notice of Hearing on Plan of Rehabilitation and exhibits filed on July 28, 2005, the Rehabilitator gave notice of the Plan Hearing and the Plan by mail and publication in accordance with the Court's Order of June 8, 2005. Based on the terms of the Plan, and the condition of EIC outlined to the Court in the Motion and the Plan, the Court finds and concurs in the Rehabilitator's determination, that the Plan is fair and equitable to all parties concerned. The Plan makes adequate provision under the circumstances to meet the insurance policy claims of policyholders and bond holders of EIC through the Assumption Agreement. The Plan of Rehabilitation has not received any objections after adequate notice and opportunity to respond was given to the interested parties.

THEREFORE, IT IS HEREBY ORDERED AND DECREED, that in accordance with these findings and Tenn. Code Ann. § 56-9-303, this Court approves the Plan of Rehabilitation proposed by the Rehabilitator, and orders the Rehabilitator with NLIC to carry out the Plan set forth below:

PLAN

1. EIC is hereby authorized and directed to implement the Agreement of Assumption with National Lloyds Insurance Company, a Texas insurance company writing property and casualty and surety insurance (NLIC), authorized to write insurance in the State of Tennessee, that is attached as Plan Exhibit "1" (the "Assumption Agreement") to the Motion for Approval of the Plan and

incorporated herein by this reference. The Assumption Agreement is approved and will substitute NLIC as insurer/surety for all notary bond business and property/casualty policies of EIC, all as particularly described in the Assumption Agreement; and

2. The Rehabilitator shall, as more particularly described in the Assumption Agreement, transfer a portion of the cash assets of EIC to NLIC on the Assumption Date as described in consideration for NLIC assuming the direct policy obligations and all attendant administrative responsibilities of EIC that are more particularly set forth in the Assumption Agreement. Assets of EIC not expended on the transaction belong to EIC. EIC will transfer to NLIC cash equal to current open case reserves as of the Assumption Date plus $90,000 which represents IBNR (incurred but not reported liability) for Notary Bonds;

3. Upon the Assumption Date established by the Assumption Agreement and the payment made by EIC, no further insurance policy or surety bond liability of EIC will be outstanding, all such lines of business and prior liability having been either assumed by NLIC, or previously extinguished by payment or satisfaction, as in the case of EIC's oil and gas bonds. This Court confirms and orders that all further direct coverage by EIC of any insurance or surety bond business be cancelled simultaneously with the Assumption Date referenced in the Assumption Agreement;

4. The Rehabilitator on behalf of EIC shall surrender its certificate of authority to the Department of Commerce and Insurance and cancel the certificate

of authority, and EIC will not be authorized to issue any more insurance or surety policies in Tennessee nor to transact further insurance business from the date and time (Assumption Date) that the policyholder liabilities and obligations are transferred to and assumed by National Lloyds. Thereafter, the corporate existence of EIC may continue for such time as is required to wind down the corporation, which shall be performed thereafter expeditiously by the board of directors of EIC independently of this Court proceeding;

5. The Rehabilitator shall be empowered to execute any and all related documents, approvals, and to do any other acts on behalf of EIC that may be required to effectuate and consummate the Assumption Agreement and surrendering the insurance certificate of authority to the Department;

6. As a condition of this Plan and the Assumption Agreement, NLIC will provide closing audited financial statements that will certify the final amount for the consideration paid, and adjusting payments will be made if the estimated payment at the closing is not correct;

7. The Rehabilitator may pay any costs and expenses of EIC which are not to be paid or assumed pursuant to the Assumption Agreement or other arrangements by EIC from the remaining assets of EIC;

8. The Rehabilitator will obtain certifications or other evidence from NLIC that NLIC mails to policyholders and obligees notices to inform them of NLIC's assumption of the remaining insurance and surety business of EIC, and to

inform them of contact information, websites and other addresses that may be necessary for them to make formal contact with NLIC;

9. Upon the consummation of the Plan by implementation of the Assumption Agreement and the transfer of assets as contemplated thereby, and the surrender/cancellation of the EIC certificate of authority, the Rehabilitator will, after payment of its expenses and the costs, including the cost of this proceeding and any notices required, report to this Court that these activities and notices have been completed. Upon such a showing, the Rehabilitator will be entitled to a Final Order terminating the Rehabilitation of EIC, pursuant to Tenn. Code Ann. § 56-9-305(c), finding that the rehabilitation has been accomplished. The Final Order will restore EIC to its original owners and board of directors for any further actions that may be deemed appropriate or necessary; however, with the proviso that under this Plan, EIC, the surviving corporate entity, will not be permitted to resume the issuance or coverage of any insurance or surety business.

IT IS SO ORDERED.

CHANCELLOR

APPROVED FOR ENTRY BY:

SARAH A. HIESTAND (BPR 14217)
Senior Counsel, Financial Division
Attorney General's Office
P.O. Box 20207
Nashville, TN 37202
(615) 741-6035 fax (615) 532-8223

I HEREBY CERTIFY THAT THIS IS A TRUE COPY OF ORIGINAL INSTRUMENT FILED IN MY OFFICE.
THIS 3rd DAY OF August 2005
CRISTI SCOTT, CLERK & MASTER
BY _____
DEPUTY

Attorneys for Paula A. Flowers, Commissioner of
Commerce and Insurance for the State of Tennessee
Rehabilitator of Exchange Insurance Company
and Kathy Fussell, Special Deputy Rehabilitator

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing Order Approving Plan of Rehabilitation has been delivered by U.S. Mail postage prepaid this 3rd day of August, 2005 to:

Respondent
Mr. Martin Cohen
Chairman, (inactive) Board of Directors
Exchange Insurance Company
6330 Torrington Road
Nashville, Tennessee 37205

Other Notice parties:
Marcia F. Cohen, Registered Agent
ROMELCO, Inc. (81% owner of EIC)
6330 Torrington Road
Nashville, TN 37205

Mr. Robins S. Ledyard
Bass, Berry & Sims
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001

Courtesy copy
fax 615-742-6293

National Lloyds Insurance Company
Greg Vanek, President
P.O. Box 2650
Waco, Texas 76702-2650

NLASCO Services, Inc.
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