

IN THE CIRCUIT COURT OF
MONTGOMERY COUNTY, ALABAMA

STATE OF ALABAMA, ex rel. WALTER A.)
BELL, as COMMISSIONER OF)
INSURANCE, and DENISE B. AZAR, as)
CHIEF OF THE RECEIVERSHIP DIVISION)
OF THE ALABAMA DEPARTMENT OF)
INSURANCE,)

Plaintiffs,)

v.)

PINNACLE CASUALTY ASSURANCE)
CORPORATION,)

Defendant.)

Case No. CV-2004-0278-EWR

ORDER TERMINATING REHABILITATION PROCEEDINGS
AND ORDER OF LIQUIDATION

This matter came before the Court on application of Denise Azar, Receiver of Pinnacle Casualty Assurance Corporation (hereinafter referred to as "PCAC"), for authorization to terminate the rehabilitation proceedings of PCAC, and for an Order of Liquidation pursuant to Ala. Code §27-32-7 (1975). The Court has previously held an evidentiary hearing regarding the status of the Receivership, has further taken into consideration the representation of the Receiver in the Liquidation Petition regarding the status of ongoing matters and has held a hearing regarding the petition for liquidation. Based upon the foregoing, the Court hereby finds that it is in the best interest of PCAC and its policyholders and creditors that rehabilitation proceedings be terminated, and that PCAC be placed in liquidation subject to the terms and conditions contained herein.

NOW, THEREFORE, it is ORDERED, ADJUDGED and DECREED as follows:

[Handwritten signature]

1. The Receiver's Petition to Terminate the Rehabilitation Proceedings and for Order of Liquidation for PCAC is hereby GRANTED.

2. As of February 2, 2004, PCAC was insolvent and remained insolvent as of May 2006, as determined by this Court. (See Order dated June 7, 2006). Efforts to rehabilitate PCAC have not successfully cured the insolvency. That is, PCAC remains in such financial condition that the continuation of its rehabilitation and the further transaction of its business thereunder would be useless pursuant to Ala. Code §27-32-11(1975).

3. As Receiver, Denise Azar is hereby directed to liquidate PCAC in accordance with Ala. Code §27-32-12 et seq. (1975), and to take such action as the nature of the cause and the interests of the policyholders, creditors and the public may require. As Receiver, Denise Azar is further authorized to continue to employ such legal counsel, accountants, appraisers, experts, clerks and assistants of her own choosing pursuant to Ala. Code §27-32-15(f) (1975) for the continuation of operating the business and collecting debts owed the business, as long as necessary.

4. As Receiver, Denise Azar will maintain title and possession to all property, assets, contracts and rights of action of PCAC, wherever located, whether tangible or intangible, including, without limitation, all stock, equity securities, partnership interests or other ownership interests of any kind in any other corporation, partnership (limited or otherwise), trust or other entity which is beneficially or legally owned or held by or attributable to PCAC, as previously directed in paragraph 5 of the Rehabilitation Order.

5. As Receiver, Denise Azar is further authorized to continue to institute and prosecute, in the name of PCAC or in her own name as Receiver, any and all suits or other legal proceedings, defend suits in which PCAC is a party, in this State or elsewhere,

whether or not such suits are pending as of the date of this Order; abandon the prosecution or defense of such suits, legal proceedings, or claims where to do so would be in the best interest of the policyholders and creditors of PCAC; prosecute any action which may exist on behalf of the policyholders and creditors of PCAC against any person, controlling parties of PCAC, partnership, corporation or other entity, and apply on her own behalf, to have any default or default judgment set aside and to defend on the merits and assert all defenses available to PCAC as against third parties.

6. To the extent not yet accomplished, all directors, officers and managers of PCAC, if any, are hereby discharged and removed, and all authority of such directors, officers and managers is revoked, except as such persons may be appointed or reappointed by the Receiver, in her sole discretion, after entry of this Order.

7. If not accomplished in response to the Rehabilitation Order, all banks, brokerage houses, or other companies or persons having in their possession assets which are, or may be the property of PCAC, are hereby ordered to deliver the possession of the same immediately to the Receiver, and are further ordered not to disburse the same without the written consent of, or unless directed in writing by, the Receiver. Such persons and entities, and all other persons and entities, are further enjoined from disposing of or destroying any records pertaining to any business transactions between PCAC and banks, brokerage houses or other persons or companies having done business with PCAC, or having in their possession assets which are or were the property of PCAC.

8. PCAC stopped selling insurance policies by December 1, 2001, therefore the Receiver is unaware of any premiums owed to PCAC or any funds owed to PCAC as the result of policies sold other than what is continued to be owed from ongoing reinsurance

agreements due as a result of claims made by PCAC insureds. However, if the Receiver becomes aware of any premium or other fees owed, all agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of PCAC shall, at the request of the Receiver, provide an accounting and shall pay to the Receiver all unearned premiums and commissions owed to PCAC as a result of policies sold.

9. Denise Azar, as Receiver of PCAC, hereby maintains all of the duties, rights, powers, obligations, immunities and authority placed upon the Commissioner of Insurance by Ala. Code §27-32-15 (1975) and other pertinent sections of the Alabama Insurance Code, now or hereinafter amended, as provided in Ala. Code §27-2-55 (1975), as vested in her by the Rehabilitation Order.

10. Each data processing service or other entity that has custody or control of any data processing information and records, including but not limited to, source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to PCAC or any subsidiary, shall transfer custody and control of such records to the Receiver upon demand if not accomplished as a result of the Rehabilitation Order.

11. All contracts, treaties and agreements of reinsurance wherein PCAC was the assuming or retrocessional reinsurer, if not previously ended, are canceled, on a "cut-off" basis, such cancellations to be effective upon the entry of this Order. All other treaties, contracts, and agreements of reinsurance, wherein PCAC is the ceding company, shall remain in full force and effect pending a determination and recommendation by the Receiver as to when, and upon what terms, cancellation is appropriate.

12. Except for contracts of reinsurance insurance and to the extent any still exist, all contracts, executory or otherwise, to which PCAC was a party, including all agents' contracts, general agents' contracts, brokers' contracts, retirement agreements or otherwise, are hereby canceled unless specifically adopted by the Receiver within thirty days after the date of this Order. Any cancellation under this provision shall not be treated as an anticipatory breach of such contracts. Persons and entities suffering real damages or loss as a result of said contract cancellations shall retain the right to file claim(s) with the Receiver which claim(s) shall be, if proven, allowed in part or disallowed in accordance with the Alabama Liquidation Act, Ala. Code §27-32-1 et seq. (1975), the Uniform Insurers Liquidation Act, Ala. Code §27-32-22 et seq. (1975), and other applicable laws of the State of Alabama.

13. To the extent relevant, the Receiver of PCAC shall give such notice to all policyholders of PCAC which is reasonably calculated to make them aware of the cancellation of their insurance coverage with PCAC at the aforementioned time. Such notice may be to the policyholder at his/her last known address, where available, but if sufficient information for notification by first-class mail in this manner is not available, notice of publication in a newspaper of general circulation in the state where the policyholder resides shall be sufficient.

14. In accordance with Ala. Code §§27-32-12 and 27-32-31, et al., the Receiver of PCAC shall give notice to all persons (policyholders and creditors) who may have claims against PCAC to present said claims to the domiciliary or any ancillary receiver of PCAC, or the appropriate property and casualty insurance Guaranty Association of the state where the policyholder or creditor resides, or where the property from which the claim arises is

permanently located. Such claims against PCAC must be postmarked no later than _____

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ECP

15. In accordance with the purpose and intent of Ala. Code §27-42-10(b), et al., the Receiver of PCAC shall give notice of the aforementioned place and deadline for the filing of claims to all policyholders and creditors by first-class mail at their last known address, where available, but if sufficient information for notification by first-class mail is not available, the Receiver shall give notice by publication in a newspaper of general circulation in those states where PCAC is licensed, and by any other method reasonably calculated to give actual notice to the policyholders and creditors of PCAC.

16. The Receiver shall have drafted and printed appropriate proof of claim forms to be used by policyholders and creditors filing claims against PCAC. Claim forms used by any ancillary receiver of PCAC or any guaranty association of another state shall also be acceptable for use in the claims filing process.

17. The Receiver is directed as of the date of this Order to discontinue the defense of suits and other legal proceedings in this state and elsewhere in which PCAC insureds are parties or PCAC is a named party on behalf of the insured as in states having direct actions statutes, including those suits and legal proceedings undertaken prior to the date of this Order. To the extent that the duty to provide a defense to such suits or proceedings is covered under a policy of insurance issued by PCAC and that costs of such defense are not covered nor defense assured by a guaranty association, the insured may make a claim for the costs and expenses incurred in the defense of such suits.

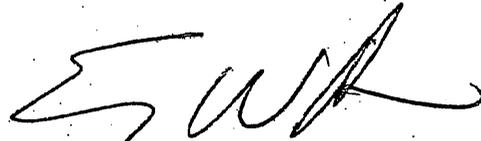
18. Based on the foregoing, all attorneys employed by PCAC as of this date shall, within thirty (30) days after notice of this Order, report to the Receiver with respect

property, personal or real, of Defendant Pinnacle or its assets or any part thereof except in this Court.

23. To the extent not enjoined by the above provision, any legal proceeding involving a PCAC insured as a defendant is further enjoined and all courts are directed to stay said proceeding pursuant to Ala. Code §27-42-18 for at least six (6) months or otherwise ordered.

24. The Court maintains jurisdiction of this cause for such other orders on the premises and matters pertaining to this particular order or this cause in general as it may find necessary, appropriate or desirable to make from time to time and reserves jurisdiction generally of this cause.

ENTERED this 14 day of Nov., 2006.



Eugene W. Reese
Circuit Judge

to the name, company, claim number and status of each file they are handling on behalf of PCAC. Said report shall also include an accounting of any funds received from or on behalf of PCAC. The services of all attorneys described herein are hereby discharged unless otherwise directed through written notice from the Receiver.

19. The Receiver shall be and is hereby authorized to pay all routine administrative expenses incurred by the Receiver upon prior approval of the Court when these expenses are certified as reasonable and necessary to the Court by the Receiver.

20. The Receiver is further granted the authority to dissolve the corporate existence of PCAC in accordance with the provisions of Ala. Code §27-32-12(b) (1975) at such time as she deems appropriate.

21. The Receiver will make a written report to the Court by documenting the progress being made in carrying out the mandates of this Order and any recommendations which the Receiver feels are in the best interests of the policyholders and creditors of PCAC.

22. The injunctive provisions contained in this Court's Consent Order of Rehabilitation, Temporary Restraining Order, Preliminary Injunction and Other Relief are continued in effect until further order of this Court, including paragraph 4(D) of said Order which provides that all persons are restrained and enjoined from:

Commencing or further prosecuting any action in law or equity or administrative proceedings except in this Court; obtaining any preferences, judgments, attachments, or other liens against any of the property, personal or real, of Defendant Pinnacle, commencing or continuing any action in the nature of an attachment, garnishment or execution against any of the property, personal or real, of Defendant Pinnacle; making any levy, garnishment or execution against any of the